

## **M Tables – Regulatory Accounts Commentary**

The sections in this document are:

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### **1. General Comments**

Scottish Water prepares its statutory financial statements under International Financial Reporting Standards (IFRS). In previous years, the M Tables have been prepared on a Regulatory basis which was more akin to UK Generally Accepted Accounting Principles (UK GAAP). This meant there were differences arising from the differing accounting treatments, all of which were explained in additional reconciliation tables. However, the M Tables for 2012/13 have been revised to include IFRS based information in addition to the 'original' Regulatory based information. The other main change for 2012/13 was the removal of all current cost accounting (CCA) information.

Details and explanations of the IFRS adjustments are provided in the commentary for the relevant tables or, where necessary, in Appendix 1.

The consolidation tables – M27 and M28 – include the results of Scottish Water Horizons Holdings Limited (SWHH), Scottish Water Horizons Limited (SWH) and Scottish Water International Limited (SWI) along with Business Stream Holdings Limited (SWBSH) in the Non Core/Non Licensed column. Business Stream's results are included in the Licensed column. Due to the layout of these tables and the fact that the SW Core information has been referenced to Tables M1 and M2, the consolidated figures exclude all IFRS adjustments.

### **2. Results & Reconciliation**

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the balance sheet (and relevant notes) for SW only ('company'). Detailed reconciliations between the statutory accounts and the regulatory tables are detailed in Appendix 2 to this document.

M Table financial information is for SW only, i.e. excluding SWBSH, SWHH, Business Stream, SWH and SWI, and is analysed between Core (= Regulatory business) and the remaining Non Core (= Non regulatory activities) where required. The exceptions to this are:

- tables M18W and M18WW which include the costs of SWH and SWI; and
- tables M27 and M28 which provide reconciliations from the SW Core figures to the group consolidated income statement and balance sheet respectively.

Due to some different descriptions and terminology between the regulatory M tables and the statutory accounts, Appendix 2.1 and 2.2 provide reconciliations from the Table M27 totals and M28 totals to the statutory consolidated income statement and consolidated balance

sheet, respectively. Appendix 2.3 shows the reconciliation between Table M2 and the statutory “company” balance sheet.

Regulated / Non Regulated have been accounted for separately in SW’s general ledger system enabling the production of regulated/non-regulated profit & loss accounts and balance sheets. These form the basis for the historical cost figures and analysis, in particular Tables M1, M2, M27 & M28.

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW’s Activity Based Management (ABM) system. Detailed commentary on ABM methodology and cost allocation is provided in support of the E Tables and is not repeated in this document.

### **3. Assumptions**

#### **M Table completion**

In the original M Tables supplied by the WICS, there were problems with some of the formulae, especially when referencing between the Tables. It was therefore agreed by email (21 May 2013) that, where necessary, the corrections would be made and highlighted by Scottish Water during their completion of the Tables. In addition, there have been some amendments made to the text descriptions of certain lines. These have also been highlighted in the Tables. The key to the highlighting is:

- Green shaded cells = original formula or text overwritten; and
- Purple shaded cells = formula amended.

The ‘Log of changes’ sheet in the M Tables file lists the changes made to the 2012/13 M Tables compared to the 2011/12 file. The changes removed the majority of references to current cost accounting (CCA) information and the main CCA based tables. The other changes were primarily to bring in the relevant IFRS based information. However, in the ‘Table Definitions’ document there are still references to CCA information for some of the tables. Therefore, for clarity, the M Tables have been completed using the historical cost information and IFRS based information, i.e. excluding all CCA based information. This approach aids transparency and the reconciliation processes between the historical cost based results in Tables M1 and M2, the IFRS based Regulatory Accounts themselves and the IFRS statutory accounts.

#### **Non core tax charge**

It has been assumed that there are no brought forward profits/losses or capital allowances for the non core element. The tax charge is based on the actual profit attributable to the non regulatory businesses in 2012/13. (Tables M1, M2)

#### **IFRS**

Tables M4, M5, M6, M11 and M13 have been completed with IFRS based information to provide the Regulatory Accounts on the ‘new’ basis. There are no IFRS adjustments in respect of turnover, therefore Table M7 information remains unchanged.

Additional tables have been provided, either within the commentary or as appendices, to aid the reconciliation between the historic costs tables (Tables M1 and M2), the ‘new’ IFRS Regulatory tables (Tables M4 and M5) and the statutory accounts.

## Ratios

In the Annual Return Overview document for 2012/13 the ratios provided are as calculated from the results for the Regulatory business on the 'original' regulatory basis. As the Regulatory Accounts / M Tables submission now include the IFRS adjustments, we have provided the equivalent ratios as calculated based on the IFRS Regulatory results presented in the M Tables. The second table provides the IFRS Regulatory results ratios for each of the years presented.

<b>Ratios - 2012/13</b>	<b>Actual Historic basis</b>	<b>Actual IFRS/Reg basis</b>
Cash interest cover	3.6	3.3
Funds from operations to net debt	13.2%	11.4%

<b>Ratios - IFRS/Regulatory trend</b>	<b>Actual 2010/11</b>	<b>Actual 2011/12</b>	<b>Actual 2012/13</b>	<b>Forecast 2013/14</b>
Cash interest cover	3.3	3.2	3.3	3.1
Funds from operations to net debt	12.2%	11.6%	11.4%	10.6%

Additional details of the 2012/13 ratio calculations and the relevant reconciliations are provided in Appendix 3. The tables in the Appendix 3 are laid out in the same way as those previously provided in the 'Proposals for Improving Regulatory Reporting' document, now using the 2012/13 actual results.

## 4.1 Commentary – Tables M1 to M28

This section has comments on individual tables, where it is felt that such narrative will aid understanding, explain significant year-on-year movements or provide additional guidance on how the information was gathered or calculated. There are no comments on the tables which appear self explanatory.

### Table M1 – Historic Cost Income & Expenditure Account

The Core information is from the general ledger reports for the Regulated business. The non core information relates to the sundry non regulated activities which remain within Scottish Water. The results in this table are consistent with the information presented in Table M1 in previous years and the basis for the internal management reporting to the Board. The main differences to the statutory income statement are due to the IFRS adjustments in respect of infrastructure assets, PFI costs and the pension charges. These are explained in more detail in the comments for Table M4.

Scottish Water's regulated operating costs (i.e. excluding depreciation, PFI charges and costs associated with non regulated activities) increased by £9.1m to £349.3m compared to £340.2m in 2011/12. The £9.1m increased cost was due primarily to:

- a £6.3m increase in bad debt provision charges;
- a £3.4m increase in local authority rates;
- a £3.0m increase in power prices; and
- the £7.0m impact of inflation; partly offset by
- a £12.0m reduction in VR and other restructure costs.

Adjusting for these movements, like-for-like controllable operating costs for 2012/13 were £231.2m reflecting a reduction in real terms of £1.3m (0.6%). The table below summarises this movement:

	2012/13 £m	2011/12 £m	Movement fav/(adv) £m
<b>Core operating expenditure - line M1.2</b>	<b>349.9</b>	<b>340.8</b>	<b>-9.1</b>
Less: Internal PFI costs	-0.6	-0.6	-
<b>SW Regulated operating costs</b>	<b>349.3</b>	<b>340.2</b>	<b>-9.1</b>
VR and other restructure costs	-3.5	-15.5	-12.0
Carbon reduction contribution	-2.8	-3.0	-0.2
New Opex	-3.0	-	3.0
Bad debt	-29.2	-22.9	6.3
Average inflation (3.1%)	-	7.0	7.0
	<b>310.8</b>	<b>305.8</b>	<b>-5.0</b>
Power price	-3.0	-	3.0
LA rates	-61.7	-58.3	3.4
SEPA and WIC costs	-14.9	-15.0	-0.1
<b>Like-for-like real controllable costs</b>	<b>231.2</b>	<b>232.5</b>	<b>1.3</b>

The cost of the PFI schemes in the year was £149.4m (excluding PFI team costs), £3.3m higher than in 2011/12 mainly because of inflation.

Depreciation, including the infrastructure renewals charge and amortisation charges/(credits), increased by £4.5m to £333.5m, predominantly as a consequence of the capital investment programme.

Other operating income of £2.1m (line 1.8) was the gain on disposal of fixed assets, £1.4m higher than in 2011/12.

The net interest charge was £154.4m (2011/12: £156.8m) (line 1.11). The decrease of £2.4m reflected the drawdown of the new borrowings and renewal of loans at beneficial interest rates.

SW's total tax credit, on a statutory basis, was £3.5m (2012: £0.6m credit). This was primarily due to the re-measurement of deferred tax balances as a result of the change in the UK corporation tax rate from 24% to 23% that will be effective from April 2013. To date, there has been no cash impact on SW's tax payments as a result of accounting on an IFRS basis.

#### **Table M2 – Historic Cost Balance Sheet**

Core / Non core information is from the general ledger reports. The non core information relates to the sundry non regulated activities which remain within Scottish Water following the transfer of the majority of the non regulated activities to SWH on 1 April 2008.

The results in this table are consistent with the information presented in Table M2 in previous years and the basis for the internal management reporting to the Board. The main differences to the statutory balance sheet are due to the IFRS adjustments in respect of infrastructure assets, PFI assets and the pension liability. These are explained in more detail in the comments for Table M5. In addition, the Infrastructure Renewals accrual is recognised separately in Table M2 (£110.1m, line 2.14).

Investment – other (line 2.3) of £37.7m is primarily the investment in SWHH (£37.6m).

Debtors increased by £27.7m to £86.3m (line 2.6) due to:

- higher household trade debtors (from £27.4m to £36.8m; Table M11, line 11.2)
- an increase in non trade debtors (from £20.7m to £22.3m; Table M5, line 5.12) being higher VAT receivable outstanding from HMRC; and
- higher prepayments, primarily due to the timing of pension contributions associated with 2013/14.

Cash at bank increased by £4.5m to £245.5m.

The infrastructure renewals accrual (line 2.14) has increased to £110.1m at 31 March 2013. However, approximately £84m of infrastructure maintenance expenditure has been identified within assets under construction, awaiting project completion and reclassification. This would leave a balance of around £26m as the accrual.

The corporation tax and deferred tax balances are shown on a statutory (IFRS) basis, excluding the deferred tax asset in respect of the IAS 19 pension liability. To date, there has been no cash impact on SW's tax payments as a result of accounting on an IFRS basis.

Post employment liability (line 2.27) is blank because the IAS 19 pension liability is not included in Table M2, being an IFRS adjustment. This approach is consistent with the presentation of Table M2 in previous years.

Other provisions (line 2.28) have increased by £1.6m to £45.5m due primarily to a net increase in the wholesale income uncertainty provisions (£5.5m) partly offset by a reduction in the reorganisation provision (£4.2m).

### Table M3 – HCA Balance Sheet – Reconciliation to Statutory Accounts

This provides a summary of the main reconciling items from Tables M1 and M2 to the main financial results in the statutory accounts.

The Profit and Loss section (lines 3.1-3.5) reconciles the statutory Group consolidated figures to Table M1 Core figures, because no profit and loss figures are provided for SW company in the statutory accounts. However, more details have been given in the appendices – 2.1, 2.2 and 2.3. The balance sheet section (lines 3.8-3.15) reconciles SW Company figures from the statutory accounts to Table M2 Core figures.

### Table M4 – Regulatory Accounts Income & Expenditure

For the 2012/13 submission, Table M4 was amended to provide the results of Scottish Water Core on the new Regulatory Accounting basis i.e. aligning with the statutory IFRS basis. The reconciliation of the results shown in Table M1 to the results in Table M4 is provided in Appendix 1.1.

The reconciling items are purely the IFRS entries in respect of the pension and holiday pay adjustments, infrastructure assets and PFI costs. The net impact on the profit before tax is summarised below.

<i>Favourable / (unfavourable) impact on surplus before tax</i>		<i>£m</i>	<i>Note ref.</i>
IAS 19	Pension & holiday pay adjustments - Opex	0.2	1.
IAS 19	Pension adjustments - Finance costs	(4.5)	1.
IAS 16	Infrastructure assets - depreciation & maintenance	(0.5)	2.
IFRIC 12	PFI costs - depreciation & lease liability	0.1	3.
<b>Scottish Water - IFRS adjustments</b>		<b>(4.7)</b>	

#### 1. IAS 19 'Employee benefits'

Pension charges are calculated under IAS 19. In the statutory income statement, the adjustments impact on cost of sales, administration costs and finance costs. Table M4 includes 2 new lines – 4.5 'Pension contributions (ongoing contribution)', to capture the current service cost as determined by IAS 19; and 4.16 'Net pension financing income/expense' to capture the net financing elements as calculated under IAS 19. In 2012/13 the total service cost was £18.9m and the net financing expense was £4.5m.

In addition, the holiday pay accrual was increased by £0.2m in 2012/13.

These charges replace the costs charged in Table M1, with a net increase to costs of £4.3m.

#### 2. IAS 16 'Property, plant & equipment'

Under IAS 16 infrastructure renewals accounting is not permitted and infrastructure assets are depreciated over the estimated lives of the identified components of the network. Expenditure which is judged to enhance the asset base, or where it is probable that future economic benefits will flow to Scottish Water, is capitalised. All other expenditure is charged as an operating cost. This expenditure has been entered in line 4.7 'Infrastructure capital maintenance charge (IFRS)'. However, these costs, along with the calculated depreciation, replace the original 'Infrastructure renewals charge' (IRC). In 2012/13 the infrastructure expenditure charged to the income statement was £96.7m and the depreciation charge was £13.8m.

These charges replace the IRC charged in Table M1, with a net increase to costs of £0.5m.

### 3. IAS 17 'Leases' & IFRIC 12 'Service concession arrangements'

Under IFRIC 12, the PFI service concession arrangements were reclassified as finance leases resulting in the PFI assets being brought on to Scottish Water's balance sheet. The annual PFI costs incurred are broken down into three categories: operating costs, finance costs and a reduction of the finance lease obligation. In addition, there is a depreciation charge calculated in respect of the leased assets held on the balance sheet.

In Table M4, line 4.3 'PPP costs' consists of the operating costs and the depreciation charges, totalling £126.2m in 2012/13. The finance costs of £25.5m are in line 4.15.

The net impact to costs compared to Table M1 is £0.1m, due to the offsetting effect of the costs transferred against the finance lease obligation in the balance sheet (Table M5, line 5.28).

#### Table M5 – Regulatory Accounts Balance Sheet

Tangible assets balance (line 5.1) equals the Property, plant & equipment balance per the IFRS statutory accounts, excluding the PFI assets which are shown separately in line 5.2. Due to the non-enhancement infrastructure expenditure having been reclassified to operating costs, there is no infrastructure renewals prepayment/(accrual) balance (line 5.8) under the new Regulatory/IFRS basis.

The PFI assets total of £339.7m consists of the SW owned assets and the assets treated as leased under the IFRS basis. The related finance lease liability is shown in line 5.28. The following tables provide additional analysis and reconciliation to the presentation in the statutory accounts.

##### *Balance sheet (see Appendix 2.3)*

Property, plant & equipment			
Leased assets			360.3
Owned assets	(reclassification)		39.4
		<b>M5, line 5.2</b>	<b><u>399.7</u></b>
Other loans & borrowings			
Finance lease liability	< 1 year		(16.3)
	> 1 year		(399.2)
	total	<b>M5, line 5.29</b>	<b><u>(415.5)</u></b>

Third party contributions (line 5.3) consist of grants and contributions.

Non trade debtors (line 5.12) is VAT receivable at March.

Non-trade creditors due within one year (line 5.13) consists of payments received in advance and interest accruals.

Other creditors due after one year (line 5.20) consists of payments received in advance (£61.7m).

Post employment asset / (liability) (line 5.23) shows the retirement benefit obligation under IAS 19, net of the related deferred tax balance, as detailed below.

##### *Balance sheet (see Appendix 2.3)*

Retirement benefit obligations (/Post employment liabilities)			(247.6)
Deferred taxation on retirement benefit obligations			56.9
<b>Retirement benefit obligations - net</b>		<b>M5, line 5.23</b>	<b><u>(190.7)</u></b>

The other provisions total of £18.9m (line 5.24), an increase of £7.4m compared to 2011/12, is made up of restructure (£2.5m), income uncertainty (£15.6m) and other (£0.8m).

*Restructure:* This provision relates to the redundancy costs associated with employees who will leave SW under VR and early retirement. Pension related liabilities associated with employees who have left SW under the VR schemes are recognised in the post employment liability (line 5.23).

*Income uncertainty:* This provision relates to uncertainty around the wholesale/non-domestic income. The balance of £15.6m represents £0.1m associated with 3<sup>rd</sup> party Licensed Providers and £15.5m in respect of Business Stream. Progress has continued to be made in stabilising the settlement process and data during the year. However, at 31 March 2013, all of the financial years from 2008/09 were technically still 'open', hence the increase in the provision to £15.6m.

In respect of 2008/09 and 2009/10, agreed lists of SPIDs were provided to the CMA in February for recalculation, and SW and Business Stream agreed forecast out-turn positions. For the purposes of the year end close and the Scottish Water group reconciliation, the forecast out-turns for 2010/11, 2011/12 and 2012/13 as calculated by SW's wholesale team were compared to the forecasts calculated by Business Stream. Overall, there were no material differences. Out-turn positions were therefore agreed with the relevant adjustments being posted by both companies.

The income & expenditure reserve (line 5.29) is the total of the reserve brought forward from 31 March 2012 and the retained profit for 2012/13 (Table M4, line 4.23).

The movement in the pension surplus/(deficit) (line 5.31) of £12.7m is the actuarial gain on the post employment plans, net of deferred tax as per Table M19.

#### **Table M6 – Regulatory Accounts Cash Flow**

Net cash flow from operating activities is detailed in Table M13.

Interest paid (line 6.5) of £154.9m includes intercompany interest paid to Business Stream of £0.1m in relation to the settlement of wholesale billing and reconciliation process. Loan interest payments in respect of Government and other borrowings totalled £154.8m.

On the IFRS basis, £25.5m of PFI costs were reclassified as finance lease interest payments and appear in line 6.6.

Capital enhancement expenditure (line 6.11) is adjusted for the movement in short term capital creditors year on year. The tables below provide the detail and the reconciliation of the capital investment on the 'original' regulatory basis to the enhancement expenditure under the IFRS/new regulatory basis.



	<b>M Table / line ref</b>	<b>2012/13</b>
		<b>£m</b>
Opening short term capital creditor	M11.10 (11/12)	120.8
Add: Capital investment (gross) on IFRS/new regulatory basis		386.3
Less: Closing short term capital creditor	M11.10 (12/13)	-99.3
<b>=&gt; Capital enhancement expenditure</b>	<b>M 6.11</b>	<b>407.8</b>
Capital investment (net cost) on a regulatory basis - original		479.3
Less: Infrastructure expenditure reclassified to Opex (IFRS)		-96.7
Capital investment - enhancement		382.6
Add: PFI investment		1.6
Capital investment (net cost) on IFRS/new regulatory basis		384.2
Add: Infrastructure income release		2.1
<b>Capital investment (gross) on IFRS/new regulatory basis</b>		<b>386.3</b>

In 2012/13 £1.6m was invested at Dalmuir PFI thereby increasing PFI assets. This expenditure has been included in the capital enhancement total within the cash flow (line 6.11) as shown in the table above.

The non-enhancement infrastructure expenditure of £96.7m which has been reclassified from assets under construction during the financial year into operating costs, under IFRS (IAS 16), is shown in line 6.14 of the cash flow.

#### **Table M7 – Analysis of Turnover and Operating Income**

Turnover from services supplied to household customers increased by only £5.3m to £750.9m reflecting the increase in connected properties and the tariff freeze effective from 1 April 2012. The benefit to household customers of freezing household charges, at a time when applicable RPI was 5.4% (as at October 2011) was c£40m.

Turnover from wholesale services provided to Licensed Providers increased by £2.0m, or 0.7%, to £296.7m.

Turnover from other sales decreased by £0.1m to £5.4m.

#### **Table M11 – Regulatory Accounts Working capital (Core)**

All of the balances presented in Table M11 are on an IFRS basis. A separate reconciliation (Appendix 1.3) has been prepared showing the reclassifications of the balances in Table M2 at 31 March 2013 into the new regulatory IFRS working capital (operating items) and non operating debtors and creditors. (Tables M11 & M5).

Trade debtors increased by £9.4m to £36.8m. The table below provides a breakdown of the household gross balances and bad debt provisions by age:

	<b>96/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Debt	210.6	29.6	31.8	33.4	36.0	68.2	409.6
Bad Debt Provision	(209.0)	(29.1)	(31.1)	(32.4)	(33.3)	(37.9)	(372.8)
<b>Net Debt</b>	<b>1.6</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>	<b>2.7</b>	<b>30.3</b>	<b>36.8</b>

Other trade debtors relate to sundry and non primary wholesale billing.

The increase in prepayments and other short term debtors (line 11.6) was due to higher service contract and insurance premium prepayments.

The wholesale charge prepayment of £24.8m at March 2013 is the total of the provisional invoices for April 2013.

Capital creditors consist of the balances due to SW Solutions 2 (£19.9m) and capital creditors and accruals relating to third parties (£79.5m).

The increase in accruals and other creditors (line 11.12) was due to higher accruals for insurance claims, PFI, power and contractors/consultancy costs.

**Table M13 – Reconciliation of operating profit to net cash flow from operating activities**

The working capital movement (line 13.2) is the movement in the working capital totals (Table M11) excluding the short term capital creditors – see table below:

	<b>M Table Line ref</b>	<b>2011/12 £m</b>	<b>2012/13 £m</b>	<b>Mvmt £m</b>
Total working capital	M11.13	-230.1	-217.5	-12.6
Short-term capital creditors	M11.10	120.8	99.3	21.5
Movement in working capital	M13.2			<u><u>8.9</u></u>

For the purposes of calculating the net cash flow from operating activities, the infrastructure expenditure reclassified to the income statement has been added back (line M13.4).

The other non-cash items (line 13.5) are analysed in the table below:

	<b>£m</b>
Depreciation charge - total	253.6
Grant amortisation	(0.9)
Net pension adjustment (IAS 19)	<u>(0.4)</u>
Other non-cash profit & loss items	<b>M13.5</b>
	<u><u>252.3</u></u>

**Table M19 – Regulatory Accounts - Statement of total recognised gains and losses**

This table has been completed on the IFRS basis. The profit for the year is the Core retained profit from Table M4 (line 4.23). The actuarial gains/losses on post employment plans are the actuarial gains/losses, net of related deferred taxation, as reported in the statutory results for Scottish Water. There were no other gains or losses.

**Table M21 – Taxation analysis**

An extra line has been inserted between lines 21.2 and 21.3. This is needed as part of the calculation to correctly reflect the closing value of the work in progress pool, where capital allowances have not been claimed.

Industrial Buildings Allowances (IBA) – we have not reflected any information for since their abolition on 1 April 2011 (lines 21.9, 21.21 and 21.36). The assets that would previously have attracted this allowance now form part of the Non Qualifying data.

**Table M22 – Fixed asset additions**

The non infrastructure additions (line 22.8) are the amounts reclassified from the fixed assets under construction (AUC) during the financial year. The total of £209.1m agrees to the total of the reclassifications in the statutory accounts (Note 9, SW company) from AUC into Specialised operational properties and structures; Non-specialised operational properties and structures; and Plant, machinery and vehicles.

The figures in the section “Infrastructure renewals charges, expenditure and provision”, (lines 22.20 – 22.22), are the movements during each financial year. The closing balance at March is shown in Table M2, line 2.14.

As previously mentioned, the infrastructure renewals prepayment/(accrual) balance is only relevant in the historic cost accounts (Table M2). Due to the different treatment of the non-enhancement infrastructure expenditure under IFRS, there is no prepayment/(accrual) balance in the new Regulatory/IFRS balance sheet (Table M5).

**Table M27 – Consolidated Historic Cost Income & Expenditure Account**

The intercompany items being visibly eliminated (in col 3) on this table are the intercompany wholesale income in SW and the intercompany cost of sales in Business Stream. Due to an adjustment to Business Stream’s cost of sales relating to the reconciliation process, there is an intercompany profit elimination along with the related tax impact. The intercompany interest between SW and Business Stream already eliminates across line 27.11.

Non core / non licensed includes the remaining non regulatory business within SW (as per table M1), the results for the 2 holdings companies (SWBSH & SWHH - interest and taxation), SWH and SWI.

For 2012/13 Business Stream declared a dividend of £12.0m, payable to SWBSH. This eliminates across row 27.18.

Appendix 2.1 provides a reconciliation between Table M27 and the statutory consolidated income statement. The differences are due to the IFRS entries, along with different terminology and descriptions being used.

**Table M28 – Consolidated Historic Cost Balance Sheet**

The intercompany items being visibly eliminated are:

- intercompany debtor and creditor balances (lines 2.6 & 2.15);
- intercompany profit elimination and related tax impact; and
- investments in subsidiary companies and the relevant share capitals (lines 2.3 & 2.30).

The intercompany loans eliminate across line 2.2.

Non core / non licensed includes the remaining non regulatory business within SW (as per table M2), the balance sheets for the 2 holdings companies (SWBSH & SWHH – intercompany loans, investment in subsidiary, intercompany debtors and creditors, taxation, share capital and reserves), SWH and SWI.

Appendix 2.2 provides a reconciliation between Table M28 and the statutory consolidated balance sheet. The differences are due to the IFRS adjustments in addition to reclassifications and grouping of various items.

## 4.2 M Table 18W & 18WW detailed commentary

### Methodology & Cost Allocation

Cost analysis in M Tables (M18W, M18WW) was prepared using reports from Scottish Water's Activity Based Management (ABM) systems.

Detailed commentary on ABM methodology and cost allocation is provided in support of table E and is not repeated in this document.

### Trading Results & Reconciliation

Scottish Water Business Stream Limited (Business Stream) is a fully owned subsidiary of Scottish Water Horizons Holdings Limited. Scottish Water produces consolidated accounts incorporating the results of Business Stream. However E & M18 table financials are produced for Scottish Water Regulated and Non Regulated activity, excluding Business Stream.

To aid comparison, the table below summarises Scottish Water consolidated results, Scottish Water company, Scottish Water Horizons and Scottish Water International results.

#### SW Group Statutory Accounts

	£m	£m
Cost of Sales	721.9	
Admin Expenses	<u>144.1</u>	
<b>SW Group Expenditure</b>		<b>866.0</b>
Less Business Stream		(34.7)
IFRS adjustments		<u>25.3</u>
<b>Total Expenditure</b> (excluding Business Stream and IFRS)		<b><u>856.6</u></b>
<b>Represented by</b>		
SW Regulated		830.8
SW Non Regulated		2.1
Horizons		22.3
International		1.4

E & M18W & WW Tables include the costs of Scottish Water (Core / Regulated), Scottish Water (Non Regulated), Scottish Water Horizons (Non Regulated), and Scottish Water International (Non Regulated). The costs of business retail activity undertaken by Business Stream are not reported in Scottish Water's E or M tables.

Scottish Water company, Scottish Water Horizons and Scottish Water International combined results are summarised and reconciled below, to E tables and the regulatory account tables M18 (W & WW).

(£m)	SW SWH & SWI*	Diff SW/SWH - M18	M18W/WW Tables			Diff M18 - E1/2/3a	E1/2/3a Tables Total
			Total	M18 W	M18 WW		
Employment	144.1		366.9	212.3	154.6		346.5
Other	226.1						
<b>Opex</b>	<b>370.3</b> <sup>✓</sup>	<b>3.4</b>	<b>366.9</b>	<b>212.3</b>	<b>154.6</b> <sup>✓</sup>	<b>20.3</b>	<b>346.5</b>
PFI	150.0	(3.6)	153.7	0.0	153.7	0.0	153.7
IMC	110.0	0.1	109.9	76.0	33.9	0.1	109.9
Depreciation	227.0		227.4	119.0	108.4		221.9
Grant Amortisation	2.4	(0.1)	(1.1)	(0.7)	(0.4)	5.4	(0.9)
Amort PFI	(2.1)		0.0				0.0
Gain on assets	(1.1)		0.0				0.0
<b>Expenditure</b>	<b>856.6</b> <sup>✓</sup>	<b>(0.2)</b>	<b>856.8</b>	<b>406.6</b>	<b>450.2</b> <sup>✓</sup>	<b>25.8</b>	<b>831.0</b>
Explained by							
Charges to SWBS for support		0.2					

\* Excludes Business Stream, IFRS & IAS19

The line differences are table presentation differences explained as follows:

- £3.6m difference between Scottish Water's Board report and M18 Tables re PFI costs is due to transfer of costs from Customer Operations for Intersite Sludge Tankering from Scottish Water waste water treatment works to PFI works (£2.5m), terminal pumping station costs pumping to PFI works (£0.6m) and support costs for the PFI team (£0.5m).
- £0.2m of Scottish Water expenditure has been charged to Business Stream under Service Agreements. This cost has been netted off Scottish Water's expenditure in line with group inter-company transaction reporting. However, for the purposes of regulatory reporting this expenditure has been added back to report the full costs of providing these third party services.
- £25.8m Non Regulated expenditure is included in M18 Tables but is excluded from E Tables.

## Commentary

Total operating costs excluding PFI costs and exceptional items increased by £19.2m (2.8%) to £703.1m.

	2012/13 £m	2011/12 £m	Variance £m
Operating expenditure - Water M18w.43	211.937	212.745	+0.808
Capital maintenance - Water M18w.54	194.319	194.087	(0.232)
Operating expenditure - Waste M18ww.44	308.597	293.682	(14.915)
Capital maintenance - Water M18ww.55	141.953	134.410	(7.543)
	<b>856.806</b>	<b>834.924</b>	<b>(21.882)</b>
Exclude PFI included in M18ww.35	(153.661)	(150.986)	+2.675
	<b>703.145</b>	<b>683.938</b>	<b>(19.207)</b>

Detailed commentary on wholesale operating costs and efficiencies is provided in support of Annual Return Table E and is not repeated in this document.

More detailed commentary on Non Regulated and Retail activities is provided in this document.

## Activity Analysis

	2012/13 £m	2011/12 £m	Variance £m
Non Regulated	25.784	18.392	(7.392)
Wholesale (excluding PFI)	625.688	616.374	(9.314)
Retail	51.673	49.172	(2.501)
	<b>703.145</b>	<b>683.938</b>	<b>(19.207)</b>

**Non Regulated** activity costs have increased by £7.4m from 2011/12 to £25.8m (£2.1m Scottish Water, £22.3m Horizons, and £1.4m International). Non Regulated turnover has remained unchanged at £20.2m in 2012/13.

Direct costs increased by £1.0m (6.8%), General & Support increased by £0.8m, other operating expenditure has increased by £0.9m and capital maintenance has increased by £4.8m.

The key movements in Non Regulated Operating Costs from 2011/12 were:

- Third Party Waste costs increased by £1.2m due to a number of incidents at the Deerdykes composting centre (employment £0.1m; and hired and contracted services £1.1m), mainly for haulage of waste to other sites (£0.7m) and support during outage periods at the site (£0.4m);
- Market conditions experienced by the Environmental Business led to the withdrawal from the green waste and composting business during the year, with the write down of associated assets of £4.4m (included in line 18.49);

- Changes in the recording of scientific activities undertaken for PFI concessionaire have increased scientific services costs by £0.7m; and
- International company costs increased by £1.0m (employment), due to a major wastewater contract in Qatar.

These increases were partially offset by a reduction in external developer consultancy costs of £1.2m (employment £0.2m; hired and contracted £0.8m; and materials and consumables £0.1m) mainly due to reduction in developer projects, lead renewals and self lay projects.

**Wholesale** activity cost movements are explained in support of Annual Return Table E and are not repeated in this document

**Retail** activity costs have increased by £2.5m (5.1%) to £51.7m.

	<b>2012/13</b>	<b>2011/12</b>	<b>Variance</b>
	£m	£m	£m
Domestic	45.920	41.929	(3.991)
Non Domestic - Measured	4.486	4.075	(0.411)
Non Domestic - Non Measured	1.267	3.168	+1.901
	<b>51.673</b>	<b>49.172</b>	<b>(2.501)</b>

**Domestic** customer retail total operating costs increased by £4.0m (9.5%) to £45.9m, due mainly to the increase in the bad debt provision. The bad debt charge in the year represents 3.7% of billed revenue for 2012/13. This percentage is in line with the best ever years of historical collection recorded in 2002 through to 2006.

**Non domestic** customer retail total operating costs have decreased by £1.5m (20.6%) to £5.8m (£4.5m measured and £1.3m unmeasured).

The key movements from 2011/12 were:

- Decrease in depreciation charges of £1.0m, reflecting the age of wholesale billing systems;
- Cost of regulation decreased by £0.1m due to a decrease in CMA costs; and
- Decrease in the cost of services provided to Business Stream under service agreements. This cost has been netted off Scottish Water's expenditure for the purposes of group reporting. However, for the purposes of regulatory reporting this expenditure has been added back to report the full costs of providing these third party services. The decrease in charges reflects Business Stream's move to source all but a few support services from third parties. The table below provides the split of the expenditure:

	<b>2012/13</b>	<b>2011/12</b>	<b>Variance</b>
	£m	£m	£m
Operating expenditure	0.210	0.652	-0.442
Capital maintenance	0.003	0.543	-0.540
	<b>0.213</b>	<b>1.195</b>	<b>(0.982)</b>

Since the transfer of business retail activity to Business Stream, the majority of Non Domestic costs are incurred in 3 main areas:

- Scottish Water's Wholesale Revenue Management team responsible for wholesale billing and account management, and interface with Licensed Providers and the Central Market Agency (CMA);

- The CMA costs charged to Scottish Water for set up and operation of the CMA systems and processes; and to a lesser extent
- The cost of providing services to Business Stream under service agreements.

Scottish Water does not have access to business customer details. However, Scottish Water does have knowledge of properties and services. Therefore the costs of activities are allocated to customer and service, primarily on the basis of properties and services volumes, except where activities are clearly attributable to one service.

The cost of handling customer calls has been split by service based on the number of calls. Licensed Providers are responsible for handling calls from business customers. The cost of initial customer contact related to wholesale activities will be incurred by Licensed Providers. However, where Licensed Providers require information or action from the wholesaler, this is the responsibility of the wholesaler. In this case the costs of calls are included under wholesale activities, e.g. water distribution includes the cost of all customer contact on this type of activity, e.g. low pressure calls, water rising calls. Therefore, no cost is shown in line M18W.28 and M18WW.29 under retail.

<b>Retail</b>	<b>2012/13</b>	<b>2012/13</b>	<b>2011/12</b>	<b>2011/12</b>
	£m	%	£m	%
Water - Domestic	22.696	43.9%	20.954	42.6%
Water - Non Domestic	3.109	6.0%	3.896	7.9%
Wastewater - Domestic	23.224	44.9%	20.975	42.7%
Wastewater - Non Domestic	2.644	5.1%	3.347	6.8%
	<b>51.673</b>		<b>49.172</b>	

The split of Retail operating costs between water and wastewater level has remained consistent with 2011/12 (49.9% water, 2012/13 versus 50.5%, 2011/12).



Scottish Water

Year ended 31 March 2013

Reconciliation of Historic Accounts Income Statement (Table M1) to IFRS Regulatory Income Statement (Table M4)

TABLE M1			IFRS adjustments					Table M4		
Line	Description	Core	IAS 19 - Pension adj	IAS 19 Holiday pay	IAS 16 Infra costs	IFRIC 12 PFI	Category reallocation	Core	Line	Description
		£m	£m	£m	£m	£m	£m	£m		
1.1	Turnover	1,052.975						1,052.975	4.1	Turnover
1.2	Operating expenditure	(349.883)	19.228	(0.199)	(13.760)		(221.494)	(566.108)	4.2	Operating expenditure
1.3	PPP costs	(149.436)				25.600	(2.394)	(126.230)	4.3	PPP costs (excluding PPP interest costs)
							(0.592)	(0.592)	4.4	SW internal costs re PPP contracts
			(18.868)					(18.868)	4.5	Pension contributions (ongoing contribution)
1.4	Historical Cost Depreciation	(222.086)					222.086			
1.5	Infrastructure Renewals charge	(110.000)			13.310			(96.690)	4.7	Capital maintenance charge (infra t/f from AUC)
1.6	Amortisation of PFI assets	(2.394)					2.394			
1.7	Amortisation of deferred income	0.934						0.934	4.8	Amortisation of deferred income
1.8	Operating income	2.076						2.076	4.12	Profit on disposal of fixed assets
1.11	Net interest receivable less payable	(154.377)						(154.377)	4.14	Net interest receivable less payable
						(25.500)		(25.500)	4.15	PPP interest payable
			(4.541)					(4.541)	4.16	Net pension financing income/expense
1.12	Profit on ordinary activities before taxation	67.809	(4.181)	(0.199)	(0.450)	0.100	-	63.079	4.17	Profit before taxation
1.13	Taxation - current	-								
1.14	Taxation - deferred	3.505								
		3.505	(3.571)					(0.066)	4.18	Taxation - total charge
1.19	Retained profit for year	71.314	(7.752)	(0.199)	(0.450)	0.100	-	63.013	4.23	Profit retained

## Scottish Water

Year ended 31 March 2013

## Reconciliation of Historic Accounts Balance Sheet (Table M2) to IFRS Regulatory Balance Sheet (Table M5)

TABLE M2			IFRS adjustments:			Reallocations / Reclassifications:			TABLE M5	
Line	Description	Core	IAS19 Pension / holiday pay	IAS16 Infrastructure assets/depm	IFRIC12 PFI assets/ finance lease	Infra renewals accrual	Various - other	Operating working capital	Line	Description
		£m (3dp)							£m (1dp)	
	<i>Fixed Assets</i>									<i>Fixed Assets</i>
2.1	Tangible Assets	5,047.228		(30.3)	399.7	(110.1)			4,906.8	5.1 Tangible Assets
								399.7	5.2	PPP assets (IFRS)
							(16.9)	(i)	(16.9)	5.3 Third party contributions
2.3	Investment - Other	34.723					(34.7)	(ii)		
2.4	<b>Total fixed assets</b>	<b>5,081.951</b>								
2.5	Stocks	2.156						(2.1)	(v)	
2.6	Debtors	86.280	(16.5)				(22.3)	(iii)	(47.5)	(v)
								(217.5)	(v)	5.4 Working capital
2.7	Cash at bank and in hand	245.494							245.5	5.5 Cash
2.9	Gilts reserve	-								
2.10	Assets transferred to PPP contractors	39.373			(39.4)					
2.12	<b>Total current assets</b>	<b>373.303</b>							<b>5,317.6</b>	5.9 <i>Net operating assets</i>
2.14	Infrastructure Renewals accrual	(110.112)				110.1				
2.15	Creditors	(310.428)	1.2				42.1	(iv)	267.1	(v)
2.16	Borrowings (excl. Govt. loans)	(0.921)							(0.9)	5.10 Borrowings
							22.3	(iii)	22.3	5.12 Non-trade debtors
							(42.1)	(iv)	(42.1)	5.13 Non-trade creditors < 1 year
							34.7	(ii)	34.7	5.15 Investment - other
2.17	Corporation tax payable	0.850							0.9	5.16 Corporation tax payable
2.19	<b>Total creditors</b>	<b>(420.611)</b>							<b>14.9</b>	5.18 <i>Non-operating assets &amp; liabilities</i>
2.20	Net current assets	(47.308)								
2.21	<b>Total assets less current liabilities</b>	<b>5,034.643</b>								
2.22	Borrowings (excl. Govt. loans)	(1.514)							(1.5)	5.19 Borrowings
2.23	Other creditors	(61.700)							(61.7)	5.20 Other creditors
2.24	<b>Total creditors</b>	<b>(63.214)</b>							<b>(63.2)</b>	5.21 <i>Creditors &gt; 1 year</i>
	<i>Provision for liabilities &amp; charges</i>									
2.25	Deferred tax provision	(442.508)							(442.5)	5.22 Deferred tax provision
2.26	Deferred income - grants and contributions	(16.866)					16.9	(i)		
2.27	Post employment assets / (liabilities)	-	(190.7)						(190.7)	5.23 Post employment assets / (liabilities)
2.28	Other provisions	(45.467)	26.6						(18.9)	5.24 Other provisions
2.29	<b>Net Assets employed</b>	<b>4,466.588</b>	<b>(179.4)</b>	<b>(30.3)</b>	<b>360.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,617.2</b>	5.26 <i>Net assets</i>
	<i>Capital and reserves</i>									<i>Capital &amp; reserves</i>
2.30	Govt. loans	3,266.840							3,266.9	5.27 Government loans
									415.5	5.28 PPP debt/lease (IFRS)
2.31	Income and Expenditure account	1,066.318	24.4	(30.3)	(55.2)				1,005.2	5.29 Income and Expenditure account
			(203.8)						(203.8)	5.31 Pension surplus/(deficit) (IFRS)
2.32	Other reserves	133.430							133.4	5.32 Other reserves
2.33	<b>Capital &amp; reserves</b>	<b>4,466.588</b>	<b>(179.4)</b>	<b>(30.3)</b>	<b>360.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,617.2</b>	5.33 <i>Capital &amp; reserves</i>

Scottish Water  
Year ended 31 March 2013  
Reconciliation of Working Capital between M Tables

<b>TABLEM2</b>				<b>IFRS</b>	<b>Expand</b>	<b>Realloc'n to</b>	<b>Table</b>	<b>Table</b>	<b>Line</b>	<b>Description</b>
<b>Line Description</b>	<b>Total</b>	<b>Non Core</b>	<b>Core</b>	<b>Adjs</b>	<b>categories</b>	<b>non trade</b>	<b>M11</b>	<b>M5</b>		
	£m	£m	£m	£m	£m	£m	£m	£m		
2.5 Stocks	2.1	-	2.1				2.1		11.1	Stocks
2.6 Debtors	86.7	0.4	86.3	(16.5)	(47.5)	(22.3)				
					36.9		36.9		11.2	Trade debtors - household
					2.7		2.7		11.4	Other trade debtors
					7.9		7.9		11.6	Prepayments & other short term debtors
						22.3		22.3	5.12	Non trade debtors
2.15 Creditors	(308.2)	2.2	(310.4)	1.2	267.1	42.1				
					(30.1)		(30.1)		11.7	Trade creditors
					(24.8)		(24.8)		11.8	Wholesale income prepayment
					(99.3)		(99.3)		11.10	Short-term capital creditors
					(28.3)		(28.3)		11.11	Credit note provisions
					(84.6)		(84.6)		11.12	Accruals & other creditors
						(42.1)		(42.1)	5.13	Non trade creditors
2.23 Other creditors	(61.7)	-	(61.7)					(61.7)	5.20	Other creditors
	(281.1)	2.6	(283.7)	(15.3)	-	-	(217.5)	(81.5)		

Scottish Water  
Year ended 31 March 2013  
Reconciliation of Consolidated Historic Accounts / M Tables to Consolidated Statutory Accounts

<b>TABLE M27</b>		<b>IFRS</b>	<b>Statutory Accounts (IFRS)</b>	
<b>Line</b>	<b>Description</b>	<b>adjustments</b>	<b>Consolidated</b>	
	<b>Consolidated</b>			
	<b>£m (3dp)</b>	<b>£m (1dp)</b>	<b>£m (1dp)</b>	
27.1	Turnover	-	1,145.7	Revenue
27.2	Operating costs			
27.3	PPP costs			
27.4	Historical Cost Depreciation		(721.9)	Cost of sales
27.5	Infrastructure Renewals charge			
27.6	Amortisation of PFI assets		(144.1)	Administrative expenses
27.7	Amortisation of deferred income			
27.8	Operating income			
		25.5	(866.0)	
27.9	Operating profit	25.5	279.7	Operating surplus
			53.3	Finance income
			(237.9)	Finance costs
27.11	Net interest receivable less payable	(29.9)	(184.6)	
27.12	Profit on ordinary activities before taxation	(4.4)	95.1	Surplus before taxation
27.13	Taxation - current			
27.14	Taxation - deferred			
		(3.7)	(5.9)	Taxation
27.19	Retained profit for year	(8.1)	89.2	Surplus for the year

## Scottish Water

Year ended 31 March 2013

## Reconciliation of Consolidated Historic Accounts / M Tables to Consolidated Statutory Accounts

<b>TABLEM28</b>		<b>IFRS adjustments:</b>			<b>Reallocations / Reclassifications:</b>			<b>Statutory Accounts (IFRS)</b>	
<b>Line</b>	<b>Description</b>	<b>Consolidated</b>	<b>IAS19</b>	<b>IAS16</b>	<b>IFRIC12</b>	<b>Infra</b>	<b>Deferred /</b>	<b>Split</b>	<b>Consolidated</b>
		<b>£m (3dp)</b>	<b>Pension /</b>	<b>Infrastructure</b>	<b>PFI assets/</b>	<b>Renewals</b>	<b>Current tax</b>	<b>&lt;&gt; 1yr</b>	<b>£m (1dp)</b>
			<b>holiday pay</b>	<b>assets/deprn</b>	<b>finance lease</b>	<b>Prepayment</b>	<b>presentation</b>		
	<i>Fixed Assets</i>								
2.1	Tangible Assets	5,066.199		(30.3)	399.7	(110.1)			5,325.5
2.3	Investment - Other	0.123							
2.4	Total fixed assets	<u>5,066.322</u>					0.2		<u>5,325.7</u>
	<i>Current Assets</i>								
2.5	Stocks	2.366							2.4
2.6	Debtors	187.119	(16.5)						170.6
2.7	Cash at bank and in hand	415.581					1.0		1.0
2.10	Assets transferred to PPP contractors	39.373			(39.4)				415.6
2.12	Total current assets	<u>644.439</u>							<u>589.6</u>
	<i>Creditors: amounts falling due within one year</i>								
2.14	Infrastructure Renewals accrual	(110.112)				110.1			
2.15	Creditors	(413.660)	1.2					(2.2)	(414.6)
2.16	Borrowings (excl. Govt. loans)	(0.921)			(16.3)				(17.2)
2.17	Corporation tax payable	(0.891)					(1.0)		(1.9)
2.19	Total creditors	<u>(525.584)</u>						(3.2)	<u>(436.9)</u>
2.20	Net current assets	118.855							152.7
2.21	Total assets less current liabilities	<u>5,185.177</u>							<u>5,478.4</u>
	<i>Creditors: amounts falling due after one year</i>								
2.22	Borrowings (excl. Govt. loans)	(1.514)			(399.2)				(400.7)
2.23	Other creditors	(61.700)						(21.6)	(83.3)
2.24	Total creditors	<u>(63.214)</u>							<u>(484.0)</u>
	<i>Provision for liabilities &amp; charges</i>								
2.25	Deferred tax provision	(442.564)	56.6				(0.2)		(386.2)
2.26	Deferred income - grants and contributions	(23.762)						23.8	(246.2)
2.27	Post employment assets / (liabilities)	-	(246.2)						(0.2)
2.28	Other provisions	(29.920)	26.5					3.2	(0.2)
2.29	Net Assets employed	<u>4,625.717</u>	(178.4)	(30.3)	(55.2)	-	-	-	<u>4,361.8</u>
	<i>Capital and reserves</i>								
2.30	Govt. loans	3,325.340							3,325.4
2.31	Income and Expenditure account	1,166.947	(178.4)	(30.3)	(55.2)				903.0
2.32	Other reserves	133.430							133.4
2.33	Capital & reserves	<u>4,625.717</u>	(178.4)	(30.3)	(55.2)	-	-	-	<u>4,361.8</u>

## Scottish Water

Year ended 31 March 2013

## Reconciliation of Historic Accounts / M Tables to Consolidated Statutory Accounts (Company only)

<b>TABLE M2</b>			<b>IFRS adjustments:</b>			<b>Reallocations / Reclassifications:</b>			<b>Statutory Accounts (IFRS)</b>		
<b>Line</b>	<b>Description</b>	<b>Total</b>	IAS19 Pension / holiday pay	IAS16 Infrastructure assets/deprn	IFRIC12 PFI assets/ finance lease	Infra Renewals Prepayment	Deferred / Current tax presentation	Split <> Lyr	<b>Company</b>		
		<b>£m (3dp)</b>							<b>£m (1dp)</b>		
	Fixed Assets									<i>Non-current assets</i>	
2.1	Tangible Assets	5,047.228		(30.3)	399.7	(110.1)			5,306.5	Property, plant & equipment	
2.3	Investment - Other	37.723							37.6	Investments	
2.4	Total fixed assets	<b>5,084.951</b>							<b>5,344.1</b>		
	Current Assets									<i>Current assets</i>	
2.5	Stocks	2.156							2.2	Inventories	
2.6	Debtors	86.728	(16.5)						70.2	Trade & other receivables	
2.7	Cash at bank and in hand	245.494					0.9		0.9	Current tax asset	
2.10	Assets transferred to PPP contractors	39.373			(39.4)				245.5	Cash & cash equivalents	
2.12	Total current assets	<b>373.751</b>							<b>318.8</b>		
	Creditors: amounts falling due within one year									<i>Current liabilities</i>	
2.14	Infrastructure Renewals accrual	(110.112)				110.1					
2.15	Creditors	(308.190)	1.2					(1.3)	(i)	(308.3)	Trade & other payables
2.16	Borrowings (excl. Govt. loans)	(0.921)			(16.3)					(17.2)	Other loans & borrowings
2.17	Corporation tax payable	0.850					(0.9)				
2.19	Total creditors	<b>(418.373)</b>						(17.6)	(ii)	<b>(17.6)</b>	Provisions for liabilities
2.20	Net current assets	<b>(44.622)</b>								<b>(24.3)</b>	
2.21	Total assets less current liabilities	<b>5,040.329</b>								<b>5,319.8</b>	
	Creditors: amounts falling due after one year									<i>Non-current liabilities</i>	
2.22	Borrowings (excl. Govt. loans)	(1.514)			(399.2)					(400.7)	Other loans & borrowings
2.23	Other creditors	(61.700)						(15.6)	(i)	(77.3)	Trade & other payables
2.24	Total creditors	<b>(63.214)</b>								<b>(478.0)</b>	
	Provision for liabilities & charges										
2.25	Deferred tax provision	(443.258)	56.9							(386.3)	Deferred tax liabilities
2.26	Deferred income - grants and contributions	(16.866)						16.9	(i)		
2.27	Post employment assets / (liabilities)	-	(247.6)							(247.6)	Retirement benefit obligations
2.28	Other provisions	(45.467)	26.6					17.6	(ii)	(1.2)	Provisions for liabilities
2.29	Net Assets employed	<b>4,471.524</b>	<b>(179.4)</b>	<b>(30.3)</b>	<b>(55.2)</b>	-	-	-		<b>4,206.7</b>	<i>Net assets</i>
	Capital and reserves									<i>Equity</i>	
2.30	Govt. loans	3,266.840								3,266.9	Government loans
2.31	Income and Expenditure account	1,071.254	(179.4)	(30.3)	(55.2)					806.4	Retained earnings
2.32	Other reserves	133.430								133.4	Other reserves
2.33	Capital & reserves	<b>4,471.524</b>	<b>(179.4)</b>	<b>(30.3)</b>	<b>(55.2)</b>	-	-	-		<b>4,206.7</b>	

Scottish Water  
Year ended 31 March 2013  
Reconciliation of ratio calculations – Historic cost basis to IFRS Regulatory basis

	Delivery Plan historic cost basis £m	IFRS basis - 'pure' £m	<i>Infrastructure maintenance adj - add back</i> £m	IFRS Regulatory basis £m	<i>M Table refs / notes</i>
<b>From Cash Flow Statement</b>					
<b>Operating cash flow</b>	553.4	497.6	96.7	594.3	(i)
Tax paid	-	-		-	
Interest received	0.4	0.4		0.4	M6.4
	553.8	498.0	96.7	594.7	
<b>Interest paid</b>	(155.0)	(180.5)		(180.5)	(ii)
<b>Funds from operations</b>	<b>398.8</b>	<b>317.5</b>	<b>96.7</b>	<b>414.2</b>	
<b>Cash interest cover</b>	<b>3.6</b>	<b>2.8</b>		<b>3.3</b>	
<b>From Balance Sheet</b>					
Cash	245.5	245.5		245.5	M5.5 + M5.6
Government loans	(3,266.9)	(3,266.9)		(3,266.9)	M5.27
Other loans	(2.4)	(417.9)		(417.9)	(iii)
Retirement benefit obligations		(190.7)		(190.7)	M5.23
<b>Net debt</b>	<b>(3,023.8)</b>	<b>(3,630.0)</b>	-	<b>(3,630.0)</b>	
<b>FFO / net debt</b>	<b>13.2%</b>	<b>8.7%</b>		<b>11.4%</b>	
	<b>Actual</b> as reported in Q4 DPPR for 2012/13	<b>Actual</b> as calculated from IFRS statutory financial statements		<b>Actual</b> as calculated from IFRS Regulatory accounts - M Tables	

**Notes - M Table references/reconciliations**

M6.1	Net cash flow from operations	603.3
M6.2	Net cash changes in non-trade debtors & creditors	(9.0)
(i)	<b>Operating cash flow</b>	<b>594.3</b> (i)
M6.5	Interest paid	(155.0)
M6.6	PPP interest payable (IFRS)	(25.5)
(ii)	<b>Interest paid</b>	<b>(180.5)</b> (ii)
M5.10	Borrowings (excluding Govt loans) < 1 year	0.9
M5.19	Borrowings (excluding Govt loans) > 1 year	1.5
M5.28	PPP debt/lease (IFRS)	415.5
(iii)	<b>Other loans</b>	<b>417.9</b> (iii)

Reconciliation of Regulatory Accounts - current basis to IFRS basis

	Management / Historic cost accounts		IFRS adjustments				IFRS basis Regulatory accounts	
	SW-Reg	SW-NR	IFRIC 12 PFI	IAS 16 Infra	IAS 19 Hol pay	IAS 19 Pension	SW-Reg	SW-NR
	£m	£m	£m	£m	£m	£m	£m	£m
Turnover	1,053.0	2.5	-			-	1,053.0	2.5
Operating costs	(349.3)	(2.0)				(0.2)	(349.1)	(2.0)
PFI:	(0.6)						(0.6)	
- opex (team costs)								
- service fees	(149.4)		40.9				(108.5)	
Infrastructure charges								
- maintenance				(96.7)			(96.7)	
- IMC	(110.0)			110.0			-	
- depreciation				(13.8)			(13.8)	
Depreciation								
- non infra assets	(222.1)						(222.1)	
- PFI assets	(2.4)		(15.3)				(17.7)	
Amortisation of grants	0.9						0.9	
Gain on sale of assets	2.1						2.1	
Total expenditure	(830.8)	(2.0)	25.6	(0.5)	(0.2)	0.4	(805.5)	(2.0)
Operating profit	222.2	0.5	25.6	(0.5)	(0.2)	0.4	247.5	0.5
Interest	(154.4)						(154.4)	
- loans / deposits								
- PFI financing costs			(25.5)				(25.5)	
- IAS 19 pension (net)						(4.5)	(4.5)	
Net interest charge	(154.4)	-	(25.5)	-	-	(4.5)	(184.4)	-
<b>Profit on ordinary activities before taxation</b>	<b>67.8</b>	<b>0.5</b>	<b>0.1</b>	<b>(0.5)</b>	<b>(0.2)</b>	<b>(4.1)</b>	<b>63.1</b>	<b>0.5</b>
Taxation	-						-	
- current								
- deferred	3.5	(0.1)				(3.6)	(0.1)	(0.1)
Taxation	3.5	(0.1)				(3.6)	(0.1)	(0.1)
- total								
Retained profit for year	71.3	0.4	0.1	(0.5)	(0.2)	(7.7)	63.0	0.4



Reconciliation of Regulatory Accounts - current basis to IFRS basis

	Management / Historic cost accounts		IFRS adjustments				IFRS basis	
	SW-Reg	SW-NR	IFRIC 12 PFI	IAS 16 Infra	IAS 19 Hol pay	IAS 19 Pension	SW-Reg	SW-NR
	£m	£m	£m	£m	£m	£m	£m	£m
<i>Assets - non current</i>								
Property, plant & equipment	5,047.2		399.7	(140.4)			5,306.5	-
Infrastructure Renewals prepayment / (accrual)	(110.1)			110.1			-	-
	4,937.1	-					5,306.5	-
Investments	34.7	3.0					34.7	3.0
	<b>4,971.8</b>	<b>3.0</b>					<b>5,341.2</b>	<b>3.0</b>
<i>Current Assets</i>								
Stocks	2.1						2.1	-
Trade & other receivables	86.3	0.5				(16.5)	69.8	0.5
Assets transferred to PFI contractors	39.4		(39.4)				-	-
Cash at bank and in hand	245.5	-					245.5	-
Total current assets	<b>373.3</b>	<b>0.5</b>					<b>317.4</b>	<b>0.5</b>
<i>Current liabilities</i>								
Trade & other payables	(310.4)	2.2			(2.2)	3.4	(309.2)	2.2
Other loans & borrowings	(0.9)		(16.3)				(17.2)	-
Corporation tax payable	0.9						0.9	-
	<b>(310.4)</b>	<b>2.2</b>					<b>(325.5)</b>	<b>2.2</b>
Net current assets	62.9	2.7					(8.1)	2.7
Total assets less current liabilities	<b>5,034.7</b>	<b>5.7</b>					<b>5,333.1</b>	<b>5.7</b>
<i>Non current liabilities</i>								
Other loans & borrowings	(1.5)		(399.2)				(400.7)	-
Other payables	(61.7)						(61.7)	-
	<b>(63.2)</b>	<b>-</b>					<b>(462.4)</b>	<b>-</b>
<i>Provision for liabilities &amp; charges</i>								
Deferred tax provision	(442.5)	(0.8)					(442.5)	(0.8)
Deferred income - grants and contributions	(16.9)						(16.9)	-
Retirement benefit obligations	-					(190.7)	(190.7)	-
Other provisions	(45.5)					26.6	(18.9)	-
<b>Net assets</b>	<b>4,466.6</b>	<b>4.9</b>	<b>(55.2)</b>	<b>(30.3)</b>	<b>(2.2)</b>	<b>(177.2)</b>	<b>4,201.7</b>	<b>4.9</b>
<i>Government loans</i>								
Government loans	3,266.9						3,266.9	-
Retained earnings	1,066.3	4.9	(55.2)	(30.3)	(2.2)	(177.2)	801.4	4.9
Other reserves	133.4						133.4	-
	<b>4,466.6</b>	<b>4.9</b>	<b>(55.2)</b>	<b>(30.3)</b>	<b>(2.2)</b>	<b>(177.2)</b>	<b>4,201.7</b>	<b>4.9</b>