Portsmouth Water

REGULATORY ACCOUNTS 2014

CONTENTS

1.	Board Assurance
2.	Revenue Performance
3.	Report on Remuneration
10.	Historical Cost Profit and Loss Account
11.	Statement of Total Recognised Gains and Losses
12.	Historical Cost Balance Sheet
13.	Reconciliation between Statutory Accounts and Regulatory Accounts
14.	Notes on the Historical Cost Accounts
29.	Current Cost Profit and Loss Account
30.	Current Cost Balance Sheet
31.	Current Cost Cash Flow Statement
32.	Operating Cost Analysis (Wholesale Business only)
33.	Operating Cost Analysis (Retail Business only)
34.	Current Cost Analysis of Fixed Assets (Wholesale Business only)
35.	Current Cost Analysis of Fixed Assets (Retail Business only)
36.	Analysis of Capital Expenditure, Grants and Land Sales
37.	Non-Financial Information
38.	Notes on the Current Cost Accounts
43.	Regulatory Capital Value
44.	Directors Statements and Responsibilities
45.	Disclosure of Transactions with Associates
46.	Report of the Independent Auditor

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 has a controlling interest in the Company's shares. 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.

COMPLIANCE

In 2014 Ofwat published the principles by which water companies should deal with Board leadership, transparency and governance. In March 2014 the Company adopted its own Governance Code which can be found on the Portsmouth Water website. The Board believes that it complies with the principles although the structure of the Board does not strictly comply, in accordance with the Ofwat guidelines.

The Ofwat principles suggest that independent non-executives should constitute the largest fraction of Directors. The Board of Portsmouth Water consists of three independent non-executive Directors (including the Chairman) and three executive Directors. The Chairman has the casting vote and therefore in principle the independent non-executives have the effective majority. We believe that this ensures that the independent Directors have a significantly strong voice in all discussions.

The Board have carefully considered this issue and believe the structure is appropriate. To increase the number of non-executives would be an unnecessary expense and the Board believe it is important to have an engineering and finance executive responsibility on the Board. The Board will continue to ensure that compliance with its own Governance Code is maintained in future years.

In addition, the Company will continue to have regard to the UK Corporate Governance Code. There were a number of changes made to this Code during 2013 and the Directors have taken the view that the Company should take a pragmatic approach to the new requirements and comply with those that are deemed consistent with the Ofwat principles.

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 6. 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.

The Chairman talks with and holds meetings on an informal basis with the other Non-Executive Directors without the executives present. The Non-Executive Directors meet without the Chairman present annually to appraise his performance.

There were no circumstances arising during the year where it was necessary to record unresolved concerns in the Board minutes.

Revenue for 2014 at £37.1m compares to that allowed in the Final Determination of £40.4m. The reduction of £3.3m was mainly due to a shortfall in income from measured customers which account for £2.2m of the adverse variance. There was also a shortfall in income from mains diversions and other non-tariff income of £1.1m.

The number of measured billed properties was 10,363 (11%) less than the determination which represents a shortfall in meter option requests of 2,620 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 £8.91m, and after tax adjustment is £6.68m. These figures have been calculated using the Revenue Correction Mechanism spreadsheet.

The shortfall by year is:

2013/14 Prices	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Shortfall pre-tax adjustment	1.85	2.22	2.35	2.49
Tax adjustment	(0.52)	(0.58)	(0.56)	(0.57)
Net shortfall	1.33	1.64	1.79	1.92

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.

The report sets out information on directors' remuneration for the year ended 31 March 2014. The Company is not required to comply with the rules for quoted companies contained within Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 but sets out certain additional information which the Directors consider to be relevant and in line with best practice.

Remuneration Committee

The Remuneration Committee met three times 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.

Statement of the Chairman of the Remuneration Committee

The principles of our remuneration policy remain unchanged from previous years. During the current financial, year the Remuneration Committee have not taken any major decisions to make changes to the directors' remuneration.

Directors' Remuneration Policy

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 for the whole of the previous year.

The Executive Directors have one year service contracts with the Company. 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 their own remuneration.

Revisions to Directors' Remuneration Policy

The Company is not proposing any changes to the current Policy.

FUTURE POLICY TABLE

ELEMENT, PURPOSE AND LINK TO STRATEGY	OPERATION, PERFORMANCE MEASURES, DEFERRAL	MAXIMUM OPPORTUNITY
Base Salary (Fixed Pay) To pay a fair salary, commensurate with the individual's role, responsibilities and experience, and having regard to the market rates for similar roles in the water/utility sector and other comparable companies	Reviewed annually, taking account of market salary levels, Company performance, individual performance, changes in responsibility and levels of increase for the broader employee population. The remuneration committee considers the impact of any base salary increase on the total remuneration package.	There is no prescribed maximum salary or maximum rate of increase. The remuneration committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, development in role, change in responsibility, specific retention issues, market practice or changes in regulatory requirements. Details of the outcome of the most recent salary review are provided in the annual report on remuneration.
Benefits (Fixed Pay) To provide cost-effective taxable benefits and to support the wellbeing of employees.	The Company currently provides a range of taxable benefits such as medical insurance; life insurance and paid holiday. Specific benefits provision may be subject to minor change from time to time, within this policy.	Taxable benefits are not subject to a specific cap, but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and controlled.
Pension (Fixed Pay) To provide market competitive defined contribution pension arrangements, to assist with recruitment and retention.	Employer contributions are made to appropriate defined contribution pension arrangements.	
Annual bonus (Variable Pay) To reward performance and align executives' interests to those of shareholders.	Bonus awards to executive directors are made each year and are approved by the remuneration committee. Executive bonus awards take account of the Company's key financial and service performance indicators for the relevant financial year. Details of the performance indicators for the most recent financial year and performance against them are provided in the annual report on remuneration. Similar indicators have been applied for the forthcoming year and we will report on the outcomes against the measures in the 2015 report.	
Employment contracts, and loss of office To facilitate recruitment and retention, and support pay for performance, by providing fair but not excessive contract features.	Notice periods from the Company are limited to 12 months.	
New Executive Director appointments To facilitate recruitment of necessary talent.	Remuneration for new appointments will be set in accordance with the policy detailed in this table.	

Approach to Recruitment Remuneration

The remuneration package for a newly appointed executive director is set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. The variable remuneration for a new executive director is determined in the same way as for existing executive directors.

Service Contracts

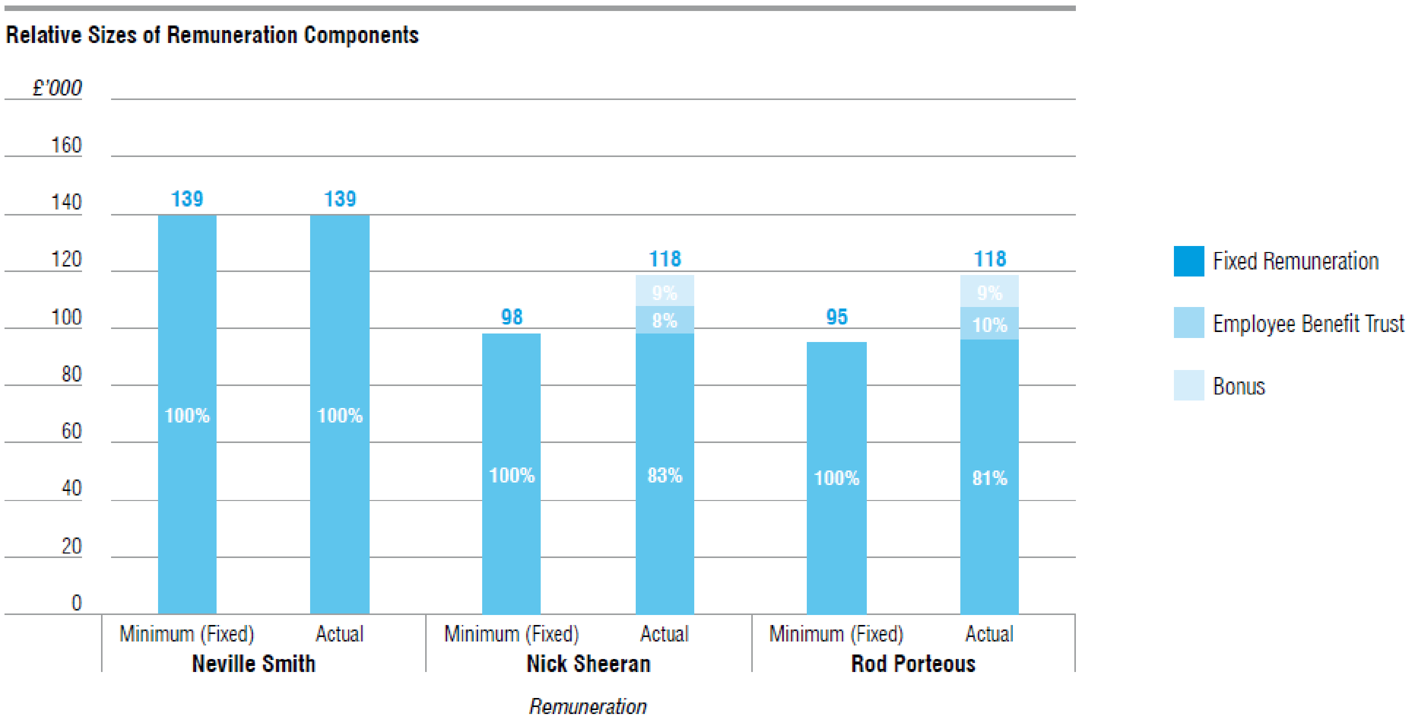
The Executive Directors have one year service contracts with the Company. None of the Executive Directors serves as a Non-Executive Director for another company. The Non-Executive Directors do not have service contracts.

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.

The remuneration committee periodically reviews the contractual terms for new executive directors to ensure that these reflect best practice.

Illustration of Application of Remuneration Policy

The table below illustrates the minimum (fixed) remuneration, and provides an indication of the total remuneration for a year using the annual bonus and Employee Benefit Trust payment figures for the year ended 31 March 2014 and the base salaries effective 1 April 2013.



Policy on Payment for Loss of Office

There are no provisions for termination payments, other than payments for the period of notice.

Statement of Consideration of Employment Conditions Elsewhere in the Company

The remuneration approach for the executive directors is broadly consistent with that for employees across the Company as a whole. However, the exception is that general employees do not receive an annual performance related bonus. However all employees, apart from the Managing Director, do receive their twice annual payment from the Employment Benefit Trust (EBT). The EBT owns a controlling interest in the Company's shares on behalf of the employees. Payments are made to all employees in June and November each year.

Annual Report on Remuneration

Directors Remuneration as a Single Figure (Audited Information)

Remuneration is analysed by director below:

	Salary/Fees £000	Benefits £000	Bonus Scheme £000	EBT £000	Pension £000	**Total 2014 £000**	Total 2013 £000
Executive:							
A R Neve (retired 30 April 2012)	-	-	-	-	-	-	24
R C Porteous (appointed 1 May 2012)	95	12	11	12	72	**202**	233
N J Sheeran	98	11	11	9	-	**129**	123
N Smith	139	18	-		68	**225**	230
Non-Executive:							
H V Benjamin (appointed 1 November 2012)	23	-	-	-	-	**23**	9
M P Kirk (appointed 1 November 2012)	23	-	-	-	-	**23**	9
T M Lazenby MBE (Chairman)	36	-	-	-	-	**36**	35
R L Sullivan (resigned 1 November 2012)	-	-	-	-	-	-	16
R J Tennant (resigned 1 November 2012)	-	-	-	-	-	-	16
	414	41	22	21	140	**638**	695

Fees paid in respect of Mr. T. M. Lazenby MBE are paid to Seamab Consultancy Limited, in respect of Mr. M. P. Kirk to Mike Kirk Photography Limited, and in respect of Mrs H. V. Benjamin to Benjamin and Rodgers Limited.

Long-term bonus schemes

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

Share options

The Company does not operate an Executive Share Option Scheme.

Directors' interests (audited information)

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 this holding Company. They have no direct 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 2014 and the date of this report.

Directors' emoluments waived during the year

There were no Directors' emoluments waived during the year.

Taxable benefits

Benefits comprise company cars and medical insurance.

The table below provides a breakdown of taxable benefits provided to directors in the period.

	2014 £000	2013 £000
Car and Fuel benefit	**37**	35
Medical insurance	**4**	6
Total	**41**	41

Variable pay/performance measured pay for executive Directors

Short term annual bonus scheme

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 this element is based upon:

- 27% 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
- 23% Financial and Business Objectives
- 33% Long-term objectives. Paid in 2015 if achieved

The achievements were:	% of salary (out of possible 20%)	Bonus £000
R Porteous	10.5%	10
N Sheeran	9.5%	9

The Managing Director does not receive a performance related element. This has been waived due to his shareholding in the holding company, South Downs Capital Limited.

Mr Porteous and Mr Sheeran also received payment from the Employee Benefit Trust 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.

Relative weighting of performance measures as described above for variable pay.

	Customer Service *Measure 1* %	Personal Objectives *Measure 2* %	Financial/ Business Objectives *Measure 3* %	Long-Term Objectives *Measure 4* %	Total %
R Porteous	27	17	23	33	100
N Sheeran	27	17	23	33	100
N Smith	N/A	N/A	N/A	N/A	100

The above weightings convert into maximum percentages of salary payable as follows:

	Customer Service *Measure 1* %	Personal Objectives *Measure 2* %	Financial/ Business Objectives *Measure 3* %	Long-Term Objectives *Measure 4* %	Total %
R C Porteous	8.1%	5.1%	6.8%	10.0%	30%
N J Sheeran	8.1%	5.1%	6.8%	10.0%	30%
N Smith	N/A	N/A	N/A	N/A	N/A

Summary of directors' performance targets and maximum variable pay achievable.

	Customer Service Measure 1		Personal Objectives Measure 2		Financial/Business Objectives Measure 3		Long-Term Objectives Measure 4		Maximum Variable Pay Achievable	
	Target %	Value £	Target %	Value £	Target %	Value £	Target %	Value £	**2014**	2013
R Porteous	8.1	7,695	5.1	4,845	6.8	6,460	10	9,500	**19,000**	18,000
N Sheeran	8.1	7,938	5.1	4,998	6.8	6,664	10	9,800	**19,600**	19,000
N Smith	N/A	-	N/A	-	N/A	-	N/A	-	-	-

Summary of directors' performance against measures set for the period.

	Customer Service Measure 1		Personal Objectives Measure 2		Financial/Business Objectives Measure 3		Long-Term Objectives Measure 4		Variable Pay Achieved	
	Achieved	Value £	Achieved	Value £	Achieved	Value £	Achieved	Value £	**2014**	2013
R Porteous	3.5	3,325	4.0	3,800	3.0	2,850	-	-	**9,975**	10,538
N Sheeran	3.5	3,430	3.0	2,940	3.0	2,940	-	-	**9,310**	10,925
N Smith	N/A	-	N/A	-	N/A	-	N/A	-	-	-

All variable pay has been awarded in accordance with the remuneration policy and criteria outlined at the commencement of the period. No discretion has been exercised over any variable pay awarded.

Pension Entitlements (Audited Information)

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:

	Value of increase in scheme benefit 2013/14 £000	**Directors Contributions 2013/14 £000**	**Total included in single figure remuneration table 2013/14 £000**	Value of increase in scheme benefit 2012/13 £000	Directors Contributions 2012/13 £000	Total included in single figure remuneration table 2012/13 £000	**Accrued Pension 31/03/14 £000pa**	Accrued Pension 31/03/13 £000pa
R C Porteous[1]	**76**	**4**	**72**	117	4	113	**46**	41
N Smith[2]	**76**	**8**	**68**	84	7	77	**83**	77

The value of the increase in accrued pension in excess of inflation, less each Directors' own contributions is included in the Directors' single figure remuneration table on page 6 of this report.

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.

[1]The pensionable salary used to calculate Mr Porteous' accrued pension excludes £21,000 (2012/13 - £22,000) of non-pensionable salary.

[2]The pensionable salary used to calculate Mr. Smith's accrued pension excludes £4,000 (2012/13 - £6,000) of non-pensionable salary.

No additional benefits will become available to directors who retire early. For further details regarding each of the pension schemes, please refer to note 20 in the historical cost financial statements.

Mr. N. J. Sheeran is a member of the defined contribution scheme, although no contributions were made on his behalf by the Company in the year. The non-executive Directors are not members of either of the pension schemes.

Payments to Past Directors

No payments requiring disclosure were made to past directors during the period.

Payments for Loss of Office

No payments for loss of office were made during the period.

Remuneration of the Managing Director

The table below summarises the remuneration of the Managing Director for each of the last five financial years. The Managing Director does not receive a performance related element of remuneration. These figures do not include amounts accruing under defined benefit pension arrangements as the figures for historic years are not readily available.

Year ending 31 March:	2010	2011	2012	2013	**2014**
Total remuneration excluding pension (£000)	162	166	137	153	**157**

Percentage Change in Remuneration of the Managing Director

The following table shows the percentage change in the base salary, benefits and annual bonus of the Managing Director between the current and previous financial year compared to the average for all employees of the Company.

% change in:	Managing Director	Average for all employees
Base salary[1]	3.0%	2.9%
Benefits[2]	0%	0%
Annual bonus[3]	N/A	N/A

[1]This increase represents the annual pay award to cover cost of living increases.
[2]There were no changes made to the underlying value of benefit payments provided during the year.
[3]This does not include payments made to employees from the Employee Benefit Trust.

Statement of Implementation of Remuneration Policy in the Following Financial Year

The Remuneration Committee intends to continue to apply broadly the same key performance metrics as in the previous year and to assess performance taking account of strategic and annual expectations for the Company.

Approval

This report was approved by the Board on 30 May 2014 and will be subject to shareholder approval at the Annual General Meeting to be held on 25 July 2014.

H V Benjamin
Chair of the Remuneration Committee

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2014

	Notes	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
TURNOVER	2	37,056	53	37,109	36,227	55	36,282
Operating costs	3	(21,311)	(46)	(21,357)	(20,194)	(45)	(20,239)
Infrastructure renewals charge	3	(5,177)	-	(5,177)	(5,059)	-	(5,059)
Historical cost depreciation		(3,770)	-	(3,770)	(3,862)	-	(3,862)
Operating income	4	(10)	-	(10)	1	-	1
OPERATING PROFIT		6,788	7	6,795	7,113	10	7,123
Other income	5	-	58	58	-	97	97
Exceptional item	10	(611)	-	(611)	-	-	-
Interest receivable	6	961	-	961	1,264	-	1,264
Other finance income	20	1,636	-	1,636	1,984	-	1,984
Interest payable and similar charges	7	(6,533)	-	(6,533)	(6,463)	-	(6,463)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,241	65	2,306	3,898	107	4,005
Taxation	8						
- Current Tax		24	(15)	9	(372)	(26)	(398)
- Deferred Tax		2,322	-	2,322	925	-	925
PROFIT FOR THE FINANCIAL YEAR		4,587	50	4,637	4,451	81	4,532
Operational Dividend	9	(316)	(50)	(366)	(102)	(81)	(183)
Inter-Company Dividend	9	(741)	-	(741)	(1,266)	-	(1,266)
Cash Contribution to Employee Benefit Trust		(977)	-	(977)	(888)	-	(888)
RETAINED PROFIT FOR THE FINANCIAL YEAR		2,553	-	2,553	2,195	-	2,195

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2014

	Notes	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Profit for the financial year		4,587	50	4,637	4,451	81	4,532
Actuarial (loss) on pension scheme	20	(932)	-	(932)	(1,215)	-	(1,215)
Deferred tax relating to actuarial loss on pension scheme	18	186	-	186	280	-	280
Effect of change to corporation tax rate on pension asset	18	(576)	-	(576)	(360)	-	(360)
Total recognised gains and losses relating to the year		3,265	50	3,315	3,156	81	3,237

HISTORICAL COST BALANCE SHEET

As at 31 March 2014

	Notes	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
FIXED ASSETS							
Tangible	10	95,485	-	95,485	95,683	-	95,683
Investments							
- Loan to group company	11	59,384	-	59,384	59,468	-	59,468
- Other	13	2	-	2	4	-	4
		154,871	-	154,871	155,155	-	155,155
CURRENT ASSETS							
Stores		544	-	544	589	-	589
Debtors	12	6,760	-	6,760	5,077	-	5,077
Cash and short-term deposits	14	4,503	-	4,503	4,059	-	4,059
Infrastructure renewals prepayment		3,086	-	3,086	2,848	-	2,848
		14,893	-	14,893	12,573	-	12,573
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR							
Borrowings	15	(5,284)	-	(5,284)	(5,284)	-	(5,284)
Corporation tax payable		-	-	-	(95)	-	(95)
Unpaid dividend		(1,412)	-	(1,412)	(1,412)	-	(1,412)
Creditors	16	(12,422)	-	(12,422)	(12,154)	-	(12,154)
NET CURRENT LIABILITIES		(4,225)	-	(4,225)	(6,372)	-	(6,372)
TOTAL ASSETS LESS CURRENT LIABILITIES		150,646	-	150,646	148,783	-	148,783
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR							
Borrowings	17	(94,216)	-	(94,216)	(91,369)	-	(91,369)
PROVISIONS FOR LIABILITIES							
Deferred Taxation	18	(8,021)	-	(8,021)	(9,414)	-	(9,414)
NET ASSETS EXCLUDING PENSION ASSET		48,409	-	48,409	48,000	-	48,000
Pension asset	20	16,130	-	16,130	15,308	-	15,308
NET ASSETS INCLUDING PENSION ASSET		64,539	-	64,539	63,308	-	63,308
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	58,672	-	58,672	57,441	-	57,441
		64,539	-	64,539	63,308	-	63,308

For the year ended 31 March 2014

	Statutory UK GAAP £m	Regulatory £m	Commentaries
PROFIT AND LOSS ACCOUNT			
Turnover	37,109	37,109	See a) below
Operating profit	5,886	6,795	See b) and c) below
BALANCE SHEET			
Tangible fixed assets (net book value)	100,043	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 £0.010m for loss 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 £0.058m. In the Regulatory Accounts the amount shown includes the £0.010m for loss 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 2014 is £0.977m.

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

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.

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 2013/14 the measured income accrual was £2,761,242, and the corresponding actual billed revenue was £2,930,926. This is a difference of £169,684.

(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.

(v) Assets in the course of construction

Assets in the course of construction are included in tangible fixed assets at cost but are not depreciated until they come into use.

(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 21. 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 historical cost accounts on pages 26 to 28.

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 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Unmeasured supplies	21,330	-	21,330	21,608	-	21,608
Measured supplies	12,358	-	12,358	11,496	-	11,496
Measured large users	1,936	-	1,936	1,836	-	1,836
SWS Bulk Supply	631	-	631	513	-	513
Third party services	735	53	788	701	55	756
Other sources	66	-	66	73	-	73
	37,056	53	37,109	36,227	55	36,282

3. ANALYSIS OF OPERATING COSTS

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

	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Manpower costs	8,319	18	8,337	8,034	18	8,052
Other costs of employment	226	-	226	259	-	259
Power	2,120	-	2,120	1,774	-	1,774
Rates	2,019	-	2,019	2,254	-	2,254
Hired and contracted services	4,764	16	4,780	4,294	16	4,310
Materials and consumables	1,483	12	1,495	1,370	11	1,381
Service charges	1,327	-	1,327	1,327	-	1,327
Infrastructure renewals charge	5,177	-	5,177	5,059	-	5,059
Provision for bad and doubtful debts	665	-	665	467	-	467
Other operating costs	388	-	388	415	-	415
	26,488	46	26,534	25,253	45	25,298

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:

	2014 £000	2013 £000
Manpower as reported	8,319	8,034
Notional Pension Cost	(421)	(454)
Manpower Cost for Efficiency and Price Determination purposes	7,898	7,580

4. OPERATING INCOME

	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Profit/(loss) arising on disposal of fixed assets	(10)	-	(10)	1	-	1

5. OTHER INCOME

	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Rents	-	56	56	-	95	95
Home Assistance Service	-	2	2	-	2	2
	-	58	58	-	97	97

		2014	2013
6.	**INTEREST RECEIVABLE**	**£000**	**£000**
	Loan to Group Company	948	1,244
	Interest on short term deposits	8	19
	Other interest receivable	5	1
		961	1,264

			2014	2013
7.	**INTEREST PAYABLE AND SIMILAR CHARGES**		**£000**	**£000**
	£66.5m loan	- interest	3,409	3,357
		- indexation	2,900	2,826
		- amortisation of fees	57	57
		- administration expenses	25	25
			6,391	6,265
	Other bank loans and overdraft		129	185
	Debenture stocks		10	10
	Other interest payable		3	3
			6,533	6,463

		2014	2013
8.	**TAXATION**	**£000**	**£000**
	Current tax		
	United Kingdom corporation tax at 23% (2013 - 24%)	(5)	403
	Adjustment in respect of prior periods	(4)	(5)
		(9)	398
	Deferred tax		
	Origination and reversal of timing differences	276	202
	Decrease in discount	(461)	75
	Effect of change to corporation tax rate	(1,208)	(803)
	Difference between pension cost charge and pension cost relief	243	352
	Effect of change to corporation tax rate on pension asset	(1,172)	(751)
		(2,322)	(925)
	Tax on profit on ordinary activities	(2,331)	(527)

The tax charge for the year is lower (2013 - lower) than the standard rate of corporation tax in the UK of 23% (2013 - 24%). The difference is explained as follows:

	2014	2013
Profit on ordinary activities before tax	2,306	4,005
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013 - 24%)	530	961
Effect of:		
Expenses not deductible for tax purposes 148	8	
Capital allowances for the period in excess depreciation	(200)	(3)
Revenue items charged to capital	20	17
Employee Benefit Trust contribution deductable for tax purposes	(224)	(213)

8. TAXATION (continued)	2014 £000	2013 £000
Difference between pension cost charge and pension cost relief	(279)	(367)
Adjustments to tax charge in respect of prior periods	(4)	(5)
Current tax charge for year	(9)	398

9. DIVIDENDS	2014 £000	2013 £000
Equity: Ordinary/'A' Ordinary		
- First interim paid	556	848
- Second interim paid	551	601
	1,107	1,449

The Directors are proposing the payment of a final dividend of £0.195m for the year ended 31 March 2014. 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:

	2014 £000	2013 £000
Dividend ultimately for group shareholders	366	183
"Inter-Company Dividends"	741	1,266
	1,107	1,449

A combination of payments to the EBT amounting to £0.977m (not shown as a dividend in these Regulatory Accounts) and the Dividends to other shareholders amount to £1.343m which is 4.9% of the opening Regulatory Equity Value.

10. TANGIBLE FIXED ASSETS

	Operational Assets £000	Infrastructure Assets £000	Other Tangible Assets £000	Total £000
HISTORICAL COST				
At 1 April 2013	91,777	49,065	17,368	158,210
Additions	1,750	1,048	2,454	5,252
Disposals	-	-	(154)	(154)
At 31 March 2014	93,527	50,113	19,668	163,308
DEPRECIATION				
At 1 April 2013	28,824	-	11,692	40,516
Charge for year	2,249	-	1,521	3,770
Disposals during year	-	-	(141)	(141)
Impairment loss	611	-	-	611
At 31 March 2014	31,684	-	13,072	44,756
NET BOOK VALUE				
At 31 March 2014	61,843	50,113	6,596	118,552
At 1 April 2013	62,953	49,065	5,676	117,694
CAPITAL CONTRIBUTIONS				
At 1 April 2013	-	22,011	-	22,011
Received during year	-	1,056	-	1,056
At 31 March 2014	-	23,067	-	23,067
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS				
At 31 March 2014	61,843	27,046	6,596	95,485
At 1 April 2013	62,953	27,054	5,676	95,683

Included within vehicles, mobile plant and office equipment is an asset in the course of construction amounting to £0.764m (2013 - £0.331m), and within freehold land, buildings and reservoirs is a further asset in the course of construction amounting to £0.045m (2013 - nil). Both have thus far not been depreciated.

Included within freehold land, buildings and reservoirs at cost was an amount of £0.611m relating to a capital project involving the design and construction of a winter storage reservoir at Havant Thicket. Costs incurred to date were in respect of initial design, planning application and environmental impact studies. This project is now unlikely to start in the foreseeable future and therefore the expenditure is considered to have no economic benefit. An impairment provision has therefore been made for the above amount and has been shown as an exceptional item in the profit and loss account on page 10. An earlier impairment provision of £1.086m had been made as at the 31 March 2011, therefore the total costs to date relating to this project of £1.697m have now been taken as impaired and provided for.

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 2013/14. A reconciliation to the balance sheet shown in the Statutory Accounts is provided below:

	Infrastructure Assets £000
COST	
Cost at 31 March 2014 per Regulatory Accounts	50,113
Adjustment to opening balance	31,136
Infrastructure renewals expenditure capitalised since 1 April 1999	63,065
Disposals since 1 April 1999	(4,088)
Cost at 31 March 2014 per Statutory Accounts	140,226
DEPRECIATION	
At 31 March 2014 per Regulatory Accounts	-
Adjustment to opening balance	31,136
Depreciation charge for infrastructure renewals since 1 April 1999	58,507
Disposals	(4,088)
At 31 March 2014 per Statutory Accounts	85,555
NET BOOK VALUE	
At 31 March 2014 per Regulatory Accounts	50,113
Adjustments for infrastructure renewals accounting since 1 April 1999	4,558
At 31 March 2014 per Statutory Accounts	54,671

11. FIXED ASSET INVESTMENT

	Loan to Group Undertakings £000
At 1 April 2013	59,468
Repayment	(84)
At 31 March 2014	59,384

12. DEBTORS

	2014 £000	2013 £000
Trade debtors	3,137	1,671
Amounts owed by Group companies	28	29
Prepayments and accrued income	3,083	2,985
Other debtors	512	392
	6,760	5,077

All of the above amounts fall due within one year

As at 31 March 2014, trade debtors had a carrying value of £5.916m (2013 - £4.270m) 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 £2.779m as at 31 March 2014 (2013 - £2.599m).

There has been a significant increase in the trade debtors balance from £1.671m as at 31 March 2013 to £3.137m as at 31 March 2014. The principal reason for the increase relates to the estimate made for water rates paid in advance. The number for 2014 is derived from the new Rapid customer billing system whereas the comparative figure was based on a number estimated from the old customer billing system. Differences in methodology between the two systems have resulted in this increase.

The ageing of these debtors was as follows:

	2014 £000	2013 £000
Up to 12 months	3,426	1,940
Over 12 months	2,490	2,330
	5,916	4,270

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:

	2014 £000	2013 £000
As at 1 April 2013	2,599	2,478
Provision for bad debt required in the year	665	467
Debt written off in the year as uncollectable	(485)	(346)
As at 31 March 2014	2,779	2,599

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.

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.

NOTES ON THE HISTORICAL COST ACCOUNTS

13. INVESTMENTS

	2014 £000	2013 £000
Unlisted investments	2	4

14. CASH AT BANK AND IN HAND

Of the total amount shown of £4,503m, £1.757m (2013 - £1.713m) is held specifically for the payment of the next half yearly loan interest charges.

15. BORROWINGS: DUE WITHIN ONE YEAR

	2014 £000	2013 £000
3% Perpetual debenture stock	60	60
3½% Perpetual debenture stock	185	185
4% Perpetual debenture stock	39	39
Bank loan	5,000	5,000
	5,284	5,284

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 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
Payments received on account	2,320	-	2,320	2,156	-	2,156
Trade creditors	752	-	752	1,635	-	1,635
Amounts owed to Group companies	94	-	94	353	-	353
Social security and other taxation	235	-	235	230	-	230
Other creditors	1,941	-	1,941	2,478	-	2,478
Accruals	654	-	654	613	-	613
Water rates in advance	6,426	-	6,426	4,689	-	4,689
	12,422	-	12,422	12,154	-	12,154

17. CREDITORS: DUE AFTER ONE YEAR

	2014 £000	2013 £000
Due within one to two years:		
Payments on account	-	110
In five years or more:		
Bank loan	95,268	92,368
Less: deferred arrangement costs	1,052	1,109
	94,216	91,259
	94,216	91,369

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

	2014 £000	2013 £000
DEFERRED TAXATION:		
At 1 April 2013	9,414	9,940
Provided during the year in profit and loss account	(1,393)	(526)
At 31 March 2014	8,021	9,414

The total deferred tax balance before the effect of discounting is £8.989m (2013 - £9.997m). The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	2014 £000	2013 £000
Deferred tax excluding that relating to pension asset:		
Accelerated capital allowances	8,021	9,414
Pension asset (note 20)	4,033	4,572
Total provision for deferred tax	12,054	13,986
At 1 April 2013	13,986	14,831
Deferred tax charge in profit and loss account (note 8)	(2,322)	(925)
Deferred tax charged to the statement of total recognised gains and losses	390	80
At 31 March 2014	12,054	13,986

A reduction in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015 was enacted during the period. As a consequence the deferred tax charge includes a decrease in the deferred tax liability of £1.208m.

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 £0.495m (2013 - £0.570m.). 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 2013	1,539	3,250	57,441
Profit for financial year	-	-	4,637
Dividends	-	-	(1,107)
Cash contribution to Employee Benefit Trust	-	-	(977)
Actuarial (loss) on pension scheme	-	-	(932)
Movement on deferred tax relating to pension scheme	-	-	186
Effect of change to corporation tax rate on pension asset	-	-	(576)
As 31 March 2014	1,539	3,250	58,672

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 2013 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 2014 is £1.0m (2013 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:

	2014 % per annum	2013 % per annum	2012 % per annum
RPI inflation	3.5	3.5	3.4
CPI inflation	2.6	2.6	2.5
Discount rate	4.3	4.3	4.6
Pension increases	2.6	2.6	2.5
Salary growth	5.75	5.75	5.65

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 (2013 - 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:

	2014 Expected Return % per annum	2014 Fair Value £000	2013 Expected Return % per annum	2013 Fair Value £000	2012 Expected Return % per annum	2012 Fair Value £000
Equities	7.4	65,741	6.9	63,599	7.2	74,294
Absolute Return Fund	5.2	9,004	6.2	8,420	-	-
Bonds	3.4	48,819	2.9	50,361	3.2	44,154
Property	5.5	4,422	4.9	3,611	-	-
Cash	1.3	6,625	0.4	6,930	0.7	5,214
	5.4	134,611	4.9	132,921	5.5	123,662

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.

	2014 £000	2013 £000
Total fair value of scheme assets	134,611	132,921
FRS 17 value of scheme liabilities	114,448	113,041
Gross pension asset	20,163	19,880
Related deferred tax liability	4,033	4,572
Net pension asset	16,130	15,308

Under FRS 17, the scheme is represented on the balance sheet at 31 March 2014 as an asset of £20.163m (2013 - £19.880m), which amounts to £16.130m net of deferred tax (2013 - £15.308m).

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 £52,778 (2013 - £25,538).

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

	2014 £000	2013 £000
Opening scheme liabilities	113,041	104,097
Employer's part of current service cost	1,392	1,412
Interest cost	4,814	4,705
Contributions by scheme participants	-	-
Benefits paid	(3,579)	(5,102)
Actuarial (gain)/loss	(1,220)	7,929
Closing scheme liabilities	114,448	113,041

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

	2014 £000	2013 £000
Opening fair value of scheme assets	132,921	123,662
Expected return on assets	6,450	6,689
Contributions by scheme participants	-	-
Contributions by the Company, including employee contributions under SMART	971	958
Benefits paid	(3,579)	(5,102)
Actuarial (loss)/gain	(2,152)	6,714
Closing fair value of scheme assets	134,611	132,921

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

	2014 £000	2013 £000
Current service cost (employer's part only)	1,392	1,412
Past service credit	-	-
Total operating charge	1,392	1,412

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

	2014 £000	2013 £000
Expected return on pension scheme assets	6,450	6,689
Interest on post retirement liabilities	(4,814)	(4,705)
Net return	1,636	1,984
Total return recognised in the profit and loss account	244	572

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

	2014 £000	2013 £000
Actual return less expected return on scheme assets	(2,152)	6,714
Experience gains arising on scheme liabilities	1,003	-
Gain/(Loss) due to changes in assumptions underlying the FRS 17 value of scheme liabilities	217	(7,929)
Actuarial (loss) recognised in the STRGL	(932)	(1,215)

The actual return on plan assets was an increase of £4.298m in the year to 31 March 2014 (2013 - increase of £13.403m).

The history of experience gains and losses is:

	2014	2013	2012	2011	2010
Present value of scheme liabilities (£000)	(114,448)	(113,041)	(104,097)	(91,313)	(100,268)
Total fair value of scheme assets (£000)	134,611	132,921	123,662	120,037	113,843
Gross pension asset (£000)	20,163	19,880	19,565	28,724	13,575
Actual return less expected return on scheme assets (£000)	(2,152)	6,714	(1,326)	1,181	24,665
Percentage of scheme's assets	(2%)	5%	(1%)	1%	22%
Experience gains arising on scheme's liabilities (£000)	1,003	-	1,783	-	-
Percentage of the FRS 17 value of the scheme's liabilities	1%	0%	1%	0%	0%
Total amount recognised in the STRGL (£000)	(932)	(1,215)	(10,245)	14,904	(2,636)
Percentage of the FRS 17 value of the scheme's liabilities	(1%)	(1%)	(10%)	16%	(3)%

The cumulative amount of actuarial gains and losses recognised in the STRGL as at 31 March 2014 was a loss of £20.121m (2013 - loss of £19.189m).

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 2014

	Notes		2014 £000		2013 £000
TURNOVER	2		37,056		36,227
Current cost operating costs	3				
- Wholesale		(27,493)		(26,833)	
- Retail		(4,888)	(32,381)	(4,276)	(31,109)
Operating income	2		(17)		-
			4,658		5,118
Working capital adjustment	4		152		185
CURRENT COST OPERATING PROFIT			4,810		5,303
Exceptional item			(750)		-
Interest receivable			961		1,264
Other finance income			1,636		1,984
Interest payable and similar charges			(6,533)		(6,463)
Financing adjustment	4		30		128
CURRENT COST PROFIT BEFORE TAXATION			154		2,216
Taxation					
- Current Tax		24		(372)	
- Deferred Tax		2,322	2,346	925	553
CURRENT COST PROFIT FOR THE FINANCIAL YEAR			2,500		2,769
Operational Dividend			(316)		(102)
Inter-Company Dividend			(741)		(1,266)
Cash contribution to Employee Benefit Trust			(977)		(888)
CURRENT COST PROFIT RETAINED			466		513
Net revenue movement out of tariff basket			149		(120)

CURRENT COST BALANCE SHEET
FOR THE APPOINTED BUSINESS

As at 31 March 2014

	Notes	2014 £000	2013 £000
FIXED ASSETS			
Tangible fixed assets	5	1,127,941	1,102,313
Third party contributions since 1989/90		(28,895)	(27,172)
		1,099,046	1,075,141
Working capital	6	(5,130)	(6,200)
Cash		2,746	2,346
Short term deposits		1,757	1,713
Infrastructure renewals prepayment		3,086	2,848
NET OPERATING ASSETS		1,101,505	1,075,848
NON OPERATING ASSETS AND LIABILITIES			
Borrowings		(5,284)	(5,284)
Non-trade debtors		13	16
Non-trade creditors: amounts falling due within one year		(1)	(304)
Investment - loan to group company		59,384	59,468
- other		2	4
Corporation tax payable		-	(95)
Dividends		(1,412)	(1,412)
TOTAL NON OPERATING ASSETS AND LIABILITIES		52,702	52,393
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Borrowings		(94,216)	(91,369)
PROVISIONS FOR LIABILITIES AND CHARGES		1,059,991	1,036,872
Deferred tax provision		(8,021)	(9,414)
NET ASSETS EXCLUDING PENSION ASSET		1,051,970	1,027,458
Pension asset		16,130	15,308
NET ASSETS INCLUDING PENSION ASSET		1,068,100	1,042,766
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	16,007	16,863
Current cost reserve	8	1,046,226	1,020,036
		1,068,100	1,042,766

CURRENT COST CASH FLOW STATEMENT

For the year ended 31 March 2014

	Appointed 2014 £000	Non Appointed 2014 £000	Total 2014 £000	Appointed 2013 £000	Non Appointed 2013 £000	Total 2013 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15,075	65	15,140	15,565	107	15,672
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE						
Interest received	964	-	964	1,263	-	1,263
Interest paid	(3,602)	-	(3,602)	(3,550)	-	(3,550)
NET CASHFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	(2,638)	-	(2,638)	(2,287)	-	(2,287)
TAXATION						
UK corporation tax paid	(397)	(15)	(412)	(70)	(26)	(96)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT						
Purchase of tangible fixed assets	(6,269)	-	(6,269)	(10,035)	-	(10,035)
Receipt of contributions	1,056	-	1,056	887	-	887
Infrastructure renewals expenditure	(5,415)	-	(5,415)	(5,202)	-	(5,202)
Sale of tangible fixed assets	3	-	3	6	-	6
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(10,625)	-	(10,625)	(14,344)	-	(14,344)
EQUITY DIVIDENDS PAID	(1,057)	(50)	(1,107)	(1,368)	(81)	(1,449)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	358	-	358	(2,504)	-	(2,504)
MANAGEMENT OF LIQUID RESOURCES						
Sale of investments	2	-	2	-	-	-
(Purchase) of short term deposits	(44)	-	(44)	(58)	-	(58)
NET CASHFLOW BEFORE FINANCING	316	-	316	(2,562)	-	(2,562)
FINANCING						
New Loans	-	-	-	4,000	-	4,000
Loan repayment from Group company	84	-	84	-	-	-
INCREASE IN CASH IN THE YEAR	400	-	400	1,438	-	1,438

OPERATING COST ANALYSIS
(WHOLESALE BUSINESS ONLY)

As at 31 March 2014

	Resources £000	Raw Water Distribution £000	Treatment £000	Treated Distribution £000	Total Water £000
OPERATING EXPENDITURE					
Power	435	283	208	1,070	1,996
Service charges	1,327	-	-	-	1,327
Other operating expenditure	742	332	2,725	7,075	10,874
Local authority rates	40	34	128	1,814	2,016
Total operating expenditure excluding third party services	2,544	649	3,061	9,959	16,213
CAPITAL MAINTENANCE					
Infrastructure renewals charge	-	-	-	5,177	5,177
Current cost depreciation	367	250	2,449	2,710	5,776
Recharges to other business units	-	-	-	(135)	(135)
Recharges from other business units	-	-	-	-	-
Total capital maintenance excluding third party services	367	250	2,449	7,752	10,818
THIRD PARTY SERVICES					
Operating expenditure	29	-	-	433	462
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total Operating Costs	**2,940**	**899**	**5,510**	**18,144**	**27,493**

OPERATING COST ANALYSIS
(RETAIL BUSINESS ONLY)

As at 31 March 2014

OPERATING EXPENDITURE

	Household £000	**Non-household £000**	**Total Retail £000**
Customer services	1,502	128	1,630
Debt Management	355	23	378
Doubtful debts	633	32	665
Meter reading	118	33	151
Services to developers	-	73	73
Other operating expenditure	1,642	94	1,736
Local authority rates	3	-	3
Total operating expenditure excluding third party services	4,253	383	4,636
Third party services operating expenditure	-	-	-
Total Operating Expenditure	**4,253**	**383**	**4,636**

CAPITAL MAINTENANCE

Current cost depreciation	111	6	117
Recharges to other business units	-	-	-
Recharges from other business units	128	7	135
Total Capital Maintenance	239	13	252
Total Operating Costs	**4,492**	**396**	**4,888**
Debt written off	**456**	**29**	**485**

CURRENT COST ANALYSIS OF FIXED ASSETS
(WHOLESALE BUSINESS ONLY)

As at 31 March 2014

	Resources £000	Raw Water Distribution £000	Treatment £000	Treated Distribution £000	Total Water £000
NON-INFRASTRUCTURE ASSETS					
GROSS REPLACEMENT COST					
At 1 April 2013	23,896	20,653	76,758	117,834	239,141
RPI adjustment	585	507	1,881	2,883	5,856
Disposals	(25)	-	(74)	(98)	(197)
Additions	537	16	498	3,145	4,196
At 31 March 2014	24,993	21,176	79,063	123,764	248,996
DEPRECIATION					
At 1 April 2013	11,802	7,845	37,421	51,607	108,675
RPI adjustment	289	192	917	1,262	2,660
Disposals	(23)	-	(68)	(90)	(181)
Charge for year	367	250	2,449	2,710	5,776
Impairment loss	750	-	-	-	750
At 31 March 2014	13,185	8,287	40,719	55,489	117,680
NET BOOK VALUE					
At March 2014	11,808	12,889	38,344	68,275	131,316
At 1 April 2013	12,094	12,808	39,337	66,227	130,466
INFRASTRUCTURE ASSETS					
Gross Replacement cost					
At 1 April 2013	-	18,007	-	952,860	970,867
RPI adjustment	-	442	-	23,371	23,813
Disposals	-	-	-	-	-
Additions	-	-	-	1,048	1,048
At 31 March 2014	-	18,449	-	977,279	995,728

CURRENT COST ANALYSIS OF FIXED ASSETS
(RETAIL BUSINESS ONLY)

As at 31 March 2014

NON-INFRASTRUCTURE ASSETS

	Household £000	Non-household £000	Total Retail £000
GROSS REPLACEMENT COST			
1 April 2013	1,370	296	1,666
RPI adjustment	43	2	45
Disposals	(21)	(1)	(22)
Additions	7	-	7
At 31 March 2014	1,399	297	1,696
DEPRECIATION			
1 April 2013	518	165	683
RPI adjustment	17	1	18
Disposals	(18)	(1)	(19)
Charge for year	111	6	117
At 31 March 2014	628	171	799
NET BOOK VALUE			
At 31 March 2014	771	126	897
At 31 March 2013	852	131	983

ANALYSIS OF CAPITAL EXPENDITURE, GRANTS AND LAND SALES

For the year ended 31 March 2014

	Gross 2014 £000	Grants and Contributions 2014 £000	Net 2014 £000	Gross 2013 £000	Grants and Contributions 2013 £000	Net 2013 £000
CAPITAL EXPENDITURE						
BASE						
Infrastructure Renewals Expenditure (IRE)	5,415	-	5,415	5,202	-	5,202
Maintenance non-infrastructure (MNI)	2,722	-	2,722	7,290	-	7,290
ENHANCEMENTS						
Infrastructure enhancements	1,048	(1,056)	(8)	908	(887)	21
Non-infrastructure enhancements	1,482	-	1,482	1,957	-	1,957
TOTAL CAPITAL EXPENDITURE	10,667	(1,056)	9,611	15,357	(887)	14,470
GRANTS AND CONTRIBUTIONS						
Developer contributions (i.e. Enhancement requisitions, grants and contributions)	-	(460)	-	-	(392)	-
Infrastructure charge receipts - new connections-	(596)	-	-	(495)	-	
TOTAL GRANTS AND CONTRIBUTIONS	-	(1,056)	-	-	(887)	-

As at 31 March 2014

	2014	2013
NUMBER OF PROPERTIES ('000s)		
Households billed	284.161	282.223
Non-households billed	15.906	18.562
Household voids	7.047	6.597
Non-household voids	2.439	0.054
PER CAPITA CONSUMPTION (EXCLUDING SUPPLY PIPE LEAKAGE) l/h/d		
Unmeasured household	157	153
Measured household	112	125
VOLUME (Ml/d)		
Bulk Supply export	3	1
Distribution input	172	173

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 14 to 17, 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.

2. TURNOVER

		2014 £000		2013 £000
Unmeasured supplies				
- Household	20,984		21,252	
- Non-household	346	21,330	356	21,608
Measured supplies				
- Household	5,700		5,009	
- Non-household	6,658	12,358	6,487	11,496
Measured large users		1,936		1,836
SWS bulk supply		631		513
Third party services		735		701
Other sources		66		73
		37,056		36,227

OPERATING INCOME

	2014 £000	2013 £000
Current cost (loss) on disposal of fixed assets	(17)	-
Working capital adjustment	152	185

3. CURRENT COST OPERATING COSTS

	2014 £000	2013 £000
Operating costs per historical cost accounts	30,258	29,115
Current cost depreciation adjustment (note 1)	2,123	1,994
	32,381	31,109

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 2013	219,085	970,867	21,722	1,211,674
RPI adjustment	5,374	23,813	527	29,714
Disposals	-	-	(219)	(219)
Additions	1,750	1,048	2,453	5,251
At 31 March 2014	226,209	995,728	24,483	1,246,420
DEPRECIATION				
At 1 April 2013	93,862	-	15,496	109,358
RPI adjustment	2,303	-	375	2,678
Disposals during year	-	-	(200)	(200)
Charge for year	4,222	-	1,671	5,893
Impairment loss	750	-	-	750
At 31 March 2014	101,137	-	17,342	118,479
NET BOOK VALUE				
At 31 March 2014	125,072	995,728	7,141	1,127,941
At 1 April 2013	125,223	970,867	6,226	1,102,316

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

6. WORKING CAPITAL

		2014 £000	2013 £000
Stores		544	589
Trade debtors	- measured household	189	223
	- unmeasured household	1,442	1,492
	- measured non-household	224	371
	- unmeasured non-household	22	25
	- other	175	436
Measured income accrual		2,928	2,761
Prepayments and other debtors		155	223
Trade creditors		(563)	(984)
Deferred income - customer advance receipts		(1,235)	(3,032)
Capital creditors		(1,729)	(2,746)
Accruals and other creditors		(7,282)	(5,558)
TOTAL WORKING CAPITAL		(5,130)	(6,200)
TOTAL REVENUE OUTSTANDING			
	- Household	4,720	3,920
	- Non-household	304	437

7. PROFIT AND LOSS ACCOUNT

	£000
As at 1 April 2013	16,863
Profit for the financial year	2,500
Dividend	(1,057)
Cash contribution to Employee Benefit Trust	(977)
Actuarial loss on pension scheme	(932)
Movement on deferred tax relating to pension scheme	186
Effect of change to corporation tax rate on pension asset	(576)
As 31 March 2014	16,007

8. CURRENT COST RESERVE

	£000
As 1 April 2013	1,020,036
RPI adjustments:-	
Fixed assets	27,038
Working capital adjustment	(152)
Net finance adjustment	(30)
Third party contributions	(666)
At 31 March 2014	1,046,226

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

	2014 £000	2013 £000
Current cost operating profit	4,810	5,303
Cash contribution to Employee Benefit Trust	(977)	(888)
Working capital adjustment	(152)	(185)
Decrease in working capital	(373)	(216)
Loss on disposal of assets	17	10
Other finance charges	421	454
Current cost depreciation	5,893	5,856
Infrastructure renewals charge	5,177	5,059
Movement in provisions	259	172
NET CASHFLOW FROM OPERATING ACTIVITIES	15,075	15,565

10. ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS	As at 1 April 2013 £000	Cash Flow £000	Non Cash Movements £000	As at 31 March 2014 £000
Cash at bank and in hand	2,346	400	-	2,746
Loans due after one year	(91,259)	-	(2,957)	(94,216)
Loans due within one year	(5,284)	-	-	(5,284)
	(96,543)	-	(2,957)	(99,500)
Short term deposits	1,713	44	-	1,757
Current asset equity investments	4	(2)	-	2
	1,717	42	-	1,759
	(92,480)	442	(2,957)	(94,995)

For the purposes of the gearing ratio, debt excludes the deferred arrangement costs of £1.052m and the current asset investment of £0.002m.

	Fixed Rate £000	Floating Rate £000	Index Linked £000	Total £000
BORROWINGS	(284)	(5,000)	(95,268)	(100,552)
Cash and investments				2,746
Short term deposits				1,757
NET DEBT				(96,049)
Regulatory capital value				117,938
Gearing				81.4%
Full year equivalent nominal interest cost	10	129	6,309	6,281
Full year equivalent cash interest payment	10	129	3,409	3,455
Indicative Interest rates				
Indicative weighted average nominal interest rate	3.5%	1.75%	6.6%	6.4%
Indicative weighted average cash interest rate	3.5%	1.75%	3.6%	3.5%
Weighted average years to maturity	<1yr	<1yr	18.5yrs	17.6yrs

Regulatory Capital Value at 2013/14 prices

	£000
Opening Regulatory Capital Value as at 1 April 2013	120,071
RPI Indexation	2,945
Capital Expenditure (excluding infrastructure renewals)	3,367
Infrastructure renewals expenditure	5,360
Infrastructure renewals charge	(5,457)
Capital contributions	(1,328)
Current cost depreciation	(5,072)
Outperformance of regulatory assumptions (5 years in arrears)	(1,948)
Closing Regulatory Capital Value as at 31 March 2014	117,938
Average Regulatory Capital Value for the year	120,477

Explanatory Note

The Table shown above gives the build up of the Regulatory Capital Value for the financial year ended 31 March 2014 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 26 June 2014 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 2014
- the current level of gearing
- the projected level of gearing through to 2015, based on its own internal budget projections
- the Company's available bank and overdraft facilities through to 2015
- the headroom between the projected key operating ratios (gearing and interest cover) and its loan covenants through to 2015 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 £59.384m. A repayment of £0.084m was made by South Downs Limited in the year. 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.

Interest Received

A receipt of interest amounting to £947,925 in respect of the inter-company loan made to South Downs Limited in 2002 (as covered above), received from South Downs Limited.

Dividends paid to Associated Undertakings

The dividends paid to the holding company, Portsmouth Water Holdings Limited, are shown in note 9 on page 20 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 £302,405.

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	161	Market Tested	85
Solar power income		158	Market Tested	42

Directors Remuneration

There is a recharge of Directors salaries amounting to £19,953 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

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 2014 on pages 10 to 42 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 44, 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 14 to 17 and page 38 to 39, the state of the Company's affairs at 31 March 2014 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 10 to 28 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 22.

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 2014 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
4 July 2014