

Report on the Regulatory Tables for the year ended 31 March 2009

Accounting requirements

The regulatory tables comply with all applicable United Kingdom accounting standards and the Regulatory Accounting Rules 1 to 5 issued by the Water Industry Commission for Scotland in February 2009. The accounting policies used are the same as those adopted in Scottish Water's statutory historical cost (HCA) financial statements for the year ended 31 March 2009, except as set out below:

(a) Infrastructure renewals accounting

The infrastructure renewals charge is based on the strategic assessment of the capital expenditure required to maintain the serviceability of the infrastructure assets over a 20 year horizon. The difference between the cumulative capital expenditure (IME) on maintaining the serviceability of the infrastructure network and the cumulative infrastructure renewals charge (IMC; long term nominative charge) is taken to the balance sheet as an infrastructure renewals prepayment or accrual.

(b) Current cost accounting (CCA) policies

Tangible fixed assets

Assets acquired in operational use are valued at the gross equivalent replacement cost of their operating capability. Redundant assets are valued at their recoverable amounts.

The current cost depreciation charge is based on the gross replacement costs and the average remaining useful lives of the assets. Infrastructure assets are not depreciated but have an IMC as detailed above.

Grants and third party contributions

Grants and third party contributions 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 the Retail Price Index (RPI) for the year and treated as deferred income.

Working capital adjustment

The change in the RPI over the year is applied to the opening operating working capital balance.

Financing adjustment

The change in the RPI over the year is applied to the opening balance of net finance.

Results

The HCA surplus for the year after taxation amounted to £135.4 million for the regulated activities of Scottish Water. On a CCA basis, the surplus for the year before taxation was £130.4m. Details of the financial results are detailed in the regulatory M and N tables.

Declaration

The regulated business has sufficient financial resources to enable it to carry out, for at least the next twelve months, its regulated activities and sufficient management resources to enable it to carry out its functions.

There have been no changes in Scottish Water's activities which will have any material impact on its ability to finance its regulated activities.

Transactions and activities entered into with associated companies were made on an "arms length" basis.

The fundamental accounting records, on which the regulatory tables are based, comply with the Water Industry (Scotland) Act 2002.

Douglas Millican
Finance and Regulation Director
12 June 2009