

BRISTOL WATER plc

Announcement of interim results for the six months ended 30 September 2017

Bristol Water plc is ultimately owned by iCON Infrastructure Partners III, LP (80%) 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.

For further information contact:

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FINANCIAL HIGHLIGHTS

	£m
Profit after taxation for 6 months to 30 September 2016	<u>13.4</u>
Significant changes between periods:	
Increase in revenue	3.1
Increase in operational expenditure	(1.5)
Increase in profit on disposal of assets	2.2
Impairment of fixed assets	(4.7)
Increase in debt indexation charge	<u>(1.4)</u>
	(2.3)
Decrease in taxation due to lower year-end forecast profits	0.2
Increase in taxation due to tax rate change benefit recognised last year	(3.3)
Profit after taxation for 6 months to 30 September 2017	<u>8.0</u>

Summary

- Increased revenue reflecting K-factor of 0.5% plus RPI increase
- Continued stable underlying financial and operational performance except for increased costs in the current period relating to the Periodic Review 2019 process.
- Impairment of fixed assets arose following the Board's decision not to continue with the construction of the Cheddar 2 Reservoir
- Profit on disposal of assets of £2.2m relating to non-household activities sold to Water 2 Business Limited.
- 1% reduction in deferred tax rate enacted last year resulted in a £3.3m credit to profit and loss in the 6 months to September 2016
- Significant level of capital investment continued with a £29.7m investment during the period
- Increase in debt indexation charge due to higher RPI

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CHAIRMAN'S STATEMENT

This period has been marked by an overall strong financial performance and we continue to focus on delivering for customers, however we enter the last half of the year with further efficiency and operational challenges. The organisation welcomed Mel Karam as our new CEO in April and we are now working through structural changes to support ambitious future plans.

Our employee health & safety performance continues to improve, with Accident Frequency Rate showing a downward trend, currently at 1.55 accidents per 100,000 hours worked for the first six months of the year, a reduction from 2.4 accidents per 100,000 for the same period last year.

The retail market for non-household (NHH) customers opened successfully on the 1st April 2017 following 3 years of extensive preparation by our NHH Retail project and Wholesale Services teams. Just over 53,000 NHH customers, mostly national chains, have opted to switch their supplier nationally so far, with around 500 within our wholesale area of supply. We now have 22 wholesale contracts signed with retailers, with 15 of those retailers already active in our area of supply. Our strong performance against market activity measures has positioned us at the top of the industry at the end of the first half of the year.

Operational performance has been close to our targets over the last six months. Looking at providing our customers with high quality drinking water, customer contacts relating to taste and smell of water have reduced year on year, and whilst our water quality compliance index continues to be high, it fell slightly below the level of performance last year. We have managed our water resources well over the first half of the year and as we enter the winter period, total water stored in our reservoirs is maintained at a healthy level. We continue to focus on reducing leakage from our network below the levels achieved last year, and whilst we suffered two large scale disruptions to water supplies earlier in the year as a result of burst water mains, the commitment of our staff and contracting partners, and improved customer communications, meant that we were able to restore water supplies quickly. As we move to the second half of the year and into winter months, leakage from the network and response to burst water mains become much more challenging and will be the focus of more attention.

In order to better manage demand for water, our metering programme is ramping up and we have a number of initiatives in place that will contribute to improved water metering, such as selective metering of properties following a change in occupancy, a radio marketing campaign, and our 'Beat the Bill' initiative.

Our main capital investment programme is progressing well. The Southern Resilience Scheme is one of the Company's biggest infrastructure projects to date and involves work on a 30km trunk main that will improve security of supply to 280,000 customers in Somerset. The scheme also includes upgrades to the pumping station at Cheddar. We are working closely with multiple agencies and stakeholders to reduce the impact of this significant project, and are committed as always to our high principals in corporate citizenship to do our best for people, communities and the environment.

We have continued our investment in our community supporting activities such as the Water Bar at local festivals, branded water fountains in the city centre and partnerships with Refill Bristol and Sugar Smart. The Water Bar has won a number of awards this year including the Community Project of the Year and Outstanding Innovation Awards at the Water Industry Achievement Awards and the Big Bang Award for Innovation at the Utility Week Stars Awards.

Our work continues in readiness to submit our business plan to our regulator Ofwat in September 2018. We have been carrying out extensive customer research and operational reviews which will contribute to the development of future service levels and investment requirements for the period 2020 - 2025. The plan will be realistic, delivers to customer expectations but will also be ambitious and reflects our passion to push the boundaries of innovation in the water sector.

Finally I would like to thank all Bristol Water staff for their commitment and hard work, who despite the challenges, continue to deliver for our customers.



Keith Ludeman
Chairman
23 November 2017

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INCOME STATEMENT

For the six months ended 30 September 2017

		Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	Note	£m	£m	£m
Revenue	3.2,5	58.1	55.0	111.0
Operating costs	6	(42.4)	(38.4)	(79.7)
Operating profit		15.7	16.6	31.3
Other net interest payable and similar charges	7	(5.0)	(3.6)	(9.3)
Dividends on 8.75% irredeemable cumulative preference shares	7	(0.5)	(0.5)	(1.1)
Net interest payable and similar charges		(5.5)	(4.1)	(10.4)
Profit on ordinary activities before taxation		10.2	12.5	20.9
Taxation on profit on ordinary activities	8	(2.2)	0.9	(0.9)
Profit for the period / year		8.0	13.4	20.0
Earnings per ordinary share	9	133.3p	223.3p	333.3p

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

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

		Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	Note	£m	£m	£m
Profit for the period / year		8.0	13.4	20.0
Other comprehensive income:				
Items that will not be reclassified to profit and loss				
Actuarial losses on retirement benefit surplus		(5.6)	(0.9)	(0.6)
Attributable current taxation	8	-	(0.1)	(0.1)
Re-measurement of defined benefit pension scheme	8	1.8	0.1	(0.2)
Items that may be subsequently reclassified to profit and loss				
Change in the fair value of the interest rate swaps		0.9	(1.0)	0.2
Attributable deferred taxation	8	(0.2)	0.2	-
Other comprehensive expense for the period / year, net of tax		(3.1)	(1.7)	(0.7)
Total comprehensive income for the period / year		4.9	11.7	19.3

STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

		30 September 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017
	Note	£m	£m	£m
Non-current assets				
Property, plant and equipment	10	588.5	560.7	573.4
Intangible assets	11	4.5	4.9	5.1
Investments		68.5	68.5	68.5
Deferred tax assets	12	4.9	5.0	5.1
Retirement benefit surplus	13	28.9	31.7	32.3
		<u>695.3</u>	<u>670.8</u>	<u>684.4</u>
Current assets				
Inventory		1.5	1.3	1.1
Trade and other receivables		27.6	33.2	22.3
Cash and cash equivalents		16.1	18.0	16.1
		<u>45.2</u>	<u>52.5</u>	<u>39.5</u>
Assets classified as held for sale	14	1.4	-	8.1
Total assets		<u>741.9</u>	<u>723.3</u>	<u>732.0</u>
Non-current liabilities				
Borrowings and derivatives	15	(301.6)	(309.8)	(290.9)
8.75% irredeemable cumulative preference shares	15	(12.5)	(12.5)	(12.5)
Deferred income	17	(72.9)	(71.2)	(72.1)
Deferred tax liabilities	12	(62.1)	(60.9)	(61.4)
		<u>(449.1)</u>	<u>(454.4)</u>	<u>(436.9)</u>
Current liabilities				
Trade and other payables		(34.2)	(30.8)	(34.6)
Borrowings and derivatives	15	(20.6)	(0.4)	(20.8)
Deferred income	17	(1.7)	(1.7)	(1.7)
		<u>(56.5)</u>	<u>(32.9)</u>	<u>(57.1)</u>
Liabilities classified as held for sale	14	-	-	(1.0)
Total liabilities		<u>(505.6)</u>	<u>(487.3)</u>	<u>(495.0)</u>
Net assets		<u>236.3</u>	<u>236.0</u>	<u>237.0</u>
Equity				
Called-up share capital		6.0	6.0	6.0
Share premium account		4.4	4.4	4.4
Other reserves		5.0	3.3	4.3
Retained earnings		220.9	222.3	222.3
Total Equity		<u>236.3</u>	<u>236.0</u>	<u>237.0</u>

The financial statements of Bristol Water plc, registered number 2662226 on pages 3-15, were approved by the Board of directors on 23 November 2017 and signed on its behalf by:



Mel Karam, Director, CEO



Mick Axtell, Director, CFO

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Called up share capital	Share premium	Capital redemption	Hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	6.0	4.4	5.8	(1.7)	212.4	226.9
Profit for the year	-	-	-	-	20.0	20.0
Other comprehensive income for the year:						
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	(0.6)	(0.6)
Attributable current taxation	-	-	-	-	(0.2)	(0.2)
Re-measurement of defined benefit scheme	-	-	-	-	(0.1)	(0.1)
Fair value of interest rate swap	-	-	-	0.2	-	0.2
Attributable deferred taxation	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	0.2	19.1	19.3
Ordinary dividends	-	-	-	-	(9.2)	(9.2)
Balance as at 31 March 2017	6.0	4.4	5.8	(1.5)	222.3	237.0
Balance as at 1 April 2017	6.0	4.4	5.8	(1.5)	222.3	237.0
Profit for the period	-	-	-	-	8.0	8.0
Other comprehensive income for the period:						
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	(5.6)	(5.6)
Attributable current taxation	-	-	-	-	-	-
Re-measurement of defined benefit scheme	-	-	-	-	1.8	1.8
Fair value of interest rate swaps	-	-	-	0.9	-	0.9
Attributable deferred taxation	-	-	-	(0.2)	-	(0.2)
Total comprehensive income for the period	-	-	-	0.7	4.2	4.9
Ordinary dividends	-	-	-	-	(5.6)	(5.6)
Balance as at 30 September 2017	6.0	4.4	5.8	(0.8)	220.9	236.3

The Board has proposed an interim dividend on the ordinary shares of £1.6m in respect of the period ended 30 September 2017 (2016: £1.6m). 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 2017

		Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	Note	£m	£m	£m
Cashflows from operating activities				
Profit before taxation		10.2	12.5	20.9
Adjustments for:				
Depreciation, net of amortisation of deferred income	6	8.5	8.5	17.2
Amortisation of intangible assets	6	1.0	1.0	2.0
Impairment of tangible assets	6	4.7	-	-
Difference between pension charges and normal contributions		0.2	0.3	0.5
Loss on disposal of assets		-	-	0.3
Profit on sale of held for sale assets	6	(2.2)	-	-
Interest income	7	(2.0)	(2.1)	(4.1)
Interest expense	7	8.1	7.0	16.1
Pension interest income	7	(0.6)	(0.8)	(1.6)
(Increase) / decrease in inventory		(0.4)	-	0.2
Decrease / (increase) in trade and other receivables		1.0	(3.2)	0.2
Decrease in trade and other creditors and provisions		(2.1)	(2.2)	(1.7)
Additional contributions to pension scheme		-	(0.1)	(0.1)
Cash generated from operations		<u>26.4</u>	<u>20.9</u>	<u>49.9</u>
Interest paid		(5.8)	(5.9)	(11.8)
Corporation taxes (paid) / received		(1.6)	0.7	(1.4)
Net cash inflows from operating activities		<u>19.0</u>	<u>15.7</u>	<u>36.7</u>
Cash flows from investing activities				
Purchase of property plant and equipment		(28.5)	(16.4)	(35.7)
Contributions received		1.7	2.1	3.8
Proceeds from sale of fixed assets		0.1	-	0.1
Proceeds from disposal of held for sale assets		2.6	-	-
Interest received		2.0	2.1	4.1
Net cash used in investing activities		<u>(22.1)</u>	<u>(12.2)</u>	<u>(27.7)</u>
Cash flows from financing activities				
Transaction costs related to loans and borrowings		(0.2)	-	(0.3)
Proceeds from long-term borrowings		9.9	-	-
Payment of finance lease liabilities		(0.4)	(0.4)	(0.3)
Preference dividends paid		(0.6)	(0.5)	(1.1)
Equity dividends paid		(5.6)	(2.6)	(9.2)
Net cash used in financing activities		<u>3.1</u>	<u>(3.5)</u>	<u>(10.9)</u>
Net decrease in cash and cash equivalents		-	-	(1.9)
Cash and cash equivalents, beginning of period		16.1	18.0	18.0
Cash and cash equivalents, end of period		<u>16.1</u>	<u>18.0</u>	<u>16.1</u>

NOTES TO THE INTERIM ACCOUNTS

For the six months ended 30 September 2017

1 General Information

Bristol Water plc ("the Company") is one of six regulated Water only supply companies ("WOCs") in England and Wales. 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 the UK. 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".

The Company has adopted a statement of financial position presentation which is in line with the financial statements produced by its parent company under IFRS. The September 2016 comparative figures have been represented accordingly.

3 Accounting policies

With the exception of the revenue policy noted below which has been updated to reflect revenue received from retailers, the same accounting policies and methods of computation used in preparing the annual financial statements as at 31 March 2017 have been used in preparing these interim accounts.

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 5.

3.2 Revenue

Revenue comprises charges to customers and retailers for water and other services, exclusive of VAT.

Revenue from metered water supply is based on water consumption, and is recognised upon delivery of water. Revenue from metered water supply includes an estimate of the water consumption for customers of both the Company and retailers whose meters were not read at the reporting date. For customers the estimate covers the period between the last meter reading and the reporting dates and for retailers the last month of the period. The estimate is recorded within accrued income.

Revenue from unmetered water supply is based on either the rateable value of the property or on an assessed volume of water supplied, and is recognised over the period to which the bill relates.

Revenue from other services is recognised upon completion of the related services.

4 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Revenue Recognition

An estimate of water consumption by metered customers since the date of the last bill and the corresponding income that remains not billed (accrued income) is required to be made each year. The accrual is based on metered volumes, and consumption already billed and tariffs.

Classification of costs between operating expenditure and capital expenditure

Expenditure on assets can be for repairs, maintenance or enhancement, and judgement is required to determine whether it should be classified as operating expenditure or capital expenditure.

The Company incurs a high level of infrastructure maintenance expenditure. Each infrastructure scheme is reviewed to determine the accounting treatment as either capital or operating expenditure, depending on the nature of the scheme. Consideration is given to a range of factors, including the degree of upgrade which results from the maintenance project, the frequency of the maintenance relative to the overall life of the underlying asset, whether the maintenance is likely to result in increased useful life or enhanced working standard or capacity of the asset, and if the maintenance is expected to result in a separate component of infrastructure asset. The results are assessed against the requirements of accounting standards.

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Classification of costs between operating expenditure and capital expenditure (continued)

Payroll costs are allocated to cost centres that reflect the nature of activity being undertaken. A judgement is applied, based on the activity for each cost centre, of an appropriate proportion to capitalise. This is a formal procedure under which figures are reviewed and assessed to ensure they meet the required criteria (directly attributable to an asset, probable future economic benefit and can be measured reliably).

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property plant and equipment.

Useful economic lives of intangible assets

The annual amortisation for computer software is sensitive to changes in the estimated useful economic lives of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation. See note 11 for the carrying amount of the intangible assets.

Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the aging profile of the receivables and historical experience.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including; life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors and receives advice from the pension scheme administrators in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

In March 2016 the scheme closed to future benefit accrual and as a result any surplus on the scheme would only be available to the Company as refund rather than as a reduction in future contributions. Under current UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer which is shown as a restriction to the value of the net pension scheme asset.

See note 13 for the disclosures of the defined benefit pension scheme.

Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses the services of third party experts to provide the valuation. See note 16 for details of the Company's interest rate swaps.

5 Revenue

Revenue 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.

6 Operating expenses

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017 (restated)
	£m	£m	£m
Operating expenses include -			
Payroll cost, net of recharges to fixed assets and including retirement benefit costs	8.0	7.3	15.1
Depreciation and amortisation, net of deferred income amortisation	9.5	9.5	19.2
Impairment of fixed assets	4.7	-	-
Profit on sale of disposal group	(2.2)	-	-

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

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7 Net interest payable and similar charges

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	£m	£m	£m
Interest payable and similar charges relate to:			
Bank borrowings	1.1	1.2	2.3
Term loans and debentures:			
interest charges	4.8	4.7	9.5
indexation and amortisation of fees and premium on loans	2.2	0.8	3.5
Finance leases	-	-	0.1
Capitalisation of borrowing cost	(0.5)	(0.2)	(0.4)
Dividends on 8.75% irredeemable cumulative preference shares	0.5	0.5	1.1
	<u>8.1</u>	<u>7.0</u>	<u>16.1</u>
Less interest receivable and similar income:			
Interest income in respect of retirement benefit scheme	(0.6)	(0.8)	(1.6)
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)
	<u>(2.6)</u>	<u>(2.9)</u>	<u>(5.7)</u>
Total net interest payable and similar charges	<u>5.5</u>	<u>4.1</u>	<u>10.4</u>

The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.9% (30 September 2016: 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 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	£m	£m	£m
Tax expense / (income) included in Income Statement			
Current tax:			
Corporation tax on profits for the period / year	1.4	1.7	3.3
Adjustment in respect of prior period	-	0.1	0.2
Total current tax	<u>1.4</u>	<u>1.8</u>	<u>3.5</u>
Deferred tax:			
Origination and reversal of timing differences	0.8	0.7	0.9
Adjustment to prior periods	-	(0.1)	(0.2)
Effect of change in rate	-	(3.3)	(3.3)
Total deferred tax	<u>0.8</u>	<u>(2.7)</u>	<u>(2.6)</u>
Tax expense / (income) on profit	<u>2.2</u>	<u>(0.9)</u>	<u>0.9</u>
Tax (income) / expense (included in other comprehensive income)			
Current tax:			
Prior period adjustment on defined benefit plan	-	0.1	0.1
Deferred tax:			
Remeasurement of swap liability	0.2	(0.2)	-
Effect of corporation tax change in rate	-	-	-
Effect of pension change in rate	-	-	-
Remeasurement of post-employment benefit liability	(1.8)	(0.1)	0.2
Total tax (income) / expense included in other comprehensive income	<u>(1.6)</u>	<u>(0.2)</u>	<u>0.3</u>

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9 Earnings per ordinary share

	At 30 September 2017 (unaudited)	At 30 September 2016 (unaudited)	At 31 March 2017
	m	m	m
Basic earnings per ordinary share have been calculated as follows -			
Earnings attributable to ordinary shares	£8.0	£13.4	£20.0
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 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	£m	£m	£m
Net book value, beginning of period	573.4	556.6	556.6
Additions	29.2	13.5	36.4
Disposals	-	-	(0.4)
Depreciation charge for the period	(9.4)	(9.4)	(18.9)
Impairment charge *	(4.7)	-	-
Transferred to assets classified as held for sale	-	-	(0.3)
Net book value, end of period	<u>588.5</u>	<u>560.7</u>	<u>573.4</u>

The net book value of property, plant and equipment includes £5.3m (30 September 2016: £4.9m) of borrowing costs capitalised in accordance with IAS 23. During the six months ended 30 September 2017 £0.5m was capitalised using 5.9% prorated annual capitalisation rate (30 September 2016 £0.2m, 4.7%).

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

11 Intangible assets

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
	£m	£m	£m
Net book value, beginning of period	5.1	5.0	5.0
Additions	0.5	0.9	2.4
Disposals	(0.1)	-	-
Depreciation charge for the period	(1.0)	(1.0)	(2.0)
Transferred to assets classified as held for sale	-	-	(0.3)
Net book value, end of period	<u>4.5</u>	<u>4.9</u>	<u>5.1</u>

12 Deferred Taxation

	At 30 September 2017 (unaudited)	At 30 September 2016 (unaudited)	At 31 March 2017
	£m	£m	£m
Provision for deferred taxation comprises:			
Accelerated capital allowances and capital element of finance leases	62.1	60.9	61.4
Deferred income	(4.7)	(4.5)	(4.6)
Short-term timing differences	-	-	(0.1)
Interest rate swaps	(0.2)	(0.5)	(0.4)
Net deferred taxation liability	<u>57.2</u>	<u>55.9</u>	<u>56.3</u>

Reflected in the statement of financial position as follows:

Deferred taxation asset	(4.9)	(5.0)	(5.1)
Deferred taxation liability	62.1	60.9	61.4
Deferred taxation liabilities net	<u>57.2</u>	<u>55.9</u>	<u>56.3</u>

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13 Retirement benefits

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

In addition to providing benefits to employees and ex-employees of the Company, the section provides benefits to former employees of the Company who transferred to BWBSL. The majority of the section assets and liabilities relate to the Company employees and ex-employees. The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP).

The latest triennial valuation of the pension scheme was completed as at 31 March 2014. The total deficit as at 31 March 2014 measured on a long-term scheme funding basis was £2.8m, representing a funding level of 98.4%.

An updated estimate of the scheme's funding position at 31 March 2015 indicated a funding surplus of £3.2m. The improvement in the funding position since the triennial valuation at 31 March 2014 reflects primarily higher than expected asset returns, lower than expected inflationary pension increases and deficit contributions paid over the year, largely offset by the reduction in the real yields available on long-dated gilts (which serves to increase the technical provisions).

The funding surplus of £3.2m and the accounting surplus of £44.5m are not comparable because:

- the approach for valuation of scheme liabilities is significantly different between the two valuation methods and
- the funding surplus is based on a position at 31 March 2015 and the accounting surplus is based on a position at 30 September 2017.

Pension assets and liabilities are recognised in the accounts in accordance with IAS 19 'Employee benefits' as disclosed in note 3.6.

In summary, assets and liabilities under IAS 19 were:

	At 30 September 2017 (unaudited)	At 30 September 2016 (unaudited)	At 31 March 2017
	£m	£m	£m
Fair value of section assets	223.2	240.5	233.9
Present value of liabilities	<u>(178.7)</u>	<u>(191.8)</u>	<u>(184.3)</u>
Surplus in the section	44.5	48.7	49.6
Less: restriction of surplus	<u>(15.6)</u>	<u>(17.0)</u>	<u>(17.3)</u>
Net pension asset on IAS 19 basis	<u>28.9</u>	<u>31.7</u>	<u>32.3</u>

The triennial valuation of the pension scheme as at 31 March 2017 is currently being completed and is expected to be finalised by 1 April 2018.

14 Assets and liabilities classified as held for sale

	30 September 2017 (unaudited) £m	30 September 2016 (unaudited) £m	31 March 2017 £m
(a) Non-current assets classified as held for sale			
Property, plant and equipment	<u>0.2</u>	-	<u>0.2</u>
	<u>0.2</u>	-	<u>0.2</u>

Land and property which is being actively marketed for sale has been classified as held for sale. The sale is expected to complete early in the 2018/19 financial year.

	30 September 2017 (unaudited) £m	30 September 2016 (unaudited) £m	31 March 2017 £m
(b) Assets of disposal group classified as held for sale			
Property, plant and equipment	-	-	0.1
Intangible assets	-	-	0.3
Trade receivables	-	-	3.4
Accrued income	<u>1.2</u>	-	<u>4.1</u>
	<u>1.2</u>	-	<u>7.9</u>

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14 Assets and liabilities classified as held for sale (continued)

	30 September 2017 (unaudited) £m	30 September 2016 (unaudited) £m	31 March 2017 £m
(c) Liabilities of disposal group classified as held for sale			
Trade creditors	-	-	1.0
	-	-	1.0

The disposal group has been classified as held for sale following the decision by management and shareholders on 2 February 2017 to sell the assets and liabilities relating to non-household activities to Water 2 Business Limited. The disposal was executed on 3 April 2018. The remaining accrued income is expected to be settled by 31 March 2018.

15 Net borrowings

	At 30 September 2017 (unaudited) £m	At 30 September 2016 (unaudited) £m	At 31 March 2017 £m
Net borrowings comprise -			
Debt due after one year, excluding 8.75% irredeemable cumulative preference shares	301.6	309.8	290.9
Current portion of borrowings	20.6	0.4	20.8
	322.2	310.2	311.7
Cash and cash equivalents	(16.1)	(18.0)	(16.1)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	306.1	292.2	295.6
8.75% irredeemable cumulative preference shares	12.5	12.5	12.5
Net borrowings	318.6	304.7	308.1

Borrowing facilities

The Company currently has unutilised borrowing facilities of £85.1m.

16 Financial Risk Management

Financial risk factors

The Company's main financial instruments comprise:

- borrowings and cash;
- 8.75% irredeemable cumulative preference shares;
- various items, such as trade receivables and trade creditors, that arise directly from its operations; and
- two long-term loans made to Bristol Water Holdings UK Limited.

The Company has also entered into interest rate swaps to manage the interest rate risk arising from its sources of finance. It is the Company's policy not to trade in financial instruments.

The Company's significant debt financing exposes it to a variety of financial risks that include the effect of changes in debt market prices, credit risks, liquidity and interest rates. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company.

The Board is responsible for setting the financial risk management policies applied by the Company. The policies are implemented by the finance department. The finance department has a policies and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk and the use of financial instruments to manage these risks.

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. During the year cash and cash deposits were placed with banks for either a fixed term or repayable on demand earning interest at market rates. There are also interest-bearing fixed rate loans totaling £68.5m (2016/17: £68.5m) to Bristol Water Holdings UK Limited.

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Financial Risk Management (continued)

Financial risk factors (continued)

(b) Interest rate risk and inflation risk of financial liabilities

The financial liabilities consist of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The Company's practice is to maintain the majority of its net debt on a fixed rate or a fixed margin above movements in RPI basis. At the year-end 39%* (2016/17: 39%*) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 95% (2016/17: 96%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The residues were at floating rates.

The Company's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities. The balance between fixed or index-linked, and floating interest rate liabilities will be kept under review, and is dependent on the availability of such resources in the financial markets

The carrying value of the Company's index-linked borrowings is exposed to changes in RPI. The Company's RCV and water charges are also linked to RPI. Accordingly index-linked debt partially hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the indexation is provided through adjustment to the principal rather than in cash.

* Variable interest rate loans totaling £60m, covered by interest rate swaps, have been considered as fixed interest rate loans for the calculation of this percentage.

(c) Credit risk

The Company is required by the Water Industry Act 1991 to supply water to all potential customers in its licensed area. In the event of non-payment by commercial customers, but not domestic customers, the Company has a right of disconnection. For all customers the Company has implemented policies and procedures designed to assess the risk of further non-payment and recoup debts.

Under the terms of the Security Trust and Inter-creditor Deed (STID), cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings.

There is no collateral held as security in respect of the above financial assets.

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 75% (2016/17: 77%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

The Company actively maintains a mixture of long-term and short-term committed facilities that are designed to provide sufficient funds for operations.

The Company has a £20m and a £15m facility expiring in December 2019 and a £35m and £25m facility expiring in December 2021. All the facilities are floating rate and incur non-utilisation fees at market rates. At the year-end £85.1 of these facilities remain undrawn.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £6.1m (2016/17: £6.1m), are therefore not available for other operational use or distribution to shareholders.

Derivative financial instruments and hedge accounting

The Company has entered into two interest rate swaps with notional values of £10m and £50m. These were effective from 22 October 2008 and 3 December 2014 respectively. The Company has also entered into a forward starting swap to hedge expected future borrowings up to a notional value of £67.5m. The effective date of the forward starting swap is 24 April 2018. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, and accordingly hedge accounting is applied as mentioned in note 3.13.

(e) Covenants compliance risk

Under the terms of its principal debt agreements the Company is required to comply with covenants relating to minimum levels of interest cover and to maximum levels of net debt in relation to regulatory capital value. Failure to comply may result in various restrictions being imposed upon the Company. Risk is minimised through continuous monitoring of the relevant ratios in both emerging and forecast results, and by close control of operating cash flows and capital investment programmes

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

The fair value of borrowings are as follows:

	Six months to 30 September 2017 (unaudited) £m	Six months to 30 September 2016 (unaudited) £m	Year to 31 March 2017 £m
Non-current	451.6	488.9	460.1
Current	20.6	0.4	20.8
	<u>472.2</u>	<u>489.3</u>	<u>480.9</u>

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17	Deferred Income	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017
		£m	£m	£m
	Carrying value, beginning of period	73.8	71.7	71.7
	Additions	1.7	2.1	3.8
	Amortisation credit for the period	(0.9)	(0.9)	(1.7)
	Carrying value, end of period	74.6	72.9	73.8
	Current	1.7	1.7	1.7
	Non-current	72.9	71.2	72.1
		74.6	72.9	73.8

18 Commitments

Capital commitments at 30 September 2017 contracted for but not provided were £10.8m (2016: £6.9m)

19 Ultimate parent company and controlling party

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

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

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

20 Related party transactions

During the six months to 30 September 2017 the Company spent £1.5m (2016: £1.8m) 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 2017 £nil (2016: £1.4m) was receivable from BWBSL and £1.7m (£1.4m) was payable to BWBSL.

During the six months to 30 September 2017 the Company recognised sales of £11.9m (2016 £nil) to Water 2 Business Limited (W2B), an associate company within the CSE Water UK Limited Group. During the same period the Company sold assets with a book value of £6.9m to W2B for a purchase price of £9.1m. The assets sold include non-household customer lists, tangible and intangible assets, debtors and accrued income. At 30 September 2017 £1.8m (2016: £nil) was receivable from W2B.

21 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.

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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 2017. 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 £16.1m cash and £85.1m unutilised committed borrowing facilities available to the Company as well as consideration of the Company's capital adequacy.

C Jones

By order of the Board
C Jones
Secretary