Portsmouth Water

REGULATORY ACCOUNTS 2013

CONTENTS

GOVERNANCE

The Board of Portsmouth Water Limited comprises three Executive Directors and three independent Non-Executive Directors. Portsmouth Water is part of the South Downs Capital Group whose ultimate controlling shareholder is an Employee Benefit Trust which owns 73% of the share capital. A majority of the Directors of the Employee Benefit Trust are independent and are not represented on the Board of Portsmouth Water. This ensures the independence of the Board of the Appointed Water Company.

The Directors are committed to high standards of corporate governance and support the principles set out in the UK Corporate Governance Code (the 'Code'). This report and the Report on Remuneration describe how the Company complies with those principles.

COMPLIANCE

The Company has complied throughout the year with the provisions of the Code, other than as indicated below:

As the ultimate shareholders of the Company have representation at Board Meetings, it has not been considered necessary to have a Senior Independent non-executive Director (Code provision A.4.1). However in May 2013 Mr. M. P. Kirk was appointed Senior Independent non-executive Director and will be available to shareholders where necessary.

In accordance with the Company's Articles of Association, the Managing Director is not required to retire by rotation and seek re-election (Code provision B.7.1). A special Resolution is being proposed at the Annual General Meeting which will amend this Article and ensure compliance.

Mr. T. M. Lazenby MBE, has served on the Board for more than nine years from the date of his first election. The Office of Water Services (Ofwat) has agreed that Mr. T. M. Lazenby may remain in office until May 2014 to ensure continuity on the Board with the new non-executive Directors having been appointed in 2012 (Code provision B.7.1)

DIRECTORS

The Board

The Board of Directors retains full and effective control of the Company and is collectively responsible for setting its strategy, ensuring appropriate resources are in place to meet objectives and monitoring performance.

The non-executive Directors play a full part by constructively challenging and contributing to the development of strategy. They are responsible for determining appropriate levels of remuneration for the executive Directors and for recommending new appointments to the Board.

The members of the Board are shown on page 4. The Chairman is Mr. T. M. Lazenby MBE and the Managing Director is Mr. N. Smith. The Senior Independent non-executive Director is Mr. M. P. Kirk.

The Board meets monthly and has a schedule of matters specifically reserved to it for decision. It has control of the Company, but delegates the day to day conduct of business to the executive Directors and their senior management colleagues. However there are a number of matters which must only be decided by the Board as a whole, including strategy, all contracts over £150,000, dividend policy and certain regulatory matters.

Revenue for 2013 at £36.3m compares to that allowed in the Final Determination of £39.8m. The reduction of £3.5m was mainly due to a shortfall in income from measured customers which account for £2.3m of the adverse variance. There was also a shortfall in income from mains diversions and other non-tariff income of £1.2m.

The number of measured billed properties was 6,527 (8%) less than the determination which represents a shortfall in meter option requests of 1,612 since the base year for the last Business Plan and much lower new house building over this period. Measured consumption was 9 Ml/d (15%) less than the determination, of which approximately 7 Ml/d relates to commercial customers. Commercial customers have reduced water consumption taken as a result of both economic factors and the desire to become more efficient, although the wet summer will have had an effect as the distribution input remained flat throughout this period.

Despite the shortfall in customers opting to have a metered supply, the number of household customers was also below the determination, This is due to an increase in void properties over the review period which we believe also reflects the impact of the recession.

The cumulative shortfall in tariff basket revenue over the price review period compared to the determination before tax adjustment is £6.27m, and after tax adjustment is £4.62m. These figures have been calculated using the Revenue Correction Mechanism spreadsheet.

The shortfall by year is:

	2010/11 £m	**2011/12 £m**	**2012/13 £m**
Shortfall pre-tax adjustment	1.81	2.18	2.28
Tax adjustment	0.51	0.54	0.59
Net shortfall	1.30	1.64	1.69

The Company has managed to maintain its key financial performance indicators as a result of the benefits of a one-off tax gain, operating efficiencies and lower dividend and interest payments. The Company has also invested in IT infrastructure, to improve service to customers. This expenditure was not allowed for in the Final Determination.

This report has been prepared in accordance with the requirements of the Companies Act 2006 and the Listing Rules of the Financial Conduct Authority.

INFORMATION NOT SUBJECT TO AUDIT

Remuneration Committee

The Remuneration Committee met once during the year to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three independent non-executive Directors, Mrs. H. V. Benjamin (Chair of the Remuneration Committee), Mr. T. M. Lazenby MBE and Mr. M. P. Kirk. During the year the previous Chairman of the Remuneration Committee, Mr. R. L. Sullivan retired and Mrs. H. V. Benjamin was appointed as the new Chair.

The Level and Make-up of Remuneration

The objective is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

The remuneration package of the Executive Directors, as reported in the accounts, includes a performance related element. The performance related element is based upon the achievement of agreed financial, customer service and personal targets and is paid in the form of a payment at the end of the year.

The Executive Directors can earn up to 30% of basic salary for the performance related element, with a third of this being for long term performance and is held until the end of the current price control period. The assessment of its element is based upon:

33% based on Customer Service performance including meeting the outputs agreed at the Final Determination 2009 and being a top performer in the Service Incentive Mechanism.
17% Personal Objectives
17% Financial Objectives
33% Long-term objectives. Paid in 2015 if achieved

The achievements were :

	% of salary (out of possible 20%)	Bonus £000
R Porteous	12.0%	11
N Sheeran	11.5%	11

The Managing Director does not receive a performance related element.

Mr Porteous and Mr Sheeran also received payment from the Employee Benefit Trust [See page 1] on the same basis as other employees. Mr Smith, as a shareholder of the Parent Company, is not entitled to payments from the Employee Benefit Trust.

Mr Smith and Mr Sheeran did not receive an increase to their basic salary in the year, as they were both appointed to their current positions late in the previous year. Mr Porteous was appointed to the Board in May 2012 and the figures in the table below reflect his salary from this time.

Service Contracts

The Executive Directors have one year service contracts with the Company, which are in accordance with the UK Corporate Governance Code (the 'Code'). None of the Executive Directors serves as a Non-Executive Director for another company. The Non-Executive Directors do not have service contracts.

The service contracts of the Executive Directors include notice periods of one year, both by the Company and by the Director. There are no provisions for termination payments, other than payments for the period of notice.

Fees payable to the Non-Executive Directors are determined by the Board as a whole and reflect the time, commitment and responsibilities of the role.

No Director is involved in deciding his own remuneration.

INFORMATION SUBJECT TO AUDIT

Directors' remuneration:	2013 £000	2012 £000
Total remuneration	**505**	515
Highest paid Director	**153**	137

Remuneration is analysed by Director below:

	Salary/Fees £000	Benefits £000	Total 2013 £000	Total 2012 £000
Executive:				
A. R. Neve (retired 30 April 2012)	10	14	**24**	124
N. J. Roadnight (retired 16 December 2011)	-	-	**-**	135
R. C. Porteous (appointed 1 May 2012)	108	12	**120**	-
N. J. Sheeran (appointed 9 December 2011)	113	10	**123**	41
N. Smith	135	18	**153**	137
Non-executive:				
H. V. Benjamin (appointed 1 November 2012)	9	-	**9**	-
M. P. Kirk (appointed 1 November 2012)	9	-	**9**	-
T. M. Lazenby MBE (Chairman)	35	-	**35**	34
R. L. Sullivan (resigned 1 November 2012)	16	-	**16**	22
R. J. Tennant (resigned 1 November 2012)	16	-	**16**	22
	451	54	**505**	515

Fees paid in respect of Mr. T. M. Lazenby MBE are paid to Seamab Consultancy Limited, and in respect of Mr. M. P. Kirk are paid to Mike Kirk Photography Limited.
Benefits comprise company cars and medical insurance.

Long-term incentive schemes

The Company operates a long-term performance linked bonus scheme. This element of incentive is linked to three year targets and is based upon achievements at the end of that three year period.

Share options

The Company does not operate an Executive Share Option Scheme.

Directors' interests

The Directors' beneficial holdings of shares in South Downs Capital Limited, the ultimate parent undertaking, are detailed below and, in total, represent 8% of the issued share capital of that Company. They have no interests in the shares of Portsmouth Water Limited.

	'C' Ordinary Shares
N. Smith	450

There have been no changes to this shareholding between the 31 March 2013 and the date of this report.

Pensions

The Company participates in the Brockhampton Pension Scheme to provide pension benefits for its employees, including the Executive Directors.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees under the Scheme.

The Executive Directors have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefit scheme, during the year as detailed below:

	Increase in Accrued Pension During Year to 31 March 2013 £000	Transfer Value of Increase £000	Accumulated Accrued Pension at 31 March 2013 £000	Accumulated Accrued Pension at 31 March 2012 £000
A. R. Neve[1]	1	10	*83	*82
R. C. Porteous[2]	7	137	41	34
N. Smith[3]	6	119	77	69

The accumulated accrued pension is the leaving service benefit to which the Director would be entitled to if he were to leave service at the end of the year. It includes any benefits earned as an employee prior to becoming a Director, as well as those earned for qualifying services after becoming a Director.

The increase in accrued pension excludes any increase for inflation, as measured by the Consumer Price Index.

The transfer value has been calculated on the basis of actuarial advice in accordance with the basis adopted by the Trustees of the Scheme for calculating cash equivalent transfer values (which was agreed by the Trustees on 22 December 2011). The transfer value of the increase is then reduced by the amount of each member's contribution paid during the year.

[1]Mr A. R. Neve left service on 30 April 2012 therefore his closing benefit is his actual benefit at his date of leaving. His increase in accrued pension over 31 March 2013 does not exclude CPI inflation as he was only a member for one month during the period.

[2]Mr. R. C. Porteous was appointed as a Director on 1 May 2012 therefore his opening accrued pension 'as at 31 March 2012' is his accrued pension at the date he became a Director. The pensionable salary used to calculate his accrued pension excludes £22,000 of non-pensionable salary.

[3]The pensionable salary used to calculate Mr. N. Smith's accrued pension excludes £6,000 of non-pensionable salary.

*In accordance with the rules, Mr. A. R. Neve's pension has been capped at two-thirds of his pensionable earnings.

By order of the Board

T. M. Lazenby MBE
Chairman
Havant
27 June 2013

For the year ended 31 March 2013

	Notes	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
TURNOVER	2	36,227	55	36,282	36,610	55	36,665
Operating costs	3	(20,194)	(45)	(20,239)	(21,575)	(49)	(21,624)
Infrastructure renewals charge	3	(5,059)	-	(5,059)	(4,955)	-	(4,955)
Historical cost depreciation		(3,862)	-	(3,862)	(3,621)	-	(3,621)
Operating income	4	1	-	1	(21)	-	(21)
OPERATING PROFIT		7,113	10	7,123	6,438	6	6,444
Other income	5	-	97	97	-	49	49
Interest receivable	6	1,264	-	1,264	1,317	-	1,317
Other finance income	20	1,984	-	1,984	2,492	-	2,492
Interest payable and similar charges	7	(6,463)	-	(6,463)	(7,652)	-	(7,652)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,898	107	4,005	2,595	55	2,650
Taxation	8						
- Current Tax		(372)	(26)	(398)	93	(14)	79
- Deferred Tax		925	-	925	937	-	937
PROFIT FOR THE FINANCIAL YEAR		4,451	81	4,532	3,625	41	3,666
Operational Dividend	9	(102)	(81)	(183)	(1,223)	(41)	(1,264)
Inter-Company Dividend	9	(1,266)	-	(1,266)	(1,232)	-	(1,232)
Cash Contribution to Employee Benefit Trust		(888)	-	(888)	-	-	-
RETAINED PROFIT FOR THE FINANCIAL YEAR		2,195	-	2,195	1,170	-	1,170

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2013

	Notes	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Profit for the financial year		4,451	81	4,532	3,625	41	3,666
Actuarial (loss) on pension scheme	20	(1,215)	-	(1,215)	(10,245)	-	(10,245)
Deferred tax relating to actuarial loss on pension scheme	18	280	-	280	2,561	-	2,561
Effect of change to corporation tax rate on pension asset		(360)	-	(360)	(155)	-	(155)
Total recognised gains and losses relating to the year		3,156	81	3,237	(4,214)	41	(4,173)

HISTORICAL COST BALANCE SHEET

As at 31 March 2013

	Notes	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
FIXED ASSETS							
Tangible	10	95,683	-	95,683	90,292	-	90,292
Investments							
- Loan to group company	11	59,468	-	59,468	59,468	-	59,468
- Other	13	4	-	4	4	-	4
		155,155	-	155,155	149,764	-	149,764
CURRENT ASSETS							
Stores		589	-	589	596	-	596
Debtors	12	5,077	-	5,077	6,516	-	6,516
Cash and short-term deposits	14	4,059	-	4,059	2,563	-	2,563
Infrastructure renewals prepayment		2,848	-	2,848	2,705	-	2,705
		12,523	-	12,573	12,380	-	12,380
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR							
Borrowings	15	(5,284)	-	(5,284)	(1,284)	-	(1,284)
Corporation tax payable		(95)	-	(95)	-	-	-
Unpaid dividend		(1,412)	-	(1,412)	(1,412)	-	(1,412)
Creditors	16	(12,154)	-	(12,154)	(12,850)	-	(12,850)
NET CURRENT LIABILITIES		(6,372)	-	(6,372)	(3,166)	-	(3,166)
TOTAL ASSETS LESS CURRENT LIABILITIES		148,783	-	148,783	146,598	-	146,598
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR							
Borrowings	17	(91,369)	-	(91,369)	(88,924)	-	(88,924)
PROVISIONS FOR LIABILITIES							
Deferred Taxation	18	(9,414)	-	(9,414)	(9,940)	-	(9,940)
NET ASSETS EXCLUDING PENSION ASSET		48,000	-	48,000	47,734	-	47,734
Pension asset	20	15,308	-	15,308	14,674	-	14,674
NET ASSETS INCLUDING PENSION ASSET		63,308	-	63,308	62,408	-	62,408
CAPITAL AND RESERVES							
Called up share capital		1,078	-	1,078	1,078	-	1,078
Share premium account	19	1,539	-	1,539	1,539	-	1,539
Capital redemption reserve	19	3,250	-	3,250	3,250	-	3,250
Profit and loss account	19	57,441	-	57,441	56,541	-	56,541
		63,308	-	63,308	62,408	-	62,408

For the year ended 31 March 2013

	Statutory UK GAAP £m	Regulatory £m	Commentaries
PROFIT AND LOSS ACCOUNT			
Turnover	36,282	36,282	See a) below
Operating profit	6,331	7,123	See b) and c) below
BALANCE SHEET			
Tangible fixed assets (net book value)	100,003	95,683	See d) below

a) N/A.

b) The difference relates to the way these figures have been presented in both sets of accounts. In the Statutory Accounts, this figure excludes the £0.001m for profit on sale of fixed assets as it is reported below the operating profit line in the profit and loss account, but includes other income of £0.097m. In the Regulatory Accounts the amount shown includes the £0.001m for profit on sale of fixed assets but reports the other income below the operating profit line.

c) The cash contribution to the Employee Benefit Trust is not shown in operating costs in the Regulatory Accounts. It is shown below the Profit after Taxation line. The amount for 2013 is £0.888m.

d) The difference relates to the different accounting treatments for infrastructure renewals accounting in each set of accounts. In the Statutory Accounts the Company has followed common industry practice and adopted the infrastructure renewals accounting policy as set out in FRS 15. This has not been applied in the Regulatory Accounts, at the request of Ofwat.

1 ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and with the provisions of the Companies Act 2006, except for the treatment of capital contributions as detailed in note 1.(c), and the non-application of FRS 15 for infrastructure renewals accounting, as required by Ofwat for the purposes of producing the regulatory accounts.

In view of the licence conditions under which the Company operates as a water supplier, it has to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Conduct Authority, except where it is considered inappropriate to do so. Earnings per share disclosures required by FRS 22 are not presented as the Company is a wholly owned subsidiary.

The principal accounting policies which have been applied consistently are as follows:

(a) Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges. Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year end, for measured water customers. Unmeasured income bills are based on the rateable value of properties. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

The Company does not make any provision for revenue recognition in accordance with Note G of FRS5, therefore the revenues reported in these regulatory accounts are identical with those reported in the statutory accounts.

Revenue Recognition Policy

Turnover represents the income receivable in the ordinary course of business from the regulated activities of the business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for unmeasured consumption that has not yet been billed.

The measured income accrual is an estimation of the amount of mains water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The measured income accrual is recognised within turnover.

Where an invoice has been raised or payment made but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year’s turnover but will instead be recognised within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

Differences between Statutory and Regulatory accounts
Non-appointed income is included within turnover in the statutory accounts but is excluded from the regulatory accounts.

Differences between Amounts Billed and Turnover in the Regulatory Accounts
The differences between amounts billed and turnover can be split into 2 categories: Unmeasured irrecoverables, which relate to void properties, and measured adjustments, such as leak allowances.

Void Properties
We have recently installed a new CRM and billing system which went ‘live’ in mid-October 2012. Processes are different in the new system from those that applied in the old system and we are covering both as the Regulatory Accounts are for the year 2012/13 during which time both systems were used.

<u>Old System</u>
Every reference was billed and recognised as revenue initially. Confirmation was then undertaken during the course of the year to establish occupancy or vacant property. Periods of unoccupancy were classed as ‘void’ and written off against revenue billed.

<u>New System</u>
For the new system, empty properties are classed as voids and no bill is raised. A letter to the property is generated, or a visit made to determine occupancy. We continue to read the meter and raise a bill if consumption exists. Therefore revenue is only recognised when the customer is identified.

Under the new system, there is a process for determining if a property is unoccupied. The first stage is that an Occupation Form is posted to the property, requesting details of the occupier. If there is no reply a reminder is sent. The next stage involves a Visit Notice being raised and given to an Inspector. The Inspector will then go to the property and confirm if the property is void or not, and will turn off the water supply if appropriate.

Charging Policy
Charges are payable if premises are furnished unless the Company is asked to turn off the supply. No retrospective allowances will be given. If the premises do not have a separate supply pipe it may not be possible for the Company to turn off the supply.

Where turn-off is required pending the sale of a property, or for a planned period of more than six months, no charge will be made to turn off and back on, provided it is undertaken within normal working hours and sufficient notice has been given.

A customer may wish to consider the installation of a meter if they wish to maintain a supply to empty furnished premises.

No charges are payable in respect of unoccupied unfurnished premises, where no water is being used. No retrospective allowances will be given.

Where a property is unoccupied following the death of the owner/occupier the Executors/Administrators can decide whether a supply is maintained to furnished premises, with charges accruing, or the supply is turned off. Either way, the bill outstanding will only become payable upon Probate or Letters of Administration having been obtained.

<u>New properties</u>
All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified the process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Measured Income Accrual
For the year 2012/13 the measured income accrual was £2,866,152, and the corresponding actual billed revenue was £2,701,993. This is a difference of £164,159.

(b) Fixed assets

(i) Capitalisation Policy
The Company classifies costs as either capital expenditure or operating expenditure based on a number of factors. These include the value, nature and purpose of the expenditure.

A detailed capital programme is drawn up each October for the coming financial year. This is approved by the Company's Board and incorporated into the Company's Budget. Following Board approval individual schemes are programmed for the coming year by Project Managers responsible for delivering the schemes. The Project Managers are responsible for the control of expenditure on the schemes and authorise each individual item of expenditure incurred. The Chief Accountant reviews the scheme expenditure in order to ensure that the correct accounting treatment has been applied.

For small plant, equipment and vehicles a list is drawn up and approved by the Company's Board. Purchases made are reviewed for correctness of treatment and to ensure that these are all capital items. The policy adopted by the Company is that only items above £500 are capitalised.

Capitalised costs include contractor invoices, stores issues, direct labour charged to schemes plus on-cost recovery and the design and supervision staff costs related to project management.

(ii) Infrastructure assets - mains
Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network is treated as an addition and included in tangible fixed assets at cost. Expenditure on maintaining the operating capability of the network is classified as infrastructure renewals expenditure and charged as an operating cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

No depreciation is charged on infrastructure assets because the network is required to be maintained in perpetuity and therefore has no finite economic life.

(iii) Other assets

Other assets comprise buildings and reservoirs, pumping plant, vehicles, mobile plant and office equipment. The cost of other assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company. Depreciation is provided on all other fixed assets with the exception of freehold land. It is calculated to write off the cost of assets less estimated residual values over their estimated useful economic lives using the straight line method. Those lives are estimated as follows:

Buildings and Reservoirs	100 years
Pumping Plant	15-25 years
Vehicles and Mobile Plant	5-7 years
Office Equipment	7 years

(iv) Impairment

The values of fixed assets are reviewed regularly to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist, it is treated as an impairment loss and charged to the profit and loss account.

(c) Capital contributions

(i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 10 to the accounts on page 16. In accordance with the Companies Act 2006 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate do not have determinable finite lives and, accordingly, no basis exists on which to recognise those contributions as deferred income.

(ii) Infrastructure charges

Infrastructure charges are made in respect of new connections in accordance with Condition ‘C’ of the Instrument of Appointment. These charges are treated as capital contributions and deducted from fixed assets, as more fully explained in note 1.(c)(i) above.

(d) Investments

Investments are stated at the lower of cost or net realisable value.

(e) Stocks

Stocks of raw materials are valued at the lower of cost or net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in the course of treatment.

(f) Taxation

Current tax, including UK corporation and foreign tax, is provided at amounts expected to be paid (or received) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

The deferred tax balances have been discounted using a post-tax yield to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to when the timing differences are expected to reverse.

(g) Leases

All leases are regarded as operating leases. Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

(h) Pension costs and other post retirement benefits

Portsmouth Water Limited is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme is a defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund.

The current service costs are charged to the profit and loss account and included as staff employment costs. The interest cost and expected return on assets are shown as a net amount within other finance income. Actuarial gains and losses are recognised immediately in the Statement of Recognised Gains and Losses.

Pension scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted to their present value using the AA corporate bond rate.

Pension scheme assets are valued at market value at the balance sheet date. The pension scheme surplus is recognised in full on the balance sheet.
The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities.

Detailed information regarding the surplus and actuarial position of the scheme is given in note 20 to the accounts on pages 22 to 24.

The Company also operates a defined contribution pension scheme. The charge to the profit and loss account amounts to the contributions payable to the scheme in respect of the accounting period.

(i) Financial instruments

When a financial asset or liability is recognised initially it is measured at its fair value plus or minus transaction costs. The Company subsequently categorises financial instruments as follows:

Fixed asset investments consist of loans to Group undertakings, which earn interest based on London Interbank rates and are classified as loans and receivables. They are measured at amortised cost.

Other financial assets consist of short term bank deposits and debtors and are classified as loans and receivables. They are measured at amortised cost.

The Company's financial liabilities consist of fixed rate borrowings in the form of perpetual debentures and an index linked loan. These instruments are classified as other liabilities and are measured at amortised cost.

(j) Provisions

A provision is recognised when the Company has a legal or contractive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money, except in the use of deferred tax as mentioned in note (f) above, is not material and therefore the provisions are not discounted.

2. TURNOVER

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Unmeasured supplies	21,608	-	21,608	21,290	-	21,290
Measured supplies	11,496	-	11,496	11,010	-	11,010
Measured large users	1,836	-	1,836	1,862	-	1,862
SWS Bulk Supply	513	-	513	517	-	517
Third party services	701	55	756	1,836	55	1,891
Other sources	73	-	73	95	-	95
	36,227	55	36,282	36,610	55	36,665

Turnover for 2013 is £36.3m, and this compares to the Final Determination figure of £39.8m. The reduction of £3.5m is mainly from measured customers, which give an adverse variance of £2.3m. This is due to there being 6,527 less properties and an 8.5% reduction in consumption per property. The remainder of the reduction in turnover is due to £1.1m less revenue from rechargeable works.

3. ANALYSIS OF OPERATING COSTS

This note has been prepared in accordance with Condition 'F' of the Company's Instrument of Appointment.

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Manpower costs	8,034	18	8,052	8,713	19	8,732
Other costs of employment	259	-	259	247	-	247
Power	1,774	-	1,774	2,148	-	2,148
Rates	2,254	-	2,254	2,285	-	2,285
Hired and contracted services	4,294	16	4,310	3,946	17	3,963
Materials and consumables	1,370	11	1,381	1,662	13	1,675
Service charges	1,327	-	1,327	1,785	-	1,785
Infrastructure renewals charge	5,059	-	5,059	4,955	-	4,955
Provision for bad and doubtful debts	467	-	467	535	-	535
Other operating costs	415	-	415	254	-	254
	25,253	45	25,298	26,530	49	26,579

Manpower costs include a notional pension charge as a result of FRS17 and should not be included for efficiency purposes. The notional pension charge is excluded from the price determination. A comparison of these costs are shown below:

	2013 £000	2012 £000
Manpower as reported	8,034	8,713
Notional Pension Cost	(454)	(1,406)
Manpower Cost for Efficiency and Price Determination purposes	7,580	7,307

4. OPERATING INCOME

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Profit/(loss) arising on disposal of fixed assets	1	-	1	(21)	-	(21)

5. OTHER INCOME

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Rents	-	95	95	-	46	46
Home Assistance Service	-	2	2	-	3	3
	-	97	97	-	49	49

			2013	2012
6.	**INTEREST RECEIVABLE**		**£000**	**£000**
	Loan to Group Company		1,244	1,298
	Interest on short term deposits		19	16
	Other interest receivable		1	3
			1,264	1,317

			2013	2012
7.	**INTEREST PAYABLE AND SIMILAR CHARGES**		**£000**	**£000**
	£66.5m loan	- interest	3,357	3,215
		- indexation	2,826	4,236
		- amortisation of fees	57	57
		- administration expenses	25	24
			6,265	7,532
	Other bank loans and overdraft		185	104
	Debenture stocks		10	10
	Other interest payable		3	6
			6,463	7,652

		2013	2012
8.	**TAXATION**	**£000**	**£000**
	Current tax		
	United Kingdom corporation tax at 24% (2012 - 26%)	403	98
	Adjustment in respect of prior periods	(5)	(177)
		398	(79)
	Deferred tax		
	Origination and reversal of timing differences	202	133
	Decrease in discount	75	96
	Effect of change to corporation tax rate	(803)	(770)
	Effect of change to capital allowance pool rates	-	62
	Difference between pension cost charge and pension cost relief	352	271
	Effect of change to corporation tax rate on pension asset	(751)	(729)
		(925)	(937)
	Tax on profit on ordinary activities	(527)	(1,016)

The tax charge for the year is lower (2012 - lower) than the standard rate of corporation tax in the UK of 24% (2012 - 26%). The difference is explained as follows:

	2013	2012
Profit on ordinary activities before tax	4,005	2,650
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% (2012 - 26%)	961	689
Effect of:		
Expenses not deductible for tax purposes 8	17	
Capital allowances for the period in excess depreciation	(3)	(229)
Revenue items charged to capital	17	(7)
Employee Benefit Trust contribution deductable for tax purposes	(213)	-

8. TAXATION (continued)	2013 £000	2012 £000
Pension Contributions unrelieved from 2010/11	-	(90)
Difference between pension cost charge and pension cost relief	(367)	(282)
Adjustments to tax charge in respect of prior periods	(5)	(177)
Current tax charge for year	398	(79)

9. DIVIDENDS	2013 £000	2012 £000
Equity: Ordinary/'A' Ordinary		
- interim paid	601	1,304
- final paid	848	1,192
	1,449	2,496

The Directors are proposing the payment of a final dividend of £0.556m for the year ended 31 March 2013. This dividend has not been accounted for within the current year financial statements, as it has yet to be approved.

Dividend Policy

The Company's dividend policy is to maintain operational dividends in line with a payment which is based on 5% of the equity value of the opening Regulatory Capital Value for the year in question. The second part of the dividend is the recirculation of the inter-company interest received by Portsmouth Water on its loan to South Downs Limited. This payment is made net of any group tax relief surrendered. A breakdown of this dividend is shown below:

	2013 £000	2012 £000
Dividend ultimately for group shareholders	183	1,264
"Inter-Company Dividends"	1,266	1,232
	1,449	2,496

A combination of payments to the EBT amounting to £0.888m (not shown as a dividend in these Regulatory Accounts) and the Dividends to other shareholders amount to £1.071m which is 4.1% of the opening Regulatory Capital Value.

10. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
HISTORICAL COST				
At 1 April 2012	84,522	48,157	15,444	148,123
Additions	7,255	908	1,992	10,155
Disposals	-	-	(68)	(68)
At 31 March 2013	91,777	49,065	17,368	158,210
DEPRECIATION				
At 1 April 2012	26,438	-	10,269	36,707
Charge for year	2,386	-	1,476	3,862
Disposals during year	-	-	(53)	(53)
At 31 March 2013	28,824	-	11,692	40,516
NET BOOK VALUE				
At 31 March 2013	62,953	49,065	5,676	117,694
At 1 April 2012	58,084	48,157	5,175	111,416
CAPITAL CONTRIBUTIONS				
At 1 April 2012	-	21,124	-	21,124
Received during year	-	887	-	887
At 31 March 2013	-	22,011	-	22,011
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS				
At 31 March 2013	62,953	27,054	5,676	95,683
At 1 April 2012	58,084	27,033	5,175	90,292

In the preparation of its Statutory Accounts, the Company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 : Tangible Fixed Assets. However, for the purposes of the Regulatory Accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. There has been no change to this policy in 2012/13. A reconciliation to the balance sheet shown in the Statutory Accounts is provided below:

	Infrastructure Assets £000
COST	
Cost at 31 March 2013 per Regulatory Accounts	49,065
Adjustment to opening balance	31,136
Infrastructure renewals expenditure capitalised since 1 April 1999	57,650
Disposals since 1 April 1999	(3,242)
Cost at 31 March 2013 per Statutory Accounts	134,609
DEPRECIATION	
At 31 March 2013 per Regulatory Accounts	-
Adjustment to opening balance	31,136
Depreciation charge for infrastructure renewals since 1 April 1999	53,330
Disposals	(3,242)
At 31 March 2013 per Statutory Accounts	81,224
NET BOOK VALUE	
At 31 March 2013 per Regulatory Accounts	49,065
Adjustments for infrastructure renewals accounting since 1 April 1999	4,320
At 31 March 2013 per Statutory Accounts	53,385

11. FIXED ASSET INVESTMENT

	Loan to Group Undertakings £000
At 1 April 2012 and 31 March 2013	59,468

12. DEBTORS

	2013 £000	2012 £000
Trade debtors	1,671	2,874
Amounts owed by Group companies	29	37
Prepayments and accrued income	2,985	3,118
Other debtors	392	487
	5,077	6,516

All of the above amounts fall due within one year

As at 31 March 2013, trade debtors had a carrying value of £4.270m (2012 - £5.352m) before provision for bad debt. Trade debtors in arrears are provided for in full, but only an element of current debt is provided for. The amount of the provision was £2.599m as at 31 March 2013 (2012 - £2.478m).

The ageing of these debtors was as follows:

	2013	**2012**
	£000	**£000**
Up to 12 months	1,940	3,146
Over 12 months	2,330	2,206
	4,270	5,352

The debtors provided for are mainly in respect of water charges for household customers where experience in the water industry has shown over time that it is likely that there will be difficulties in recovering the water charges for the periods concerned.

Movement on the provision for bad debt are as follows:

	2013	**2012**
	£000	**£000**
As at 1 April 2012	2,478	2,248
Provision for bad debt required in the year	467	535
Debt written off in the year as uncollectable	(346)	(305)
As at 31 March 2013	2,599	2,478

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security.

Write Off Policy

Our write off policy has not changed within the period under review. However, various data cleansing activities did occur prior to our new billing system going live in October 2012.

Customers who remain within our area of supply

Commercial – written off upon Receivership/Liquidation.
Domestic – written off upon Bankruptcy or the granting of a Debt Relief Order.

Customers who have moved outside of our area of supply

Debt less than £50 – limited automated credit control and then periodic automatic write off.
Debt greater than £50 – credit control process then passed to a Debt Collection Agency (DCA) for recovery on a no success, no fee basis. Periodic write off exercise for accounts returned by DCA, following internal review.

Differences in written off amounts between years are likely to be the result of differences in the timing of write off exercises rather than as a result of any particular trends.

Provisioning policy

The provisioning policy has been in operation for a number of years and is as follows. For unmeasured balances we provide for 100% of the debt in arrears and 15% of the current balances. For measured balances we provide for 75% of the arrears relating to former occupiers and 10% of the arrears relating to current occupiers. The measured arrears are taken to be anything that is over 8 weeks old.

13. INVESTMENTS	**2013**	**2012**
	£000	**£000**
Unlisted investments	4	4

14. CASH AT BANK AND IN HAND

Of the total amount shown of £4,059m, £1.713m (2012 - £1.655m) is held specifically for the payment of the next half yearly loan interest charges.

15. BORROWINGS: DUE WITHIN ONE YEAR

	2013 £000	2012 £000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	5,000	1,000
	5,284	1,284

The £5.0m bank loan is part of a three year £10.0m working capital facility, which is secured upon the assets of the Company and bears interest at London Interbank rates.

16. OTHER CREDITORS

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
Payments received on account	2,156	-	2,156	2,474	-	2,474
Trade creditors	1,635	-	1,635	1,392	-	1,392
Amounts owed to Group companies	353	-	353	143	-	143
Social security and other taxation	230	-	230	229	-	229
Other creditors	2,478	-	2,478	3,003	-	3,003
Accruals	613	-	613	557	-	557
Water rates in advance	4,689	-	4,689	5,052	-	5,052
	12,154	-	12,154	12,850	-	12,850

17. CREDITORS: DUE AFTER ONE YEAR

	2013 £000	2012 £000
Due within one to two years:		
Payments on account	110	548
In five years or more:		
Bank loan	92,368	89,542
Less: deferred arrangement costs	1,109	1,166
	91,259	88,376
	91,369	88,924

The thirty year £66.5m index-linked loan was issued on 26 June 2002, is repayable on 30 September 2032, and is secured upon the assets of the Company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m are amortised over the life of the loan. The amount owing on the loan is stated net of the unamortised issue fees.

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this inflated amount at 3.635% per annum.

18. PROVISIONS FOR LIABILITIES

	2013 £000	2012 £000
DEFERRED TAXATION:		
At 1 April 2012	9,940	10,419
Provided during the year in profit and loss account	(526)	(479)
At 31 March 2013	9,414	9,940

The total deferred tax balance before the effect of discounting is £9.997m (2012 - £10.640m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2013 £000	2012 £000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	9,414	9,940
Pension asset (note 20)	4,572	4,891
Total provision for deferred tax	13,986	14,831
At 1 April 2012	14,831	18,174
Deferred tax charge in profit and loss account (note 8)	(925)	(937)
Deferred tax charged to the statement of total recognised gains and losses	80	(2,406)
At 31 March 2013	13,986	14,831

A reduction in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013 was enacted during the period. As a consequence the deferred tax charge includes a decrease in the deferred tax liability of £0.803m.

In addition to the reduction in the rates of corporation tax mentioned above, the UK Government has announced its intention to further reduce the rate of corporation tax to 20% by 2015. If this reduction to 20% had been enacted by 31 March 2013 the deferred tax liability would have been reduced by a further £1.228m to £8.186m.

If the tax rate changes had been enacted at the balance sheet date the deferred tax liability of £9.414m (see note 18) would have been reduced by £1.228m to £8.186m and the deferred tax liability relating to the pension asset of £4.572m (see note 20) would have been reduced by £0.596m to £3.976m. The reduction in the deferred tax liability would have been dealt with in the profit and loss account. The reduction in the deferred tax liability relating to the pension asset would have been dealt with in the statement of total recognised gains and losses. The reductions in deferred tax are expected to be implemented over the period to 2015 in line with legislative changes.

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £0.570m. (2012 - £0.619m.). At present it is not envisaged that any tax will become payable in the foreseeable future.

19. RESERVES

	Share Premium £000	Capital Redemption £000	Profit and Loss £000
At 1 April 2012	1,539	3,250	56,541
Profit for financial year	-	-	4,532
Dividends	-	-	(1,449)
Cash contribution to Employee Benefit Trust	-	-	(888)
Actuarial (loss) on pension scheme	-	-	(1,215)
Movement on deferred tax relating to pension scheme	-	-	280
Effect of change to corporation tax rate on pension asset	-	-	(360)
As 31 March 2013	1,539	3,250	57,441

20. PENSIONS

Portsmouth Water Limited is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on pensionable earnings. The assets of the scheme are held in a separate trustee administered fund.

The formal actuarial valuation as at 31 March 2011 was updated to the accounting date by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method.

The estimated Company contributions expected to be paid to the Scheme for the year commencing 1 April 2013 is £1.0m (2012 actual: £1.0m). Of this amount, £0.7m is contributed directly by the Company and £0.3m is contributed by employees by salary sacrifice under the SMART arrangement.

The key FRS 17 assumptions used for the scheme were as follows:

	2013 % per annum	2012 % per annum	2011 % per annum
RPI inflation	3.5	3.4	3.5
CPI inflation	2.6	2.5	2.8
Discount rate	4.3	4.6	5.5
Pension increases	2.6	2.5	2.8
Salary growth	5.75	5.65	5.75

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 65 would be expected to live for a further 23.6 years (2012 - 23.5 years). Allowance is made for future improvements in life expectancy.

The fair value of assets in the scheme, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the surplus of assets over the FRS 17 liabilities (which equals the gross pension asset) are set out below:

	2013 Expected Return % per annum	2013 Fair Value £000	2012 Expected Return % per annum	2012 Fair Value £000	2011 Expected Return % per annum	2011 Fair Value £000
Equities	6.9	63,599	7.2	74,294	7.6	77,654
Absolute Return Fund	6.2	8,420	-	-	-	-
Bonds	2.9	50,361	3.2	44,154	4.1	40,353
Property	4.9	3,611	-	-	-	-
Cash	0.4	6,930	0.7	5,214	2.1	2,030
	4.9	132,921	5.5	123,662	6.3	120,037

The total expected return on assets is derived by taking the weighted average of the long-term expected return on each of the asset classes.

	2013 £000	2012 £000
Total fair value of scheme assets	132,921	123,662
FRS 17 value of scheme liabilities	113,041	104,097
Gross pension asset	19,880	19,565
Related deferred tax liability	4,572	4,891
Net pension asset	15,308	14,674

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2013 as an asset of £19.880m (2012 - £19.565m), which amounts to £15.308m net of deferred tax (2012 - £14.674m).

The Company paid contributions at a rate of 12.4% of earnings. Members pay contributions at a rate of 5% of earnings via salary sacrifice. The Company also operates a defined contribution pension scheme. The contributions payable by the Company for the year in respect of the defined contribution scheme amounted to £25,538 (2012 - £2,454).

The FRS 17 value of scheme liabilities moved over the period as follows:

	2013 £000	2012 £000
Opening scheme liabilities	104,097	91,313
Employer's part of current service cost	1,412	2,297
Interest cost	4,705	4,992
Contributions by scheme participants	-	96
Benefits paid	(5,102)	(3,520)
Actuarial loss	7,929	8,919
Closing scheme liabilities	113,041	104,097

The FRS 17 value of scheme assets moved over the period as follows:

	2013 £000	2012 £000
Opening fair value of scheme assets	123,662	120,037
Expected return on assets	6,689	7,484
Contributions by scheme participants	-	96
Contributions by the Company	958	891
Benefits paid	(5,102)	(3,520)
Actuarial gain/(loss)	6,714	(1,326)
Closing fair value of scheme assets	132,921	123,662

The following amounts have been included within operating profit under FRS 17:

	2013 £000	2012 £000
Current service cost (employer's part only)	1,412	2,297
Past service credit	-	-
Total operating charge	1,412	2,297

The following amounts have been included as other finance income under FRS 17:

	2013 £000	2012 £000
Expected return on pension scheme assets	6,689	7,484
Interest on post retirement liabilities	(4,705)	(4,992)
Net return	1,984	2,492
Total return recognised in the profit and loss account	572	195

The following amounts have been recognised within the statement of total recognised gains and losses (STRGL) under FRS 17:

	2013 £000	2012 £000
Actual return less expected return on scheme assets	6,714	(1,326)
Experience gains arising on scheme liabilities	-	1,783
(Loss) due to changes in assumptions underlying the FRS 17 value of scheme liabilities	(7,929)	(10,702)
Actuarial (loss) recognised in the STRGL	(1,215)	(10,245)

The actual return on plan assets was an increase of £13.403m in the year to 31 March 2013 (2012 - increase of £6.158m).

The history of experience gains and losses is:

	2013	2012	2011	2010	2009
Present value of scheme liabilities (£000)	(113,041)	(104,097)	(91,313)	(100,268)	(69,808)
Total fair value of scheme assets (£000)	132,921	123,662	120,037	113,843	86,724
Gross pension asset (£000)	19,880	19,565	28,724	13,575	16,916
Actual return less expected return on scheme assets (£000)	6,714	(1,326)	1,181	24,665	(25,132)
Percentage of scheme's assets	5%	(1%)	1%	22%	(29)%
Experience gains arising on scheme's liabilities (£000)	-	1,783	-	-	4,722
Percentage of the FRS 17 value of the scheme's liabilities	0%	1%	0%	0%	7%
Total amount recognised in the STRGL (£000)	(1,215)	(10,245)	14,904	(2,636)	(13,020)
Percentage of the FRS 17 value of the scheme's liabilities	(1%)	(10%)	16%	(3%)	(19)%

The cumulative amount recognised in the STRGL as at 31 March 2013 was a loss of £19.189m (2012 - loss of £17.974m).

The Accounting Standards Board have published guidance relating to best practice for disclosure of pensions information. The Company has decided not to follow the guidance at this time.

CURRENT COST PROFIT AND LOSS ACCOUNT
FOR THE APPOINTED BUSINESS

For the year ended 31 March 2013

	Notes		2013 £000		2012 £000
TURNOVER	2		36,227		36,610
Current cost operating costs	3				
- Wholesale		(26,833)		(26,564)	
- Retail		(4,276)	(31,109)	(5,296)	(31,860)
Operating income	2		-		(34)
			5,118		4,716
Working capital adjustment	4		185		195
CURRENT COST OPERATING PROFIT			5,303		4,911
Interest receivable			1,264		1,317
Other finance income			1,984		2,492
Interest payable and similar charges			(6,463)		(7,652)
Financing adjustment	4		128		12
CURRENT COST PROFIT BEFORE TAXATION			2,216		1,080
Taxation					
- Current Tax		(372)		93	
- Deferred Tax		925	553	937	1,030
CURRENT COST PROFIT FOR THE FINANCIAL YEAR			2,769		2,110
Operational Dividend			(102)		(1,223)
Inter-Company Dividend			(1,266)		(1,232)
Cash contribution to Employee Benefit Trust			(888)		-
CURRENT COST PROFIT/(LOSS) RETAINED			513		(345)
Net revenue movement out of tariff basket			(120)		(84)

CURRENT COST BALANCE SHEET
FOR THE APPOINTED BUSINESS

As at 31 March 2013

	Notes	2013 £000	2012 £000
FIXED ASSETS			
Tangible fixed assets	5	1,102,313	1,063,152
Third party contributions since 1989/90		(27,172)	(25,451)
		1,075,141	1,037,701
Working capital	6	(6,200)	(5,655)
Cash		2,346	908
Short term deposits		1,713	1,655
Infrastructure renewals prepayment		2,848	2,705
NET OPERATING ASSETS		1,075,848	1,037,314
NON OPERATING ASSETS AND LIABILITIES			
Borrowings		(5,284)	(1,284)
Non-trade debtors		16	15
Non-trade creditors: amounts falling due within one year		(304)	(98)
Investment - loan to group company		59,468	59,468
- other		4	4
Corporation tax payable		(95)	-
Dividends		(1,412)	(1,412)
TOTAL NON OPERATING ASSETS AND LIABILITIES		52,393	56,693
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Borrowings		(91,369)	(88,924)
PROVISIONS FOR LIABILITIES AND CHARGES		1,036,872	1,005,083
Deferred tax provision		(9,414)	(9,940)
NET ASSETS EXCLUDING PENSION ASSET		1,027,458	995,143
Pension asset		15,308	14,674
NET ASSETS INCLUDING PENSION ASSET		1,042,766	1,009,817
CAPITAL AND RESERVES			
Called up share capital		1,078	1,078
Share premium account		1,539	1,539
Capital redemption reserve		3,250	3,250
Profit and loss account	7	16,863	17,645
Current cost reserve	8	1,020,036	986,305
		1,042,766	1,009,817

For the year ended 31 March 2013

	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000	Appointed 2012 £000	Non Appointed 2012 £000	Total 2012 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15,565	107	15,672	15,663	55	15,718
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE						
Interest received	1,263	-	1,263	1,312	-	1,312
Interest paid	(3,550)	-	(3,550)	(3,354)	-	(3,354)
NET CASHFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	(2,287)	-	(2,287)	(2,042)	-	(2,042)
TAXATION						
UK corporation tax paid	(70)	(26)	(96)	(179)	(14)	(193)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT						
Purchase of tangible fixed assets	(10,035)	-	(10,035)	(3,680)	-	(3,680)
Receipt of contributions	887	-	887	917	-	917
Infrastructure renewals expenditure	(5,202)		(5,202)	(3,913)	-	(3,913)
Sale of tangible fixed assets	6	-	6	6	-	6
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(14,344)	-	(14,344)	(6,670)	-	(6,670)
EQUITY DIVIDENDS PAID	(1,368)	(81)	(1,449)	(2,455)	(41)	(2,496)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	(2,504)	-	(2,504)	4,317	-	4,317
MANAGEMENT OF LIQUID RESOURCES						
(Purchase) of short term deposits	(58)	-	(58)	(65)	-	(65)
NET CASHFLOW BEFORE FINANCING	(2,562)	-	(2,562)	4,252	-	4,252
FINANCING						
New Loans/(repayment) of loans	4,000	-	4,000	(3,500)	-	(3,500)
INCREASE IN CASH IN THE YEAR	1,438		1,438	752	-	752

OPERATING COST ANALYSIS
(WHOLESALE BUSINESS ONLY)

As at 31 March 2013

	Resources £000	Raw Water Distribution £000	Treatment £000	Treated Distribution £000	Total Water £000
OPERATING EXPENDITURE					
Power	443	270	219	918	1,850
Income treated as negative expenditure	(4)	(1)	(12)	(27)	(44)
Service charges	1,327	-	-	-	1,327
Other operating expenditure	894	315	2,634	6,456	10,299
Local authority rates	44	72	140	1,977	2,233
Total operating expenditure excluding third party services	2,704	656	2,981	9,324	15,665
CAPITAL MAINTENANCE					
Infrastructure renewals charge	-	-	-	5,059	5,059
Current cost depreciation	356	242	2,405	2,759	5,762
Recharges to other business units	-	-	-	(140)	(140)
Recharges from other business units	-	-	-	-	-
Total capital maintenance excluding third party services	356	242	2,405	7,678	10,681
THIRD PARTY SERVICES					
Operating expenditure	21	-	-	466	487
infrastructure renewals charge		-			
Current cost depreciation		-			
Total Operating Costs	**3,081**	**898**	**5,386**	**17,468**	**26,833**

OPERATING COST ANALYSIS
(RETAIL BUSINESS ONLY)

As at 31 March 2013

OPERATING EXPENDITURE

	Household £000	Non-household £000	Total Retail £000
Customer services	1,199	105	1,304
Debt Management	363	67	430
Doubtful debts	451	16	467
Meter reading	137	38	175
Services to developers	-	35	35
Other operating expenditure	1,483	128	1,611
Local authority rates	19	1	20
Total operating expenditure excluding third party services	3,652	390	4,042
Third party services operating expenditure	-	-	-
Total Operating Expenditure	**3,652**	**390**	**4,042**

CAPITAL MAINTENANCE

	Household £000	Non-household £000	Total Retail £000
Current cost depreciation	89	5	94
Recharges to other business units	-	-	-
Recharges from other business units	131	9	140
Total capital maintenance	220	14	234
Total Operating Costs	**3,872**	**404**	**4,276**
Debt written off	**334**	**12**	**346**

CURRENT COST ANALYSIS OF FIXED ASSETS
(WHOLESALE BUSINESS ONLY)

As at 31 March 2013

	Resources £000	Raw Water Distribution £000	Treatment £000	Treated Distribution £000	Total Water £000
NON-INFRASTRUCTURE ASSETS					
GROSS REPLACEMENT COST					
At 1 April 2012	22,955	19,936	72,450	107,373	222,714
RPI adjustment	753	654	2,376	3,522	7,305
Disposals	(13)	(1)	(30)	(37)	(81)
Additions	201	64	1,962	6,976	9,203
At 31 March 2013	23,896	20,653	76,758	117,834	239,141
DEPRECIATION					
At 1 April 2012	11,088	7,363	33,928	47,326	99,705
RPI adjustment	366	241	1,113	1,552	3,272
Disposals	(8)	(1)	(25)	(30)	(64)
Charge for year	356	242	2,405	2,759	5,762
At 31 March 2013	11,802	7,845	37,421	51,607	108,675
NET BOOK VALUE					
At March 2013	12,094	12,808	39,337	66,227	130,466
At 1 April 2012	11,867	12,573	38,522	60,047	123,009
INFRASTRUCTURE ASSETS					
Gross Replacement cost					
At 1 April 2012	-	17,435	-	921,713	939,148
RPI adjustment	-	572	-	30,239	30,811
Disposals	-	-	-	-	-
Additions	-	-	-	908	908
At 31 March 2013	-	18,007	-	952,860	970,867

CURRENT COST ANALYSIS OF FIXED ASSETS
(RETAIL BUSINESS ONLY)

As at 31 March 2013

NON-INFRASTRUCTURE ASSETS

	Household £000	Non-household £000	Total Retail £000
GROSS REPLACEMENT COST			
1 April 2012	1,261	289	1,550
RPI adjustment	47	3	50
Disposals	-	-	-
Additions	41	3	44
At 31 March 2013	1,349	295	1,644
DEPRECIATION			
1 April 2012	396	159	555
RPI adjustment	15	-	15
Disposals	-	-	-
Charge for year	89	5	94
At 31 March 2013	500	164	664
NET BOOK VALUE			
At 31 March 2013	849	131	980
At 31 March 2012	865	130	995

For the year ended 31 March 2013

	Gross 2013 £000	Grants and Contributions 2013 £000	Net 2013 £000	Gross 2012 £000	Grants and Contributions 2012 £000	Net 2012 £000
CAPITAL EXPENDITURE						
BASE						
Infrastructure Renewals Expenditure (IRE)	5,202	-	5,202	3,913	-	3,913
Maintenance non-infrastructure (MNI)	7,290		7,290	1,960	-	1,960
ENHANCEMENTS						
Infrastructure enhancements	908	(887)	21	923	(917)	6
Non-infrastructure enhancements	1,957	-	1,957	1,330	-	1,330
TOTAL CAPITAL EXPENDITURE	15,357	(887)	14,470	8,126	(917)	7,209
GRANTS AND CONTRIBUTIONS						
Developer contributions (i.e. Enhancement requisitions, grants and contributions)	-	(392)	-	-	(308)	-
Infrastructure charge receipts - new connections-	(495)	-	-	(609)	-	
TOTAL GRANTS AND CONTRIBUTIONS	-	(887)	-	-	(917)	-

As at 31 March 2013

	2013	2012
NUMBER OF PROPERTIES ('000s)		
Households billed	282.223	279.672
Non-households billed	18.562	19.047
Household voids	6.597	6.569
Non-household voids	0.054	0.057
PER CAPITA CONSUMPTION (EXCLUDING SUPPLY PIPE LEAKAGE) l/h/d		
Unmeasured household	153	166
Measured household	125	122
VOLUME (Ml/d)		
Bulk Supply export	1	1
Distribution input	173	176

1. ACCOUNTING POLICIES

The current cost accounts have been prepared for the appointed business of Portsmouth Water Limited in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the historical cost accounts as shown on pages 10 to 13, except as set out below:

Tangible Fixed Assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for possible funding of future replacements of pre 31 March 1990 assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Modern Equivalent Asset (MEA) Valuation

A review of the MEA valuation and asset stock is undertaken as part of the periodic review. The revised values arising from this review provide the basis for calculating the MEA in the current cost financial statements. The process of continuing refinement of asset records has produced adjustments to existing values. The current cost depreciation figures included in the current cost operating costs are based on the revised MEA values.

Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by adjusting for inflation as measured by the changes in the Retail Price Index (RPI) since that date.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation, as measured by changes in the RPI.

Infrastructure assets

Mains are valued at replacement cost, determined principally on the basis of data provided by the AMP.

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic review of the AMP takes place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Other operational fixed assets

All other operational fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI over the year.

Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition 'B' of the Licence.

Third party contributions

Infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year and treated as for deferred income.

Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment - this is calculated by applying the change in the RPI over the year to the opening working capital balance.

Financing adjustment - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet, apart from those included in working capital, deferred tax, dividends payable and index linked debt.

Other Current Cost Adjustments

Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Disposal of fixed assets adjustment - this is the difference between the values of realised assets in these current cost financial statements and the historical cost financial statements.

There has been no change in the year to the current cost depreciation policy.

Accounting Separation

The accounts have been drawn up in accordance with the separately published Accounting Separation Methodology Statement.

The Methodology Statement details the systems in place and the sources of information used to populate the Accounting Separation data in the Regulatory Accounts. The detailed nominal ledger management information reports allow costs to be identified for each cost centre of the Company, and the direct costs of Business Units, for example Retail, can be readily identified.

The Company has used the guidance issued by Ofwat in the separating of costs and assets between the Wholesale and Retail business units. It has followed the prescribed hierarchy of cost drivers when deciding upon the most appropriate basis for allocation of both costs and assets. Where the Company has opted to base the allocation of a number of costs and assets on a management estimate, it is satisfied that this was the only valid option given the time and costs involved in other methods.

		2013 £000		2012 £000
2. TURNOVER				
Unmeasured supplies				
- Household	21,252		20,931	
- Non-household	356	21,608	359	21,290
Measured supplies				
- Household	5,009		4,561	
- Non-household	6,487	11,496	6,449	11,010
Measured large users		1,836		1,862
SWS bulk supply		513		517
Third party services		701		1,836
Other sources		73		95
		36,227		36,610
OPERATING INCOME				
Current cost (loss)/profit on disposal of fixed assets		-		(34)
Working capital adjustment		185		195

3. CURRENT COST OPERATING COSTS	2013 £000	2012 £000
Operating costs per historical cost accounts	29,115	30,151
Current cost depreciation adjustment (note 1)	1,994	1,709
	31,109	31,860

4. WORKING CAPITAL AND FINANCING ADJUSTMENTS

These are the real financial capital maintenance adjustments for working capital and net finance, as described in note 1.

5. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
GROSS CURRENT REPLACEMENT COST				
At 1 April 2012	205,101	939,148	19,163	1,163,412
RPI adjustment	6,729	30,811	626	38,166
Disposals	-	-	(81)	(81)
Additions	7,255	908	1,992	10,155
At 31 March 2013	219,085	970,867	21,700	1,211,652
DEPRECIATION				
At 1 April 2012	86,777	-	13,483	100,260
RPI adjustment	2,847	-	440	3,287
Disposals during year	-	-	(64)	(64)
Charge for year	4,238	-	1,618	5,856
At 31 March 2013	93,862	-	15,477	109,339
NET BOOK VALUE				
At 31 March 2013	125,223	970,867	6,223	1,102,313
At 1 April 2012	118,324	939,148	5,680	1,063,152

The RPI adjustment relates to the increase of the current cost valuations in line with inflation.

6. WORKING CAPITAL

		2013 £000	2012 £000
Stores		589	596
Trade debtors	- measured household	223	100
	- unmeasured household	1,492	1,268
	- measured non-household	371	225
	- unmeasured non-household	25	9
	- other	436	1,756
Measured income accrual		2,761	2,866
Prepayments and other debtors		223	251
Trade creditors		(984)	(990)
Deferred income - customer advance receipts		(3,032)	(2,957)
Capital creditors		(2,746)	(2,626)
Accruals and other creditors		(5,558)	(6,153)
TOTAL WORKING CAPITAL		(6,200)	(5,655)
TOTAL REVENUE OUTSTANDING			
	- Household	3,920	3,214
	- Non-household	437	591

7. PROFIT AND LOSS ACCOUNT

	£000
As at 1 April 2012	17,645
Profit for the financial year	2,769
Dividend	(1,368)
Cash contribution to Employee Benefit Trust	(888)
Actuarial loss on pension scheme	(1,215)
Movement on deferred tax relating to pension scheme	280
Effect of change to corporation tax rate on pension asset	(360)
As 31 March 2013	16,863

8. CURRENT COST RESERVE

	£000
As 1 April 2012	986,305
RPI adjustments:-	
Fixed assets	34,879
Working capital adjustment	(185)
Net finance adjustment	(128)
Third party contributions	(835)
At 31 March 2013	1,020,036

9. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013 £000	2012 £000
Current cost operating profit	5,303	4,911
Cash contribution to Employee Benefit Trust	(888)	-
Working capital adjustment	(185)	(195)
Decrease in working capital	(216)	(1,014)
Loss on disposal of asset	10	14
Other finance charges	454	1,406
Current cost depreciation	5,856	5,330
Current cost loss on sale of fixed assets	-	34
Infrastructure renewals charge	5,059	4,955
Movement in provisions	172	222
NET CASHFLOW FROM OPERATING ACTIVITIES	15,565	15,663

10. ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS	**As at 1 April 2012 £000**	**Cash Flow £000**	**Non Cash Movements £000**	**As at 31 March 2013 £000**
Cash at bank and in hand	908	1,438	-	2,346
Loans due after one year	(88,376)	-	(2,883)	(91,259)
Loans due within one year	(1,284)	(4,000)	-	(5,284)
	(89,660)	(4,000)	(2,883)	(96,543)
Short term deposits	1,655	58	-	1,713
Current asset equity investments	4	-	-	4
	1,659	58	-	1,717
	(87,093)	(2,504)	(2,883)	(92,480)

For the purposes of the gearing ratio, debt excludes the deferred arrangement costs of £1.109m and the current asset investment of £0.004m.

	Fixed Rate £000	**Floating Rate £000**	**Index Linked £000**	**Total £000**
BORROWINGS	(284)	(5,000)	(92,368)	(97,652)
Cash and investments				2,346
Short term deposits				1,713
NET DEBT				(93,593)
Regulatory capital value				120,071
Gearing				77.9%
Full year equivalent nominal interest cost	10	88	6,183	6,281
Full year equivalent cash interest payment	10	88	3,357	3,455
Indicative Interest rates				
Indicative weighted average nominal interest rate	3.5%	1.75%	6.7%	6.4%
Indicative weighted average cash interest rate	3.5%	1.75%	3.6%	3.5%
Weighted average years to maturity	<1yr	<1yr	23.5yrs	22.3yrs

Regulatory Capital Value at 2012/13 prices

	£000
Opening Regulatory Capital Value as at 1 April 2012	119,584
Capital Expenditure (excluding infrastructure renewals)	8,871
Infrastructure renewals expenditure	5,227
Infrastructure renewals charge	(5,294)
Capital contributions	(1,291)
Current cost depreciation	(5,124)
Outperformance of regulatory assumptions (5 years in arrears)	(1,901)
Closing Regulatory Capital Value as at 31 March 2013	120,071
Average Regulatory Capital Value for the year	117,888

Explanatory Note

The Table shown above gives the build up of the Regulatory Capital Value for the financial year ended 31 March 2013 that was used by the Office of Water Services in setting price limits for the AMP5 period in the 2009 Final Determination of price limits.

The Regulatory Capital Value is the capital base for the Company on which it is allowed to earn a rate of return at the given cost of capital.

The opening Regulatory Capital Value for the year, after indexation by year end RPI, is adjusted to take account of net new investment (being new capital expenditure less capital contributions received) and the current cost depreciation charge for the year, as allowed in the 2009 Final Determination of price limits.

There is also a further adjustment made to reflect past outperformance of regulatory assumptions for the previous price setting period. This relates to capital expenditure efficiencies which were achieved in that period and which have been retained by the Company for five years, under the Office of Water Services' approach to Regulatory Capital Values.

Any differences in actual capital expenditure and depreciation charges from those allowed in the 2009 Final Determination do not affect price limits in the current period. These differences, including any capital efficiencies achieved, will be taken into account in the calculation of the Regulatory Capital Value for the next price review period from 2015 onwards.

The Directors are responsible, under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, Food and Rural Affairs (Defra) and as a water undertaker under the Water Industry Act 1991, for preparing the financial statements for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006;
- safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Certificate of Compliance with Licence Condition F6A

In arriving at the certificate provided below, the Board met on 27 June 2013 to consider the Appointee's financial and management requirements over the next 12 months and the available resources. The Directors reviewed the following information:

- the latest financial position of the Company through its latest Report and Accounts
- the Management Accounts for May 2013
- the current level of gearing
- the projected level of gearing through to 2014, based on its own internal budget projections
- the Company's available bank and overdraft facilities through to 2014
- the headroom between the projected key operating ratios (gearing and interest cover) and its loan covenants through to 2014 under a number of scenarios.

The Board were satisfied that sufficient resources existed and that they could provide the necessary assurance. In addition, compliance with the relevant sections of RAG 5.04 was also reviewed.

As required by the Water Services Regulation Authority the Board hereby certifies:

- that, in the opinion of the Directors, Portsmouth Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- that, in the opinion of the Directors, the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and
- that, in the opinion of the Directors, all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker; and
- in accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'K' of that Instrument.

Signed by:

T M Lazenby M.B.E. ....

N Smith ....

N J Sheeran ....

R C Porteous ....

M P Kirk ....

Mrs H V Benjamin ....

The transactions required to be disclosed under Condition F of the Company's Instrument of Appointment are set out below:

Borrowings or Sums Lent

There is a loan outstanding made to a Group Company, South Downs Limited, in June 2002. The balance of the loan, consisting of the principal amount and accrued interest to date, amounts to £59.468m. This loan was made as a part of the refinancing package which was carried out in the financial year 2002/03. The interest rate for the loan is based on LIBOR plus a margin.

Dividends paid to Associated Undertakings

The dividends paid to the holding company, Portsmouth Water Holdings Limited, are shown in note 9 on page 16 of these Regulatory Accounts. The dividend policy is also covered within this note.

Payments for Tax Losses

Payments relating to the surrender of tax losses to Portsmouth Water Limited, from Group Companies, made to South Downs Limited amounting to £96,108.

Supply of Services

Details of services supplied to the Appointee by associates during the year are disclosed below.

Service	Associate Company	Turnover of Associate (£000's)	Terms of Supply	Value (£000's)
Rent of operational sites	Brockhampton Holdings Limited	162	Market Tested	84
Solar panel income		97	-	-

Directors Remuneration

There is a recharge of Directors salaries amounting to £18,091 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

Capital Investment and Regulation Staff Salaries

There is a recharge of capital investment salaries amounting to £6,249 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, in respect of staff time spent by Portsmouth Water staff on a solar panel capital scheme for the associated company.

Statement by Board of Directors

To the best of their knowledge, the Directors of the Company declare that all appropriate transactions with associated companies have been disclosed.

REPORT OF THE INDEPENDENT AUDITOR TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF PORTSMOUTH WATER LIMITED

We have audited the Regulatory Accounts of Portsmouth Water Limited for the year ended 31 March 2013 on pages 6 to 38 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit option under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 10 to 13 and page 34 to 35, the state of the Company's affairs at 31 March 2013 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the Accounting Separation Methodology).

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 6 to 24 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 18.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

NICHOLAS KELSEY
Senior Statutory Auditor
For and on behalf of
SAFFERY CHAMPNESS
CHARTERED ACCOUNTANTS
REGISTERED AUDITORS
LION HOUSE RED LION STREET
LONDON
8 July 2013