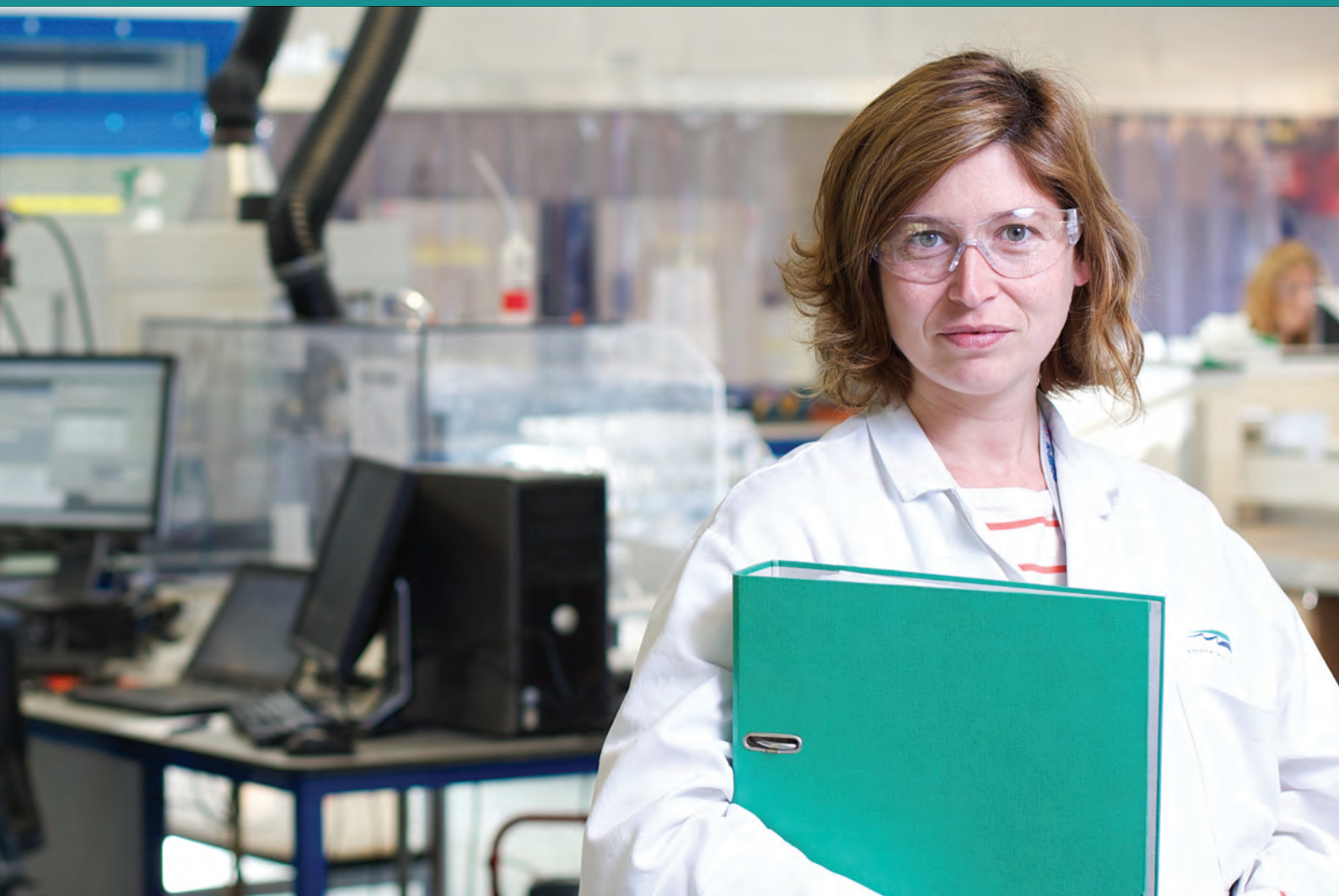




COMPANY ANNUAL PERFORMANCE REPORT AND REGULATORY ACCOUNTS **2013**



South West Water is the water and sewerage provider for Cornwall, Devon and parts of Somerset and Dorset.

The Company Annual Performance Report 2013 is a summary of South West Water's performance against its regulatory targets for the third year of the five year K5 funding period (2010-2015).

The Regulatory Accounts for the year ended 31 March 2013 are included within this report.

To view our report online visit
southwestwater.co.uk/report2013

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Key Performance Indicators (KPIs)

Overall company performance is tracked using KPIs. The suite of indicators within this report are those used by the company to monitor performance, and incorporate those identified by the Water Services Regulation Authority, Ofwat in their publication "Delivering proportionate and targeted regulation – Ofwat's risk based approach".

Each KPI is presented with a performance status

- **Green** – performance is in line with expectations or better than expectations
- **Amber** – performance is not in line with expectations but has only slipped slightly
- **Red** – performance is below expectations

For those KPIs where performance is amber or red, an indication is given as to how the company is managing the risks in this area and aiming to return performance to target levels.



EXECUTIVE SUMMARY OF 2012/13 PERFORMANCE

At the core of South West Water's strategy is the company's commitment to delivering the services its customers depend on, in the most cost effective and sustainable way possible.

South West Water targets industry-leading performance in all areas of its operations. This is reflected in the 'Pure Water, Pure Service and Pure Environment' vision.

In 2012/13, against the backdrop of extreme weather events, South West Water's robust operational performance was underpinned by strong financial results and improvements in customer service.

The company achieved:

- ongoing outperformance of efficiency targets
- 16th consecutive year without water restrictions
- near-perfect drinking water quality
- best ever waste water treatment standards
- leakage control on target
- further increase in customer service score
- improved standards in health and safety.



A significant proportion of the company's 2012/13 capital investment programme was focussed on retaining, and building on, South West Water's industry-leading drinking water quality record.

PURE WATER

South West Water's customers consider a reliable supply of safe, clean drinking water to be their number one priority.

In 2012/13, South West Water once again achieved a near-perfect standard (99.97%) for drinking water quality, as measured by Mean Zonal Compliance. The company was able to deliver a 16th consecutive year without water restrictions despite some of the driest conditions in decades in early 2012 (in April the Environment Agency declared a state of environmental drought for the region), and performance in leakage control remained on target, as it has done every year since leakage targets were introduced.

The high standards South West Water continues to achieve in drinking water quality can be attributed to the company's ongoing investment in the maintenance and improvement of its drinking water treatment processes. A significant proportion of the company's 2012/13 capital investment programme was focussed on retaining, and building on, South West Water's industry-leading drinking water quality record. Furthermore, work continued to reduce taste, odour and discolouration issues.

South West Water's water resources position remains strong. Prior investment in the supply system, the use of pumped storage during winter 2011/12, and careful resource management ensured the company was well placed to avoid water restrictions during the dry weather in early 2012. In stark contrast, the extreme wet weather from April 2012 to early 2013 resulted in reservoir levels reaching near full capacity. The company is confident that 2013/14 will be a 17th consecutive year without water restrictions.

To enhance raw water quality and natural water storage in the landscape, South West Water remains committed to its award-winning flagship 'Upstream Thinking' programme of catchment management. Alongside the agricultural community and partner agencies, the company is working in specific catchment areas to promote and support sustainable water management through farm improvement schemes and the restoration of wetlands on Exmoor and Dartmoor. Including work carried out in 2012/13, the company has now delivered more than 160 farm improvement schemes and completed the surveying and preparatory work necessary for the restoration of 2,000 hectares of moorland by the end of K5.

South West Water's performance in leakage control also remained broadly on target in 2012/13. Pressure management activity and the use of remote technologies to improve the efficiency of leak detection teams are having a positive effect and the company continues to target a preventative, rather than reactive, approach to leakage and bursts.

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South West Water continues to adapt and innovate in order to respond to its customers' preferences.



Control Centre, Devon

PURE SERVICE

South West Water's goal is to deliver responsive and cost effective services that meet its customers' needs.

In 2012/13, the company continued its upward trend of improved customer service with a 5% increase in customer service score¹. This contributes to an 88% improvement over the K5 (2010 – 2015) period to date.

This success can be attributed to improvements made at an operational level in areas such as the prevention and reduction of water supply interruptions and the proactive steps South West Water has taken to improve its interactions with customers.

In 2012, South West Water introduced a new Customer Relationship Management system to further improve the experience its customers receive.

South West Water continues to adapt and innovate in order to respond to its customers' preferences and in 2012/13 the company expanded its web-based offerings to include online accounts, an enhanced social media presence, and a series of smartphone apps. Business customers are also benefitting from an expansion of the services offered through South West Water's rapidly expanding specialist 'Source for Business' function.

In 2012/13 the percentage of South West Water's domestic customers on a meter exceeded 75%. The company also began a programme of SMART metering, designed to improve the accuracy and efficiency of the billing system, while also benefitting customers by giving them a better understanding of how much water they are using.

South West Water continued to provide support for those customers with genuine affordability issues through a range of initiatives including ReStart and WaterCare+.

The company also became one of the few water and sewerage companies to offer a social tariff. From 2013/14 the means-tested 'WaterCare' tariff is expected to assist around 10,000 households that currently struggle to pay.

¹ Service Incentive Mechanism – takes into account a range of customer service measures including the results of customer satisfaction surveys



PURE ENVIRONMENT

Through investment in sustainable improvements and initiatives, South West Water strives to minimise the impact of its operations on the environment.

In 2012/13, a programme of targeted investment resulted in South West Water's waste water treatment standards reaching an all time high, with 97.1%² of waste water treatment works meeting the required criteria. While there was an increase in minor pollution incidents, the number of serious or significant pollutions was substantially reduced.

The extreme weather made 2012/13 a challenging year for some areas of the business. The region suffered extensive flooding, with homes, businesses and transport links affected by the one in 100 year³ wet weather conditions. The excess volume of surface water and river flooding put pressure on South West Water's waste water network and assets, increasing the risk of a pollution incident occurring and highlighting the need for further investment in flood protection.

The number of internal sewer floodings (in which sewage enters a building) totalled 266. Within this total, the number of repeat internal floodings rose significantly to 118 compared with 31 in 2011/12. Inevitably, a high proportion of floodings were caused by the sewerage system becoming overwhelmed by the sheer volume of water.

In areas worst affected, South West Water established 'flood surgeries' to help those affected. The company worked proactively with partner agencies to ensure the best use of resources and has subsequently carried out extensive assessment work to identify future investments that will mitigate the impact of such wet weather events.

With regard to carbon emissions, South West Water continues to target a reduction in emissions through a combination of energy efficiency measures (including pump refurbishments, asset optimisation and the use of remote technologies) and investment in renewable energy. The company delivered above-target energy savings and renewable energy generation during 2012/13, however the increased need for pumping on the waste side of the business during the extreme wet weather pushed energy usage and the resultant emission levels above those of the previous year.

There were zero clean water pollution incidents in 2012/13.

The company maintained its 100% satisfactory score for sludge disposal.

² Numeric Compliance score

³ As recorded by the Centre for Ecology and Hydrology

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South West Water remains ahead of target in delivering the required operating cost efficiency over the K5 period (2010-2015).



Supplier Forum 2013

EFFICIENCY

South West Water remains ahead of target in delivering the required operating cost efficiency over the K5 period (2010-2015).

The company is front end loading delivery of the required 2.8% per annum average operating cost efficiencies in K5 with an average 4.1% per annum delivered over the past three years.

South West Water's ongoing targeted savings programme delivered £3.5m of efficiencies in 2012/13, bringing the K5 total to date to £18.6m.

Areas targeted for specific improvements in 2012/13 included:

- Operational ways of working – integration of customer services management and asset improvements through our PUROS⁴ programme
- Energy procurement and usage – energy efficiency schemes alongside additional power generation through renewable sources
- Rationalising administration and support services
- Right-sourcing and innovative contracting – continued tenders to achieve the 'right price'.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations.

Expenditure for the K5 period to date is favourable compared with the Capital Incentive Scheme baseline⁵ and is targeted to achieve 5% outperformance of the Final Determination K5 capital programme⁶.

K5 outperformance

In previous K periods, South West Water has historically shared the benefits of financial outperformance with customers through re-investment of efficiency and accelerating capital expenditure.

The strong operational and financial outperformance in K5 to date allows financial benefits to now be shared with customers.

South West Water is therefore investing c.£60m in improving services to customers through:

- upgrading assets in key bathing waters by accelerating capital investment
- maintaining and enhancing sewers that were adopted as part of the private sewer transfer in October 2011
- tackling customer affordability through debt initiatives.

⁴ Phased Utilisation of Remote Operating Systems

⁵ Based on current published Construction Output Price Index (COPI)

⁶ Using 2009 Final Determination estimates of COPI



Construction of waste water storage tank, Lostwithiel, Cornwall, August 2012

SUMMARY OF PROGRESS AGAINST K5 CAPITAL PROGRAMME OUTPUTS

The 2009 Final Determination provided for total expenditure of £705m (2007/08 prices) over the five year period 2010-2015.

The key outputs are:

ACTIVITY	2010-2015	STATUS AT 31 MARCH 2013
Adequacy of water resources	Security of Supply Index to be maintained at 100	Security of Supply Index maintained at 100
Leakage control based on three year rolling average	Maintain at 84 Megalitres per day (ML/d)	84ML/d achieved in 2012/13
Asset performance above ground	Maintain stable serviceability	Maintained stable serviceability
Asset performance below ground	Maintain stable serviceability	Maintained stable serviceability
Discolouration	7 contacts per 1,000 population by 2015	3.9 contacts per 1,000 population
Drinking water quality	99.98%	99.97%
Improvement in delivery of drinking water quality	6 schemes	Programme on target
Catchment management and Mires	Variety of outputs on Exmoor and Dartmoor Mires and farmland catchment management	2,000 hectares surveyed on Exmoor with 100 hectares restored. 110 hectares being restored on Dartmoor. 161 farm schemes completed
Waste water quality	Complete investigations into priority substances, bathing & shellfish waters	Programme on target
Event Duration Monitoring on discharges impacting bathing and shellfish waters	Implemented by 2015	Programme on target
Investment to reduce operating costs: energy efficiency, renewable energy, and PUROS	Major contribution to target of 2.8% per annum operating cost reduction	Programmes on target, contributing to £18.6m cost efficiencies in K5 to date



Brokenbury Waste Water
Treatment Works



Gathering feedback from customers

OUTLOOK

The 2014 Price Review

Ahead of the 2014 Price Review, South West Water has taken a proactive approach to customer engagement as part of the business-planning process. Independently commissioned research to garner customers' priorities for the future has been complemented by an on and offline communications campaign featuring a bespoke 'WaterFuture' website and the development of an online engagement tool.

In December 2012 the company published its 25-year vision, designed to provide a context to the steps it plans on taking in 2015-2020. Published online and widely distributed to customers and stakeholder groups, the material was created in two formats – 'What's in the Pipeline 2015-2040' (a customer-orientated overview) and 'WaterFuture: Our Vision 2015-2040' (an extended version for audiences requiring more specific detail). Feedback on the documents is currently being collated.

An independently chaired 'WaterFuture Customer Challenge Panel' is also being consulted. Comprised of consumer representatives and customer, community, regulatory and environmental stakeholders, its role is to ensure the company's business plan reflects a sound understanding of customer and stakeholder opinion and that proposals for the 2015-2020 period are economically, socially and environmentally sustainable.





Exeter quayside, Devon

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South West Water supports, and is prepared for, further market development.

EXECUTIVE SUMMARY OF
2012/13 PERFORMANCE

The £50 Government Payment

First announced in Autumn 2011 and implemented in April 2013, the £50 Government Payment – an annual bill reduction of £50 for all eligible household customers – is recognition of the historic ‘unfairness’ associated with the bill impact of South West Water’s environmental clean-up over the past two decades.

Its announcement was welcomed by customers, regional media and MPs, many of whom had actively campaigned, alongside South West Water, for Government action on the issue.

The implementation of this reduction is now in place for 2013/14 charges. The bill reduction will directly benefit eligible household customers and will be passed straight through to them, having no impact on the regulatory and financial structure of the business.

Draft Water Bill

The Draft Water Bill focuses on facilitating market reform and competition and sets out a clear direction for evolutionary change within the industry. The retention of investor and customer confidence is noted as being key; sentiments which are echoed in Defra’s Strategic Policy Statement to Ofwat published in March 2013.

South West Water supports, and is prepared for, further market development. With the initial focus for reform in the business customer market, the company has expanded its services for business customers. Through ‘Source for Business’ a range of specialist advice and support measures are now available with dedicated account managers for individual clients. Water and energy audits, effluent management, laboratory services and project management are among the services offered.

PURE WATER

Spillway at Roadford Reservoir, Devon



Tottiford Reservoir, Devon

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Despite some of the driest conditions in decades during early 2012, South West Water was able to continue delivering unrestricted supplies to its customers for the 16th consecutive year.

PURE WATER

Drinking water quality

South West Water's ongoing investment in the improvement of drinking water treatment processes was reflected, once again, by an outstanding level of water quality (99.97%), as measured by Mean Zonal Compliance.

The company is also committed to minimising any taste, odour or discolouration issues. During 2012/13, progress was made with the mains rehabilitation programme and enhancements were carried out to the water treatment works at Prewley (Mid Devon) and Tottiford (South Devon).

South West Water also pioneered advanced oxidation using an innovative combination of UV light and hydrogen peroxide at Drift Water Treatment Works (West Cornwall).

A first-of-its-kind in the UK, this process helps remove naturally-occurring or man-made contaminants from raw water. This helps to protect drinking water from agricultural pollution while also improving its taste and reducing the amount of chlorine required for disinfection.

Water resources

In mid April 2012, the Environment Agency declared the whole of the region as being in a state of "environmental drought". This followed an 18 month period of well below average rainfall and the driest March in the UK since 1953. Consequently, river flows and groundwater levels at the beginning of April were exceptionally low.

Despite some of the driest conditions in decades during early 2012, South West Water was able to continue delivering unrestricted supplies to its customers for the 16th consecutive year.

Reservoir levels remained healthy – the strong storage position a direct result of pumped storage during winter 2011/12, investment in the supply system in 2011, and careful resource management.

By contrast, late April 2012 to early 2013 saw extremely high levels of rainfall, resulting in widespread flooding incidents across the country.

As a result, South West Water's reservoirs reached full capacity early in the season ahead of summer 2013. The company is confident of a 17th consecutive year without water restrictions.

South West Water's strategy is designed to make the most of existing resources. The company's long-term aim is to invest in the regional grid in order that water can be more efficiently moved to where it is needed most.

● ● ● KEY PERFORMANCE INDICATOR

MEAN ZONAL COMPLIANCE (%)

2012	99.97
2011	99.99
2010	99.97
2009	99.98
2008	99.98

● ● ● KEY PERFORMANCE INDICATOR

SECURITY OF SUPPLY INDEX

2012/13	100
2011/12	100
2010/11	100
2009/10	100
2008/09	97



Leakage inspector at Rock, Cornwall

● ● ● KEY PERFORMANCE INDICATOR

LEAKAGE ML LOST PER DAY

2012/13	84.2
2011/12	81.3
2010/11	83.7
2009/10	82.4
2008/09	84.2

Leakage control

In 2012/13 South West Water met its leakage target of 84ML lost on average per day.

The company expanded its pressure management activity to reduce water losses in the network, increased its use of remote technologies to improve the efficiency of its leak detection teams, and took steps to improve the analysis of flow data in order that potential problems can be identified more quickly.

South West Water works with its leak detection and repair partners to ensure that additional resources are in place, when necessary, to meet the challenge of extreme weather events. The company also continues to encourage customers to report leaks and bursts using on and offline systems, including via social media.

South West Water’s long-term strategy is to identify those pipes most at risk of a leak or burst and replace them before a problem occurs. This process is already being complemented by investment in innovative leak detection technologies.

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South West Water has demonstrated industry-leading leakage control since 1999.



Aerator demonstration at Wild Penwith soils event

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In 2012/13 more than 160 farm plans were delivered in the target catchments.

PURE WATER

Upstream Thinking

'Upstream Thinking' is South West Water's award-winning flagship environmental programme to improve raw water quality and natural water storage at source through catchment management initiatives.

There are two aspects to Upstream Thinking:

1. Working with farmers and landowners to reduce the amount of pollution and run-off entering the region's waterways.

South West Water has appointed local environmental charities, Westcountry Rivers Trust, Devon Wildlife Trust and Cornwall Wildlife Trust to work with landowners and farmers. The project includes farm visits, one-to-one advice, and the provision of grant funding for improvements, such as construction of new secure slurry storage and overwintering barns for stock.

The long-term benefits include:

- reducing the resources (e.g. chemicals) needed to intensively treat water
- increasing biodiversity
- reducing energy use for water treatment
- potentially delaying the need to upgrade water treatment works
- less contaminated water from catchment discharges to watercourses reaching bathing and shellfish waters.

In the five years 2010-2015, South West Water is targeting work in the Roadford, Wimbleball, Tamar Lakes, Otter, Fowey and Drift catchments.

In 2012/13 more than 160 farm plans were delivered in the target catchments.

2. Restoring wetland areas on the region's moors.

Using locally developed ditch-blocking techniques and other environmentally sensitive procedures, the partners involved in Upstream Thinking are working to re-wet the region's peatlands.

The benefits this will bring include:

- a more consistent flow of water downstream which reduces flood risk
- improved water quality with less sediment and discolouration
- reduced water treatment costs
- restored habitats for local wildlife (including insects, amphibians, otters, snipe and curlew)
- carbon capture and storage
- increased resilience to flash flows or mitigating their consequences.

In the period 2010-2015, South West Water is targeting the restoration of 2,000 hectares of mires on Exmoor. There is also a pilot project to restore c.110 hectares on Dartmoor.

To date, the area for restoration on Exmoor has all been surveyed with 100 hectares now restored. One third of the restoration work on Dartmoor has also been completed.

PURE SERVICE





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The company's long-term strategy is designed, first and foremost, to reduce the likelihood that customers will need to report a problem or issue.

PURE SERVICE

Customer satisfaction

In 2012/13 South West Water continued its upward trend of customer service improvement under SIM⁷ with a 5% increase on the previous year. This contributes to an 88% improvement since the beginning of K5.

The improvements in customer service in 2012/13 are particularly noteworthy given the circumstances within which they were delivered. In addition to the Private Sewer Transfer, which created, as expected, an increase in contacts regarding waste water issues, South West Water also had to manage the upsurge of customer contacts related to the floodings caused by the extreme wet weather.

Despite these challenges, the number of written complaints received continued to fall, reaching a five-year low of 4,246 – half that received three years ago.

The company's long-term strategy is designed, first and foremost, to reduce the likelihood that customers will need to report a problem or issue. In addition to ongoing improvements across the business at an operational level, this is being supported by an emphasis on multi-channel communications including the use of online information systems such as BeachLive (which provides real-time information on bathing water quality) and WaterLive (which provides updates, by postcode, on work underway in the local area).

⁷ Service Incentive Mechanism (SIM). This takes into account a number of customer service aspects including the number of written complaints received and the results of customer satisfaction surveys.

If a customer does need to make contact, South West Water is also taking steps to improve the experience they receive.

In June 2012, a new Customer Relationship Management system was introduced, designed to provide a faster, more integrated and better communicated approach to the resolution of any issues.

The intention is to expand its use in 2013/14 while continuing to encourage and promote web-based communications through avenues such as social media.

Customer assistance

South West Water continues to provide help and support to vulnerable customers. We provide priority services to customers who need extra help, for example the elderly, disabled, and those requiring large print /Braille bills or help in reading their meter.

Where customers have medical conditions necessitating a constant water supply, we arrange for water to be delivered in the event of interruptions to supply.

Our Priority Services Register is promoted in doctors' and dentists' surgeries and at Citizens Advice Bureaux. At 31 March 2013, we had 9,680 customers on the register.

● ● ● KEY PERFORMANCE INDICATOR

SERVICE INCENTIVE MECHANISM

2012/13	70.5
2011/12	66.9
2010/11	58.1
2009/10	37.6

● ● ● KEY PERFORMANCE INDICATOR

WRITTEN COMPLAINTS

2012/13	4,246
2011/12	4,518
2010/11	6,091
2009/10	8,766
2008/09	9,206

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South West Water actively promotes and supports water efficiency with its domestic and business customers.



99.9% of meters were read at least once during the year

● ● ● KEY PERFORMANCE INDICATOR

SUPPLY INTERRUPTIONS
HOURS/PER PROPERTY

2012/13	0.27
2011/12	0.62
2010/11	0.82

Interruptions

Over the last three years, South West Water has substantially reduced the average length of interruptions per customer.

The completion of the water mains rehabilitation programme has inevitably resulted in a reduction in the amount of planned interruptions.

Meanwhile, investment in asset renewal and the use of measures to limit the duration of interruptions (e.g. bypassing the damaged main using temporary hoses or using tankered water downstream of the burst) is also having a positive effect.

In the longer-term, South West Water's planned investment in the resilience of its drinking water network and in the duplication of strategic water mains will further reduce the risk and potential impact of interruptions. It is also our intention to adopt new technologies for mitigating their impact when there is a direct and cost-effective benefit to our customers.

Private sewer transfer

On 1 October 2011, the responsibility for private sewers and lateral drains which drain into a public sewer was transferred to the UK's water and sewerage companies.

This increased South West Water's sewer network by over 60%. During 2012/13, a year in which extreme weather placed significant pressure on the region's sewer network, the change in responsibility was a benefit to customers as they now receive assistance from South West Water for issues that they previously had to deal with.

Affordability

The unique geography of the region has historically resulted in above average bills for South West Water customers. This is due, in part, to the burden of the multi-million pound investment required for the clean-up and protection of one third of the country's bathing waters falling on a small fraction of its total population.

In a region with high house prices and below average incomes, South West Water recognises that affordability is an issue for some customers. We continue to consult with regulators, customer and stakeholders and offer a number of initiatives to assist those who genuinely struggle to pay their bills.

Alongside initiatives carried out in association with the Citizens Advice Bureau, these include:

- **WaterCare+ scheme** – which has now helped 11,691 customers through a benefits entitlement and tariff check, water audit and water efficiency measures

● ● ● KEY PERFORMANCE INDICATOR

REPEAT INTERNAL
FLOODING PROPS

2012/13	118
2011/12	31
2010/11	26

Internal sewer flooding

As a year of abnormally wet weather, 2012 saw a dramatic rise in the number of flooding incidents in the region.

River flows and groundwater levels both reached exceptionally high levels, increasing the likelihood of flooding for many homes and businesses.

The number of internal sewer floodings (an incident in which sewage enters a property) totalled 266. Within this total, there were 118 repeat internal floodings compared with 31 in 2011/12.

Inevitably, a high proportion of floodings were caused by the sewerage system becoming overwhelmed by the sheer volume of water.



Stakeholder engagement workshop



Source for Business advisor on site visit

- **ReStart scheme** – which has now helped 9,413 customers to reduce their debt through the incentivisation of regular payment patterns
- **WaterSure tariff** – for those in receipt of means-tested benefit or tax credit
- **Fresh Start Fund** – for one-off hardship cases.

In addition, South West Water is one of the few companies to have implemented a social tariff. From 2013/14, our WaterCare tariff is expected to assist around 10,000 households in the region. Eligibility will depend on an assessment of a customer's income and, where appropriate, a bill reduction will be made in order to enable them to pay.

Water efficiency

Recognising that water is a precious resource, South West Water actively promotes and supports water efficiency with its domestic and business customers.

In 2012/13 the company continued to deliver water efficiency initiatives, including:

- undertaking water use reviews for customers with affordability issues
- undertaking water use reviews with business customers
- providing free water-saving devices for household customers
- giving water efficiency material and educational talks to regional schools
- providing online guidance and advice.

Business customers

South West Water has continued to expand its relationships with commercial and other non-domestic customers (e.g. local councils, hospitals and other public bodies) during 2012/13.

Against the backdrop of difficult economic circumstances, the advice and assistance available from South West Water through 'Source for Business' is being well-received by the region's business community.

The Source for Business services include:

- dedicated contact routes to business customer specialists
- bill validation
- a named account manager for larger organisations
- effluent and process management
- laboratory and analytical services
- water and process efficiency advice
- advice on capital solutions
- project management through design and build to operation and maintenance.

Business customers continue to have access to a secure online system which tracks and displays consumption on their sites and South West Water's 'Business Accounts Online' also offers a water efficiency calculator with a free water audit.

PURE ENVIRONMENT



Stream on Bodmin Moor, Cornwall



Gannel estuary,
Cornwall

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South West Water will continue investing in the maintenance and improvement of our waste water treatment works and processes in order that they meet or exceed the standards set by our regulators.

PURE ENVIRONMENT

Waste water treatment

In 2012, South West Water's long-standing endeavours to raise the standard of the waste water it returns to the environment were reflected in its best ever compliance for the percentage of the population served by waste water treatment works that meet the required criteria⁸.

Another measure that looks at a much wider range of compliance parameters is Numeric Compliance of Waste Water Treatment Works (which gives equal weighting to small and large treatment works). Similarly, South West Water performed well, achieving a record high of 97.1%. This can be attributed to a programme of targeted investment in waste water treatment processes at 96 operational sites over the past 18 months.

For both these measures, performance is within the reference levels used to determine 'stable serviceability' (see page 25).

More stringent bathing, shellfish and river water quality standards are set to come into effect (including the Revised Bathing Water Directive which comes into force in 2015).

South West Water will continue investing in the maintenance and improvement of its waste water treatment works and processes in order that they meet or exceed the regulated standard.

This will include investment in areas such as phosphate and nitrate removal and in the resilience of our waste water treatment assets.

● ● ● KEY PERFORMANCE INDICATOR

POPULATION EQUIVALENT SANITARY COMPLIANCE (%)

2012/13	99.98
2011/12	99.57
2010/11	99.55
2009/10	99.70
2008/09	99.50

● ● ● KEY PERFORMANCE INDICATOR

SEWAGE TREATMENT WORKS NUMERIC COMPLIANCE (%)

2012/13	97.1
2011/12	92.4
2010/11	93.1
2009/10	91.7
2008/09	93.3

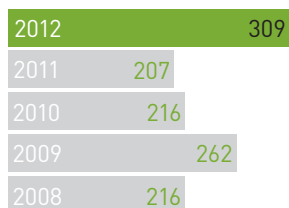
⁸ Population Equivalent Sanitary Compliance

South West Water's aim is to ensure there are no harmful pollution incidents.

PURE ENVIRONMENT

● ● ● KEY PERFORMANCE INDICATOR

TOTAL POLLUTION INCIDENTS



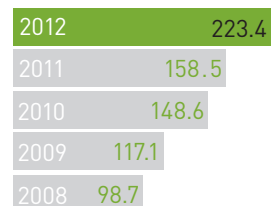
● ● ● KEY PERFORMANCE INDICATOR

WASTE WATER POLLUTIONS CAT 1-2/10,000KM



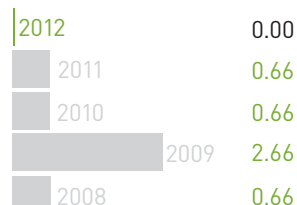
● ● ● KEY PERFORMANCE INDICATOR

WASTE WATER POLLUTIONS CAT 1-3/10,000KM



● ● ● KEY PERFORMANCE INDICATOR

CLEAN WATER POLLUTIONS* PER 10,000KM



*Pollutions caused by drinking water assets

Pollution control

In 2012, South West Water successfully avoided any Category 1 or 'major' incidents and saw a significant drop in the number of Category 2 incidents compared with the previous year (2011: 15; 2012: 4).

This can be attributed to the proactive work we have undertaken to improve our maintenance schedules, monitoring systems and response times, including the roll-out and expansion of BeachLive – which provides real time information on the operation of Combined Sewer Overflows (CSOs).

Our performance on Category 3 or 'minor/minimal' incidents was not as favourable. 202 incidents were recorded in 2012 compared with 131 in 2011.

South West Water considers all pollution incidents to be unacceptable and the Category 3 result for 2012 is regrettable.

However, the results do need to be considered in the context of the extreme wet weather. This inevitably put pressure on our assets and networks. Foul sewers and pumping stations, in particular, were affected, increasing the likelihood of a pollution incident occurring.

South West Water continues to invest in the maintenance and improvements necessary to reduce the risk of pollution and it is the company's aim to ensure there are no harmful pollution incidents.

In 2012/13 we continued with our programme of sewer rehabilitation and also created 1,200m³ of additional sewer storage in order to reduce the likelihood of sewers and waste water assets becoming overburdened during periods of extreme wet weather.



Sennen Cove, Cornwall



Bathing water quality

Our region has more designated bathing waters than any other in England and Wales, and in the past two decades South West Water has made significant investment to improve bathing water quality.

Extreme wet weather can adversely affect bathing water quality when heavy rain impacts on urban drainage and agricultural run-off. Heavy storms can also trigger the operation of combined sewer overflows (CSOs) in the sewerage system.

Despite the extreme weather and the associated run-off and flooding during 2012, 133 out of 146 (91%) of the region's bathing waters achieved the mandatory or 'good' standard.

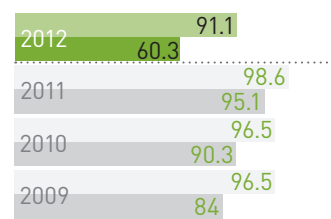
88 bathing waters also achieved the guideline or 'excellent' standard which is now being reported using stricter criteria than that of previous years.

Our long-term ambition is to enhance protection for bathing water quality through an innovative and holistic approach to waste water management.

In addition to investment in our assets and network (e.g. 'sewer separation' work to separate surface water from the waste water from homes and businesses), this 'Downstream Thinking' programme will include working with partner organisations to tackle all of the other issues that can impact on bathing water quality. These include urban drainage, agricultural run-off, birds and other wildlife, private sewers and misconnections.

● ● ● KEY PERFORMANCE INDICATOR

BATHING WATERS



■ Bathing waters good %
 ■ Bathing waters guideline %
 Change in reporting standard for 2012 bathing season (UK rather than EU criteria)





Drift Reservoir, Cornwall

● ● ● KEY PERFORMANCE INDICATOR

SLUDGE DISPOSAL
COMPLIANCE (%)

2012/13	100
2011/12	100
2010/11	100
2009/10	100
2008/09	100

Sludge

South West Water continues to recycle biosolids (treated sewage sludge) for use on agricultural land. Sludge recycling is a sustainable and well-regulated practice, and the company has strict quality assurance processes to ensure that regulations and guidance are fully met.

In 2012/13 South West Water recycled 45.3 thousand tonnes of sludge (measured as dried solids). The company's compliance with environmental requirements remained at 100%.

A number of steps to further reduce the amount of sludge processed and transported were taken. This included the completion of refurbishments to digestion facilities at Plympton and Kilminster in Devon, and improvements to sludge screening separation processes at South West Water's largest sludge treatment centre, Countess Wear in Exeter.

The company also successfully completed a new process trial at Exmouth Waste Water Treatment Works, designed to improve the reliability of the sludge stream process and improve the quality of the biosolids for recycling.

Energy and carbon

As one of the largest energy users in the region, South West Water has both an environmental and economic incentive to minimise its energy use and carbon footprint wherever possible.

In 2012/13, the unusually wet weather in the latter half of the year resulted in annual energy usage totalling 270GWh - around 10GWh above that of the previous year. While the wet conditions contributed to a drop of almost 10% in the amount of energy necessary for drinking water operations, the increased need for pumping on the waste water side of the business resulted in an energy usage increase of around 14%.

“

A number of steps to further reduce the amount of sludge processed and transported were taken.



Solar panels at Woolacombe, Devon



Roadford Reservoir, Devon

Energy efficiency

South West Water's energy efficiency measures achieved an above-target saving of 5.81GWh in 2012/13.

The company continues to target energy efficiency through its programme of pump refurbishments and replacements at both drinking water and waste water treatment sites. The optimisation of our assets and networks is also being complemented by the use of remote technologies to control processes and equipment from a central hub as part of our PUROS¹⁰ project.

In addition, South West Water's 'Powerdown' energy efficiency campaign promotes and supports company-wide energy efficiency. Together with lighting refits at several of our largest sites, including Restormel Water Treatment Works in Cornwall, the total energy saving made by Powerdown in 2012/13 was 1.93GWh.

Renewable energy

South West Water's goal is to have 30GWh of its energy usage supplied from renewable sources by 2015. In 2012/13 we made excellent progress, generating more power from renewables than ever before. In total, 19.3GWh was harnessed from a combination of solar, wind, hydro and combined heat and power from waste (CHP).

The extreme wet weather, while serving to increase our energy demand, was highly advantageous for our hydro power sites. We continue to invest in hydro power and other renewable technology.

Despite below average annual sunshine, South West Water's 24 existing solar PV installations performed well and we installed an additional seven schemes. Our wind turbine at Lowermoor Water Treatment Works also outperformed its target generation level for the year.

Greenhouse gas emissions

South West Water's energy strategy is designed to limit greenhouse gas emissions through a combination of energy efficiency and renewable energy schemes.

In 2012/13 our greenhouse gas emissions remained below the 2009/10 baseline of 161.7 ktCO₂e, however the demands placed on us by the extreme weather meant we were unable to meet our target level for the year.

● ● ● KEY PERFORMANCE INDICATOR

GREENHOUSE GAS EMISSIONS

2012/13	158.8
2011/12	152.7
2010/11	155.9
2009/10	161.7

RENEWABLE ENERGY GENERATION 2012/13: 19.3 GWH

SOLAR	1.13
WIND	0.3
HYDRO	13.9
CHP	3.96

⁹ Compared with 2011/12 figures

¹⁰ Phased Utilisation of Remote Operating Systems

ASSET MANAGEMENT

Serving a large number of small communities, many of which are based in coastal, rural or hilly locations, South West Water has the highest asset value per customer of any of the water and sewerage companies.

Following major improvements over the past two decades, the company's main investment focus is on the maintenance of its existing assets. This is complemented by the pursuit of innovative technologies and enhanced ways of working that deliver improvements in line with the company's long-term strategic aims.

Tunnel under Roadford Dam, Devon



Flood defences at Pynes Water Treatment Works, Devon



Apprentice Joe Farrant

The key challenge is to ensure that South West Water's assets are robust and resilient enough to continue delivering high standards now and into the future without impacting on stable prices for customers.

South West Water's Asset Management Policy sets out a number of strategies and tactics to ensure best practice methods and continuous improvement. These include:

- application of sound and effective asset management principles across the business
- development of a strong team of asset management specialists
- delivery of service and asset stewardship outcomes set out in the Strategic Direction Statement at the least whole life cost
- understanding and taking into account customer views and preferences
- maintenance of appropriate asset management records
- evolving practices and procedures in order to achieve continuous improvement in our application of the Common Framework principles.

Serviceability

Serviceability measures are used to monitor the performance of water and sewerage assets in delivering services to customers and protecting the environment.

A different set of measures is used for each asset group:

- water non-infrastructure (including compliance at treatment works and reservoirs)
- water infrastructure (including bursts, water pressure, water quality)
- waste water non-infrastructure (including levels of compliance at waste water treatment works)
- waste water infrastructure (including sewer collapses, pollutions, blockages, floodings).

South West Water's target is to maintain high levels of service to our customers and the environment, by maintaining 'stable serviceability', as assessed separately for each of 20 serviceability measures.

Serviceability cont.

If each of these measures is assessed as 'stable' then the assessment for that asset group as a whole is 'stable'. As can be seen from the following tables, we have achieved 'stable serviceability' for every one of the 20 measures, demonstrating that for all of these measures we have continued to deliver high levels of performance benefiting customers and protecting the environment.

● ● ● KEY PERFORMANCE INDICATOR

RELIABILITY AND AVAILABILITY	
	2012/13
Serviceability water non-infrastructure	Stable
Serviceability water infrastructure	Stable
Serviceability waste water non-infrastructure	Stable
Serviceability waste water infrastructure	Stable



Water non-infrastructure

The following table summarises the serviceability indicators for water non-infrastructure, with all indicators in control and meeting the criteria for stable serviceability. We have therefore assessed serviceability for these assets as stable.

SERVICEABILITY MEASURE	Stable
Water treatment works unplanned maintenance	✓
Water treatment works turbidity	✓
Service reservoirs coliforms detected	✓
DWI enforcement actions considered	✓
Water treatment works determinations containing coliforms	✓

Water infrastructure

The following table summarises the serviceability indicators for water infrastructure, with all indicators in control and meeting the criteria for stable serviceability. We have therefore assessed serviceability for these assets as stable.

SERVICEABILITY MEASURE	Stable
Mains bursts and leaks	✓
Customer discolouration contacts	✓
Distribution water quality index	✓
Iron mean zonal compliance	✓
Water supply interruptions over 12 hours	✓
Properties below water pressure reference level	✓

Waste water non-infrastructure

The following table summarises the serviceability indicators for waste water non-infrastructure, with all indicators in control and meeting the criteria for stable serviceability. We have therefore assessed serviceability for these assets as stable.

SERVICEABILITY MEASURE	Stable
Waste water treatment works unplanned maintenance	✓
Waste water treatment works failing LUT consents Population Equivalent	✓
Waste water treatment works failing numeric consents	✓

Waste water infrastructure

The following table summarises the serviceability indicators for waste water infrastructure, with all indicators in control and meeting the criteria for stable serviceability. We have therefore assessed serviceability for these assets as stable.

SERVICEABILITY MEASURE	Stable
Sewer collapses & rising main bursts	✓
Equipment failures	✓
Sewer blockages	✓
Floodings - sewer capacity	✓
Floodings - other causes	✓
Pollution incidents	✓

Overview of capital output and expenditure delivery for 2012/13.

AREA OF SERVICE	2012/13 £m Actual	
Water Service		
Maintenance Infrastructure	14.8	<p>Major areas of spend include: water distribution capital maintenance (£5.6m), communication pipes (£1.6m), Wimbleball reservoir development (£1.5m), mains rehabilitation (£1.4m) and DOMS (£1.4m).</p> <p>Renewal work on 30km of unlined iron mains in 3 water into supply zones has begun with 2.25km delivered in the year.</p> <p>DG2 (properties at risk of receiving low pressure) 185 a reduction of 14 on last year; target for K5 is 170</p> <p>Leakage level = 84ML/d, meeting the target, refurbished or new district control meters & pressure control valves</p> <p>Serviceability 'stable'</p>
Maintenance Non-Infrastructure	21.9	<p>Major areas of spend include: water treatment works maintenance (£5.4m), leakage (£2.5m), Information Services (IS) (£2.0m), meter replacements (£1.7m) and pumping stations maintenance (£1.4m).</p> <p>Pumping station maintenance includes a completed scheme at Littlehempston (£0.6m)</p> <p>Serviceability 'stable'</p>
Quality	3.8	<p>Water treatment improvements (£1.2m) including Restormel granular activated carbon pesticide control (£0.9m)</p> <p>Catchment management programme (£2.0m)</p> <p>Overall water quality consistently high (99.97% Mean Zonal Compliance in 2012 calendar year)</p>
Supply & Demand	6.5	<p>Mains requisitions (£2.7m) 31.73km laid, 5,088 new connections</p> <p>Meter optants (£3.2m) 12,631 free meters installed compared to a Final Determination assumption of 15,630</p>
Enhanced Service Levels	2.2	<p>Investment in the PUROS programme (£2.0m): energy saving initiatives (£0.7m), optimisation (£0.4m) and integration and performance initiatives (£0.4m)</p>
TOTAL CLEAN WATER	49.2	

AREA OF SERVICE	2012/13 £m Actual	
Waste Water Service		
Maintenance Infrastructure	16.7	Capital maintenance on the sewer network (£14.0m): 5.1km sewers replaced, 31.82km sewers renovated Sewer collapses 136, a reduction of 23 from last year Sewer blockages 3,552 a reduction of 42 from last year Serviceability 'stable'
Maintenance Non-Infrastructure	41.3	Major areas of spend include: sewage treatment works maintenance (£21.7m) including targeted spend on up to 98 sites, sewer pumping station maintenance (£5.3m), IS (£2.0m), PUROS (£1.9m) and sludge treatment works maintenance (£1.8m) Waste water sanitary population equivalence compliance achieved 99.98% % of sewage sludge produced and managed in a satisfactory way 100% Serviceability 'stable'
Quality	9.5	Quality investments (£4.4m) including major planned schemes at Lostwithiel (£1.5m), Nanstallon (£1.0m) and Fowey (£0.6m) SEMD (£1.7m) Dry weather flow (£1.6m) including investment at Gratton (£0.9m)
Supply & Demand	8.6	Waste water treatment works - growth (£2.4m): including Plymouth Central (£1.0m) and Countess Wear (£0.8m) New development (£2.3m): Cranbrook new town Sewer mains requisitions (£1.3m) 4,673 property connections
Enhanced Service Levels	2.6	Investment in the PUROS programme (£2.0m): energy saving initiatives (£0.9m), optimisation (£0.4m) and integration and performance initiatives (£0.4m)
New Obligations	7.1	Costs associated with enhancement and maintenance of private sewers transfers in October 2011 (£6.7m), cost of Plymouth bathing waters scheme (£0.4m)
TOTAL WASTE WATER	85.8	
TOTAL CAPITAL PROGRAMME	135.0	

Capital efficiencies of £17.6m (11%) have been delivered in 2012/13. Efficiencies have been delivered across the programme investment areas. These efficiencies are after adjusting for changes in the timing and level of activities within the investment programme. The main differences in timing of expenditure within the 2010-2015 period are associated with investment in infrastructure to support new towns in Devon.

The capital efficiencies are based on the expectations for COPI inflation that were assumed in the 2009 Final Determination. Up to 2012/13, actual COPI inflation has been 7% below these assumptions.

FINANCIAL PERFORMANCE

Total turnover from the appointed business increased by 5.3% to £496.4m as a result of tariff increases and new connections, partly offset by an overall reduction in demand and the effect of customers switching to a metered tariff.

Approved tariff increases, including the 2.5% K factor, amounted to £38.1m, with an additional £1.5m generated by 5,100 new customer connections. As a result of both the extreme wet weather experienced in the South West in 2012, and a reduction in commercial demand as a result of the dampened economic climate, overall customer demand has fallen by 2.9% against last year.

Over 75% of South West Water's domestic customers are now benefitting from a metered supply (2012: 73.4%). An additional 12,600 customers (2012: 16,381) chose to switch to metered supply and enjoyed lower average annual bills of £445 as a result.



Operating costs

Total appointed business operating costs (including depreciation) rose by £10.1m to £279.2m. Overall cost increases were ahead of the 3.1% average inflation for the financial year, at 3.9% (£9.3m), but were in part offset by £3.5m of efficiency savings delivered in the year. Cumulative cost increases over the K5 period to date remain lower than average RPI for the same period.

Other key drivers were:

- additional costs from new capital schemes
- other cost changes including increased cost of sales and non-recurring items.

There have been no changes of policy in respect of historical or current cost depreciation and the infrastructure renewals charge. In accordance with regulatory accounting guidelines the current cost revaluation of fixed assets undertaken as at 31 March 2008 (and reflected in the PR09 business plan) remains the basis for the 2012/13 results. The total historical cost depreciation charges increased by £1.2m to £79.7m (2011/12: £78.5m) reflecting the impact of the company's capital expenditure programme on maintenance works.

The infrastructure renewals charge increased by £1.3m from £31.6m to £32.9m. This is in line with the average of the past five years and projections for the next ten years, as deemed appropriate by the company and in line with regulatory accounting guidelines.

South West Water's programme of organisational restructuring was weighted towards the beginning of K5. Ongoing operational and organisational changes continue with £0.5m (2011/12: £2.5m) incurred in the year.

Profit on property and equipment disposals in the year contributed £1.4m in operating income, a slight increase from £1.1m in 2011/12 that reflects the slowly improving conditions in the property market.

The charge for bad and doubtful debt increased in the year by £1.6m from £15.1m to £16.7m. During the year £9.1m (2011/12: £6.6m) was written off against the provision, of which £2.5m relates to personal and commercial bankruptcy, and £1.1m related to the company's ReStart programme, a customer affordability initiative.

Efficiency

The company has continued to deliver operating cost efficiencies above the average 2.8% per annum required during the K5 period (2010-2015). To date £18.6m of operating cost efficiencies, representing an equivalent annual reduction of 4.1%, have been delivered through

- changing operational ways of working, particularly PUR0S
- right-sourcing and innovative contracting arrangements
- reduced energy usage and smarter energy procurement
- rationalisation of administration and support services.

The pension cost charged to the profit & loss account is lower than the Final Determination figures, due to the adoption of FRS17 in the regulatory accounts.

Net interest payable

Net interest payable remained broadly in line with the prior year at £63.2m (2011/12: £63.3m), reflecting the lower interest on RPI index-linked bonds (resulting from a change in rates from 5.2% to 2.8%).

The transfer and termination of the RBS 2002 Lease has resulted in an exceptional net gain of £12.5m

Net debt increased by £15.5m during the year, reaching a total of £1,600.4m. The increase reflects the dividends payable, offset in part by lower capital spend and increased profits for the year (including exceptional items).

Tax

The overall tax charge for 2012/13 was £33.2m, a decrease of £4.1m from the 2011/12 charge of £37.3m.

The current tax charge, including group relief, for the current year of £40.5m is an increase of £9.8m on the prior year. The increase is primarily as a result of the increase in profit, the reduction in pension contributions compared to the prior year, mitigated by the reduction in corporation rates. The current tax charge in relation to prior years of £4.1m is increase of £7.1m on the prior year. This increase is due to changes in management's estimation of tax payable together with the agreement of items previously provided for.

Deferred tax for the year was a credit of £11.4m (2011/12: charge £9.6m). The deferred tax credit includes a £3.7m credit from the impact of the reduction in the rate of corporation tax for future years. It is envisaged that the future reduction in corporation tax rates included in the Finance Bill 2013 will, when enacted, result in further reductions in the deferred tax provision.

Dividends and reserves

Dividends of £133.0m were paid to the parent undertaking (2011/12: £77.9m), representing a base dividend of £65.8m and £67.2m of outperformance dividend based on two years cumulative performance to 2012/13. The dividend was calculated with reference to the projections in the Ofwat 2009 Final Determination.

The company has established a dividend policy, which involves the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholder's investment and the cost of capital
- a further level of growth funded by efficiency outperformance
- consistency with the assumptions made by Ofwat in setting prices for the K5 period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations. Payments are also designed to ensure that the ability of the Appointee to finance its Appointed Business is not impaired.

Capital expenditure

Capital additions for the year were £100.9m, reduced from £108.5m in 2011/12. The focus for the programme remains weighted towards the maintenance of our existing assets; increasing the resilience of our infrastructure; and delivering environmental improvements. Although the emphasis for the K5 capital programme has been maintenance, the mix of the overall programme has shifted further towards this area, and accounts for 75% of the 2012/13 spend (2011/12: 74%).

South West Water allocates capital expenditure between water and waste water activities.

Investments during the year include improvements at waste water works targeting compliance, innovative investments to reduce flooding for those customers previously highlighted at risk, a programme of sewer rehabilitation and clean water network improvements targeting reliability, water quality and security of supply and improvements to private sewers.

South West Water is continuing with asset enhancements enabling changed operational ways of working through the PUROS programme.

Whilst the overall capital spend has reduced, legislative or regulatory specific outputs have not been affected.

Cash flow

Net cash flow from operating activities for the appointed business was £323.0m (2011/12: £278.7m). Higher profits, lower capital expenditure and favourable movements in working capital contributed to the decrease, offset in part by higher dividends payable to the parent undertaking.

Cash and deposits totalled £234.4m at 31 March 2013, a decrease of £43.9m, as a result of the repayment of a £75m lease.

South West Water does not have a credit rating therefore no credit rating is included within this report.

Key financial indicators

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover for 2012/13, at 2.3, is both within the required levels for financial covenants and in line with expectations.

Regulatory Capital Value (RCV) is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review. The RCV at 31 March 2013 equalled £2,915.7m, representing an increase of £88.7m (3.1%) in the year. The RCV at 31 March 2012 was £2,826.8m.

As a result, South West Water's net debt to RCV has decreased to 55%, remaining in line with Ofwat's optimum range of 55% to 65%.

Post-tax return on Capital for 2012/13 was 6.4%, reflecting current cost operating profit net of current tax as a proportion of RCV.

Financial needs and resources

South West Water has robust treasury policies in place. These included policies that there are always pre-drawn or committed facilities to cover at least one year's estimated cashflow, and that no more than 20% of borrowing matures in any one year. The treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs, maintain reasonable headroom for contingencies and manage interest rate risk. It operates within policies approved by the Board and does not undertake any speculative trading activity.

Funding facilities are in place to cover both medium and long-term requirements, including loans from the European Investment Bank (EIB) and finance leasing arrangements. In addition, short-term facilities exist with a range of financial institutions.

Undrawn short-term committed credit facilities in place at 31 March 2013 totalled £105m (2012: £140m). The Company also has short-term uncommitted bank facilities of £25m (2012: £50m).

Approximately 24% of South West Water's debt is index-linked.

Derivatives, usually interest rate swaps, are used to manage of fixed and floating rate debt, following the Pennon Group treasury policy that at least 50% of South West Water's debt is fixed for a regulatory period. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and do not, therefore, constitute an exposure for the company.

South West Water has entered into covenants with lenders. Whilst terms vary, these typically provide for limits on gearing (primarily based on Regulatory Capital Value) and interest cover.

Redemption penalties included in the facility documentation can be invoked if debt facilities are redeemed early. The redemption penalties vary in each facility.

The Board regularly monitors the company's expected financial requirements for the next 12 months. These will be met from existing cash balances, loan facilities and cashflows for the coming year.

The company has considerable financial resources and operatives in a relatively stable, regulated business environment. Consequently the Directors believe that the company is well positioned to manage its business risks successfully despite continued current economic downturn.

OFWAT KEY PERFORMANCE INDICATORS (KPIs)

KPIs are used to monitor overall company performance.

The KPIs throughout this report include those identified by the Water Services Regulation Authority, Ofwat in their publication "Delivering proportionate and targeted regulation – Ofwat's risk based approach".

The Ofwat KPIs and corresponding sections are listed below:

CUSTOMER EXPERIENCE

	2011/12	2012/13	
SIM Total Score Points	66.9	70.5	see page 15
Internal sewer flooding repeats	31	118	see page 16
DG3 supply interruptions hrs/prop	0.62	0.27	see page 16

RELIABILITY AND AVAILABILITY

	2011/12	2012/13	
Serviceability water infrastructure	Stable	Stable	see page 26
Serviceability water non-infrastructure	Stable	Stable	see page 26
Serviceability waste water infrastructure	Stable	Stable	see page 26
Serviceability waste water non-infrastructure	Stable	Stable	see page 26
Total leakage MI/d	81.3	84.2	see page 12
Security of supply index	100	100	see page 11

ENVIRONMENTAL IMPACT

	2011/12	2012/13	
Greenhouse gas emissions ktCO ₂ e	152.7	158.8	see page 23
Sewerage pollution incidents Cat 1-3/ per 10,000km sewer	158.3	223.4	see page 20
Serious sewerage pollutions Cat 1-2/ per 10,000km sewer	17.35	4.34	see page 20
Sewage Treatment Works numeric compliant %	92.1	97.1	see page 20
Sludge disposal satisfactory %	100	100	see page 22

FINANCIAL




	2011/12	2012/13
Post-tax return on capital %	5.4	5.0
Gearing %	56	55
Interest cover	2.1	2.3

PRINCIPAL RISK AND UNCERTAINTIES



The following have been identified from South West Water's risk management process as potentially having a material adverse effect on its business, financial condition, results of operations and reputation. They are managed as described but are not wholly within our control and may still result in a material adverse impact on the company. Factors beside those listed could also have a material adverse effect on our business activities.




KEY


 Unchanged during the year
  Increased during the year
  Decreased during the year




RISK	COMMENTARY	MITIGATION
Regulatory		
Uncertainty arising from Regulatory Reform 	2012/13 has seen the modification of company Licences in preparation for the next price review and a number of methodology change proposals. Defra issued its Strategic Policy Statement to Ofwat (the Economic Regulator) in March 2013, outlining direction and priorities. Within that context, Ofwat is reforming the regulatory approach.	South West Water has contributed fully to the consultation on regulatory reform, and has had dialogue with regulators and stakeholders in order to effectively portray its views. Methodology changes will continue to be considered over the coming months in the lead into the next price review.
Legislative & regulatory compliance (Company performance reporting) 	As a regulated business South West Water is subject to numerous and changing obligations with which we must comply. The company pays particular attention to management of risks in these areas.	Performance against key regulatory outputs are reported to the Board on a monthly basis and where performance falls short, corrective programmes are developed and implemented to target recovery in a specific area. Internal monitoring and assurance programmes are undertaken through the year and annual data is supported by external verification through the company auditors to provide assurance on the company's compliance with its obligations.
New regulations, obligations & standards could increase costs 	Issues are addressed through the five year regulatory price review mechanism; obligations which arise within price control period such as Private Sewers and Bathing Water Obligations are funded through future adjustments to price limits.	SWW continue to manage all cost pressures as they arise in addition to achieving operating cost efficiencies and managing inflationary increases.

**PRINCIPAL RISKS AND
UNCERTAINTIES**


RISK	COMMENTARY	MITIGATION
Economic Conditions		
Non-recovery of customer debt and affordability 	<p>Customer debt and affordability are key areas of focus given the continued challenging economic conditions.</p>	<p>In addition to existing strategies, which are kept under review, South West Water continues to implement new initiatives to improve and secure cash collection through:</p> <ul style="list-style-type: none"> • use of third party collection agencies • external trace data to track down previous occupiers • developing a new strategy for previous and earlier debt collections • working with social housing partners • continued use of property charging orders. <p>The company has also continued to fund and promote ways to help customers struggling to pay bills (WaterCare, Restart, Fresh Start Fund) which seek to reduce bad debt exposure.</p> <p>In addition South West Water is one of the few companies to have implemented a social tariff following the introduction of our WaterCare tariff from 2013/14. This tariff is designed to assist around 10,000 households in the region by reducing their bills to an amount they can better afford to pay. The reduced charges are based on assessing the income of qualifying customers.</p> <p>The Government's commitment to tackle the 'unfairness' issue for South West Water customers, in which 3% of the population are effectively paying for 30% of the UK's bathing waters, has resulted in household customer's bill being reduced by £50 per annum from 2013/14.</p>
Loss of revenue 	<p>South West Water revenue can be impacted by changes in customer demand and other income streams.</p> <p>The company has c.75% of its customer base metered and as a result the revenue from main charges can be volatile from changes in customer usage which can be affected by:</p> <ul style="list-style-type: none"> • abnormal weather impacts • increased water efficiency • recession impacting commercial customers. 	<p>The financial impact of changes in customer demand is mitigated through the Revenue Correction Mechanism, whereby shortfalls in revenue in one five year regulatory pricing period are adjusted in the following period.</p> <p>A number of South West Water's other income streams are vulnerable to the downturn in economic activity, particularly in the property market affecting new connections, and searches and other developer activity.</p> <p>In addition the non-appointed area where growth is targeted is challenging.</p>
Financial loss arising from insolvency of a major supplier 	<p>South West Water does not have material exposure to payment before receipt of goods and services.</p>	<p>The company uses third party credit monitoring services to identify changes to major suppliers' financial status and creditworthiness to supplement an annual risk review of key and strategic supplier.</p>

RISK	COMMENTARY	MITIGATION
Finance and Funding		
Company may be unable to raise sufficient funds to finance its functions 	<p>Access to finance and funding costs may be adversely affected by perceived credit rating and prolonged periods of market volatility or liquidity. There are covenant limits and restrictive obligations on borrowing and debt arrangements.</p>	<p>Pennon Group and South West Water have robust treasury policies in place. These include policies that there are always pre-drawn or committed facilities to cover at least one year's estimated cashflow and that no more than 20% of borrowing matures in any one year. The company utilise a range of facilities including long and short term leases, loans and Bonds.</p> <p>The company is well placed for the funding requirements for the remainder of the K5 period.</p>
Pension costs may increase and investment performance may affect the defined benefit scheme assets and increase the pension scheme deficit 	<p>All defined benefit schemes have been closed to new entrants and replaced by defined contribution arrangements.</p>	<p>Employee and employer contributions are kept under review and a formal actuarial valuation is being undertaken as at 31 March 2013. Indications are that the actuarial deficit has increased since the last valuation in 2010.</p> <p>Pension trustees keep investment policies under review and use professional investment advisers to target maximum investment returns.</p>
Operating Performance		
Non-compliance or avoidable H&S incident occurs 	<p>South West Water is committed to achieving the appropriate level of health and safety compliance. This year has seen the continued delivery of the behavioural safety programme badged 'TAP' and included safety leadership training for a number of staff and the use of a safety coach roles. In addition senior management visits are completed during the year across a number of sites.</p>	<p>The number of RIDDOR accidents for 2012 has fallen by over 50% with 7 incidents reported in the year compared to 20 in 2011(1)</p> <p>Continuous training is being provided to ensure that appropriate health and safety working practises are embedded and this reducing trend continues.</p> <p>Formation of the accident review panel to ensure thorough investigations of root causes and consistent approach to RIDDOR management is adopted.</p> <p>(1) Criteria for RIDDOR reporting has changed in 2012. The number of incidents in 2011 would be restated to 16 if changes in RIDDOR reporting were applied to the prior year.</p>
Operational failure at clean and waste water sites 	<p>Due to the nature of South West Water's business there are continued risks arising during the normal course of business, including risk of failure of assets, processes or systems which could otherwise impact on the health, safety and security of our people or customers, or on our financial position and our reputation.</p>	<p>The company is able to monitor its significant assets by automated and remote operation and has routine controls and operating procedures in place that are constantly kept under review. Asset management techniques are employed to pre-empt the failure of assets.</p> <p>Where issues do arise there are appropriate contingency plans to deal with such instances and these are updated through experiences of such events.</p>
Contamination of water supplies 	<p>South West Water has established procedures and controls in place, as well as contingency plans and incident management procedures.</p>	<p>It also maintains insurance policies in relation to these risks, although there can be no assurance that all or any of the costs associated with these risks would be covered or that coverage will continue to be available in the future.</p>

RISK	COMMENTARY	MITIGATION
Operating Performance		
Extreme weather and climate change 	<p>2012 has been a challenging year in terms of weather impacts. The continued dry weather from 2011 into the early part of 2012 placed pressure on our water resources. This was followed by a period of extreme rain – our wettest Spring/Summer in 100 years which placed significant pressure on our network and resulted in higher levels of flooding incidents.</p>	<p>The business is and has been well placed to manage such extreme incidents. Key mitigation is having detailed contingency plans, sufficient emergency resources and a capital programme that supports ongoing efforts to manage these risks.</p> <p>In the longer term the impacts of climate change are being considered. The company has plans ready and will adapt the way it conducts its business to respond effectively to the hotter, drier summers and wetter winters which are anticipated.</p>
Pollution Events 	<p>South West Water is committed to minimising the impact on the environment.</p>	<p>As a result of the extreme weather during the year the number of acute pollution incidents has increased from the prior year. Whilst this is regrettable the number of more serious incidents has fallen from the prior year.</p>
Increased flooding incidents 	<p>The extreme wet weather during the year has resulted in a significant increase in the number of flooding incidents, particularly in July and November, both for customers and at South West Water sites.</p>	<p>The company has identified targeted capital investments to reduce the risk to specific customers in key affected areas.</p>
Water resource adequacy 	<p>South West Water has a number of schemes in place to maintain water resources (such as pumped storage for certain reservoirs) and promotes conservation measures and customer water efficiency measures.</p>	<p>Whilst there has been a strong recovery in our water resources, as a result of the extremely wet weather seen over spring/summer 2012, the company continues to monitor the reservoir levels to maintain sufficient water resources for the drier periods seen in recent years.</p> <p>South West Water also considers the longer term resource situation and prepares a new Water Resources Management Plan every five years and reviews it annually for a range of climate change and demand scenarios. The Draft Water Resources Management Plan for 2015-2040 has recently been published. The plan indicates that the company has a surplus of resources through to the horizon of 2040. However, investment is needed to develop the overall trunk main infrastructure, to expand treatment capacity and to enhance certain pumped storage facilities.</p>

RISK	COMMENTARY	MITIGATION
Operating Performance		
Poor service provided to customers 	Customer service remains paramount to South West Water and the company focuses on improving customer satisfaction and reducing customer complaints.	The company has delivered significant improvements in customer service during K5 with a 51% reduction in written complaints and 88% increase in the Service Incentive Mechanism (SIM) score. The continued improvement is being targeted.
	A financial penalty could be incurred by South West Water under Ofwat's Service Incentive Mechanism (SIM) for below average customer service performance.	While the company has seen improvements in customer service particularly through reduced written complaints, there remains uncertainty over South West Water's relative position in the industry and there is a continued strategy for 2013/14 in place to improve customer service further.
Failure to deliver operating cost efficiencies 	In line with its track record, South West Water remains confident of delivering the assumed operating cost savings.	The company has delivered cumulative operating cost efficiencies ahead of K5 targets.
Capital Investment		
Failure to plan and deliver the capital improvement programme 	South West Water may not carry out its capital programme within the price limits and with the efficiencies determined by Ofwat.	South West Water has a track record of delivering its capital programme in accordance with regulatory requirements and progress is regularly monitored and reviewed.
Market		
Uncertainty arising from market reform 	Whilst the Draft Water Bill recognised an approach to reform that was 'evolutionary' rather than 'revolutionary' the development of greater competition in the water industry could reduce South West Water's revenues.	<p>As part of the risk management and business strategic planning processes the company continues to evaluate developments and proposals for competition.</p> <p>South West Water is prepared for the development of retail competition for non-household customers during the next regulatory period and has developed enhanced services offered to commercial customers through Source for Business.</p>
Business systems		
Major failure of corporate IT systems 	There always remains a risk of interruption, failure or third party intervention that could have an adverse effect on the operations.	South West Water has well developed IT systems and continuity systems in place. These include a geographically separate alternative data centre, which is hosted by a third party communications provider, reducing the impact of any failure or disruption.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	COMMENTARY	MITIGATION
Reputation		
Loss of key stakeholder support and prolonged negative media campaign 	South West Water has a number of key stakeholders and aims to balance their needs (including our customers) with environmental responsibilities and legislative and regulatory obligations.	The company is committed to engaging with key stakeholders for both our long term strategy and coming regulatory period through our independently chaired WaterFuture Customer Panel which includes representatives from stakeholder organisations. In addition South West Water actively manages communications with customers and stakeholders both online and through social media.

Forward-looking statements

The Principal Risks and Uncertainties section contains forward-looking statements regarding the financial position; results of operations; cashflows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters.

These forward-looking statements, including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to South West Water, wherever they occur in this Principal Risks and Uncertainties section, are necessarily based on assumptions reflecting the views of South West Water, as appropriate.

They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this 'Principal Risks and Uncertainties' section.

RISK AND COMPLIANCE STATEMENT

The 2012/13 South West Water Company Annual Performance Report highlights company performance for the third year of the five year 'K5' funding period (2010/11 to 2014/15).

The use of key performance indicators (KPIs) in the report incorporates the metrics used by the South West Water Board and Ofwat, our economic regulator, to monitor business performance.

In line with Ofwat's regulatory reporting requirements, this risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.

The South West Water Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

Statutory obligations

The company has a number of statutory obligations including those detailed within the Water Industry Act, the South West Water Licence, and the Competition Act.

Since privatisation, the company has developed and established processes and procedures for ensuring obligations are adhered to in all material aspects. Compliance with obligations and performance against targets are outlined through regulatory reporting. Historically this has been highlighted in the June Return. Performance is now summarised in the Company Annual Performance Report and Regulatory Accounts.

The South West Water Board has received reports from the business detailing the applicable statutory Licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for 2012/13.

Customer expectations

The company has developed approaches and appropriate processes for engaging with customers to ascertain priorities and expectations.

The company continually gathers customer feedback and engages with customers in order to understand their expectations.

During this year South West Water has considered how communications adhere to Ofwat's information principles with the aim of ensuring information is accurate, transparent, clear, accessible and timely.

Our Codes of Practice meet Licence conditions G, H and I providing information to customers describing the nature of the services to domestic customers, giving guidance to domestic customers who have difficulty paying their bills and advising customers of their options and rights about the help available when they have a leaking supply pipe.

Our approach for producing and reviewing customer information are consistent with OFWAT's Information principles. Customer research and feedback is acquired through our quarterly tracking survey and on specific topic areas to support the quality of our communications.

Company performance

The South West Water Board monitors and controls the performance of the company against the targets and expectation within the Final Determination and statutory obligations by:

- setting targets and reviewing performance against key levels of performance indicators and financial measures on a monthly basis at Board and Executive Management Team level
- implementing Investment Planning & Control procedures to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of the capital investment
- encouraging a culture of openness, where issues can be openly discussed
- continuing to support a 'Whistleblowing' policy.

Performance against targets are measured and reported using key performance indicators which are highlighted in the Company Annual Performance Report.

There are appropriate systems and processes in place to identify, manage and review any potential material exceptions to the delivery of outputs or changes in circumstances to that assumed within our 2009 Final Determination, these include those which might lead to an adjustment to price limits through an interim determination or logging purposes.

Whilst we have re-profiled some specific capital schemes and outputs within the 2010-2015 period we anticipate that the delivery for 2015 is not materially at risk. Accordingly, these risks have not been included as exceptions.

South West Water has identified the following circumstances that have resulted in a variance to the Final Determination which are relevant to any adjustments to future price limits:

- expenditure incurred (and ongoing) following the transfer of private sewers on 1 October 2011 reflecting the new legislative obligations and the impact of private pumping stations transfers
- higher levels of bad debt reflecting the worsening economic conditions and higher bills in the region.

Link between Director's pay and performance

The Directors of South West Water have their remuneration and terms of employment determined by the Remuneration Committee ('the Committee') of Pennon Group plc, the ultimate holding company. Further details of the operation of this Committee can be found in the financial statements of Pennon Group plc. A summary of Directors remuneration is set out in accompanying Regulatory Accounts.

Assurance

The approach to gaining assurance over the Company Annual Performance Report uses a mixture of internal and external resource to provide assurance over each of the requirements. Internal audits and assurance work primarily focus on process assurance. External statutory auditors provide an audit opinion over the statutory financial statements and regulatory accounts, as well as other specific assurance projects requested by the company, and the external technical auditor is used for other areas. All audit and assurance work is driven from an analysis of the key regulatory and statutory obligations faced by the company.

The Company has formal processes in place covering the annual reporting for the Company Annual Performance Report, including:

- planning
- responsibility for preparation of data and commentaries
- controls and checks
- external statutory auditor assurance on the company regulatory accounts
- technical auditor assurance on the company performance
- authorisations and certifications
- follow-up actions from audits and Ofwat queries received on previous regulatory reporting.

In exercising its judgement on production of this Company Annual Performance Report the Board has taken into account the following main factors:

- the company's corporate risk register which assesses the risks facing the company taking materiality into account
- the management information and key performance indicators routinely reported to it for management control and monitoring purposes
- annual 'Certificates of Effective Internal Control' completed by Executive Directors prior to the finalisation of the financial statements and company performance data
- information, including supporting explanation and identification of potential exceptions, arising from management review of company performance and the Regulatory Accounts
- meetings and discussions with the external statutory Auditors and technical auditor.

Risk management

The system for profiling and monitoring key risks is embedded in our normal business practices. We regularly review how we have sustained specific risk control measures, to decide if the probability and consequence of certain risks has changed, and if necessary to recommend further actions or investment to ensure the effectiveness of our corporate governance.

For the purposes of assessing and managing risk within South West Water, the individual departments review risks to the business associated with their accountabilities and responsibilities within the company strategy. An overall risk register is updated on an ongoing basis as a result of any changes in the nature and extent of risks. Through the year, risk forums formally review and update the risk register on a quarterly basis, with a particular emphasis on assessing and challenging where necessary the controls and mitigating factors recorded on the risk register. Risks are also formally reviewed as part of the quarterly forecasting and annual business planning processes.

Executive Directors are required to complete an annual 'Certificate of Effective Internal Control' prior to the finalisation of the financial statements and before publishing any annual performance data.

The Pennon Audit Committee allocates resources for carrying out internal audits in key company specific areas. The South West Water Board endorses and acts on audit findings from these audits carried out within the company. There is also a programme of internal audits coordinated by the Quality Assurance Department as part of the company's ISO 9001:2008 and ISO 14001:2004 certifications.

South West Water also has the following quality accreditations/certifications:

- ISO 9001: 2008 (quality management)
- ISO14001: 2004 (environmental management)
- ISO 27001: 2005 (information security)
- ISO 17025: 2005 (laboratories and sampling)

South West Water Board statement

The South West Water Board confirms that sufficient processes and internal systems of control are in place to meet the company's obligations for the twelve month period to 31 March 2013 for ensuring that the company complied in all material respects with its legal and regulatory obligations as a water and sewerage undertaker.

It also confirms that the Company Annual Performance Report covers the issues it considers to be material to the company and compliance with the relevant obligations.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the Directors to:

- confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next twelve months
- confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company
- confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker
- report to Ofwat changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length and
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements.

In the case of each of the persons who are directors at the time when the report is approved under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Licence of appointment – statement relating to condition K

At 31 March 2013 the company had sufficient rights and assets to comply with the requirements of paragraph 3.1 of Condition K of the Licence from the Secretary of State for the Environment.

Licence of appointment – statement relating to condition F

The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming:


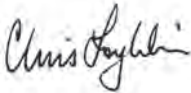

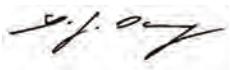
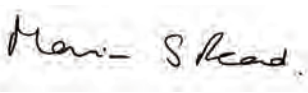

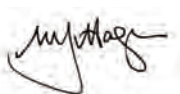
- 1) that in the opinion of the Directors, the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment); and
- 2) that in the opinion of the Directors, the company will, for at least the next twelve months, have available to it management resources which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:

- the net worth of the company and the strength of key performance indicators as shown in the Company Annual Performance Report for the year ended 31 March 2013 and the company's business plan for 2012/13 and the remaining K period
- borrowing facilities which include significant committed undrawn bank facilities
- parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due
- the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners
- the company's employment policies and strategy.

RISK AND COMPLIANCE STATEMENT

The Directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

SIGNED	NAME	POSITION
	K G Harvey	Chairman
	C Loughlin	Chief Executive
	S C Bird	Operations Director
	S J Davy	Finance and Regulatory Director
	M S Read	Customer Relations & Business Development Director
	Lord Taylor of Goss Moor	Non-Executive Director
	M J Hagen	Non-Executive Director

REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2013



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DIRECTORS, REGISTERED OFFICE AND AUDITORS

Chairman	K G Harvey
Chief Executive	C Loughlin
Operations Director	S C Bird
Finance & Regulatory Director	S J Davy
Customer Relations and Business Development Director	M S Read
Non-Executive Directors	Lord Taylor of Goss Moor M J Hagen
Secretaries	K D Woodier M L Heeley R C Zmuda
Registered Address	Peninsula House Rydon Lane Exeter Devon EX2 7HR
Auditors	Pricewaterhouse Coopers LLP Chartered Accountants & Statutory Auditors 31 Great George Street Bristol BS1 5QD
The Company's registered number	2366665

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE AUTHORITY, REFERRED TO AS THE "WSRA") AND THE DIRECTORS OF SOUTH WEST WATER LIMITED

We have audited the regulatory accounts of South West Water Limited ("the Company") for the year ended 31 March 2013 on pages 50 to 97 (the "Regulatory Accounts") 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 the statutory financial statements and the 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 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 sewage undertaker under the Water Industry Act 1991 ("Condition F"). 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 43, 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 Company Annual Performance and 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 opinion 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 55, the state of the Company's affairs at 31 March 2013 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies

INDEPENDENT AUDITORS' REPORT CONTINUED

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, 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 International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs 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 50 to 80 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 81.

Opinion on other matters prescribed by condition F

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

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

Other matters

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we reported on 10 July 2013, 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.

David Charles (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

10 July 2013

Historical cost Profit and Loss Account for the year ended 31 March 2013

	Note	Total 2013 £m	Total 2012 £m
Turnover	1(b) & 2	502.7	476.8
Operating costs	3	(204.9)	(195.6)
Depreciation	4	(79.7)	(78.5)
Profit on disposal of fixed assets		1.4	1.1
Operating profit		219.5	203.8
Other income		0.7	0.6
Net interest payable	6	(63.2)	(63.3)
Exceptional item	5	12.5	-
Profit on ordinary activities before taxation		169.5	141.1
Tax on profit on ordinary activities	7	(33.2)	(37.3)
Profit on ordinary activities after taxation		136.3	103.8
Dividends	8	(133.0)	(77.9)
Retained profit for the year		3.3	25.9

Historical Cost Statement of Total Recognised Gains and Losses for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Profit on ordinary activities after taxation		136.3	103.8
Actuarial losses on defined benefit schemes	23	(10.4)	(37.5)
Movement on deferred tax relating to pension scheme	26	1.2	9.6
Movement on deferred tax recognised directly in equity	26	0.2	0.1
Movement on hedging reserve	26	(7.9)	(25.7)
Exceptional item	5 & 26	2.9	-
Total gains recognised since last annual report		122.3	50.3

The notes on pages 55 to 80 form part of these historical cost regulatory accounts.

Historical Cost Profit and Loss Account for the year ended 31 March 2013 (continued)

Analysis of historical cost financial information between appointed and non-appointed business

	Appointed Business £m	Non- appointed £m	2013 Total £m	Appointed Business £m	Non- appointed £m	2012 Total £m
Turnover	496.4	6.3	502.7	471.4	5.4	476.8
Operating costs	(200.1)	(4.8)	(204.9)	(191.1)	(4.5)	(195.6)
Depreciation	(79.1)	(0.6)	(79.7)	(78.0)	(0.5)	(78.5)
Profit on disposal of fixed assets	1.4	-	1.4	1.1	-	1.1
Operating profit	218.6	0.9	219.5	203.4	0.4	203.8
Other income	0.3	0.4	0.7	0.4	0.2	0.6
Net interest payable	(63.2)	-	(63.2)	(63.3)	-	(63.3)
Exceptional item	12.5	-	12.5	-	-	-
Profit on ordinary activities before taxation	168.2	1.3	169.5	140.5	0.6	141.1
Tax on profit on ordinary activities	(32.8)	(0.4)	(33.2)	(37.1)	(0.2)	(37.3)
Profit on ordinary activities after taxation	135.4	0.9	136.3	103.4	0.4	103.8
Dividends	(133.0)	-	(133.0)	(77.9)	-	(77.9)
Retained profit for year	2.4	0.9	3.3	25.5	0.4	25.9

The "Appointed Business" comprises those activities which are necessary for the Company to fulfil its function and duties as a water and sewerage undertaker.

The notes on pages 55 to 80 form part of these historical cost regulatory accounts.

Historical Cost Balance Sheet at 31 March 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible assets	12	2,464.9	2,450.3
Investments	13	3.4	3.4
		2,468.3	2,453.7
Current assets			
Stocks	14	3.8	3.7
Debtors	15	102.2	86.3
Investments	16	200.9	293.6
Cash at bank and in hand		33.5	-
Infrastructure renewals prepayment		9.5	8.3
		349.9	391.9
Current liabilities			
Creditors: amount falling due within one year	17	(190.2)	(182.2)
Derivative financial instruments	20	(51.1)	(43.1)
Net current assets		108.6	166.6
Total assets less current liabilities		2,576.9	2,620.3
Creditors: amounts falling due after more than one year	18	(1,781.4)	(1,809.8)
Provisions for liabilities	21	(68.3)	(80.4)
Deferred income	22	(11.0)	(11.9)
Net assets excluding pension liability		716.2	718.2
Pension liability	23	(66.7)	(59.2)
Net assets including pension liability		649.5	659.0
Capital and reserves			
Called-up share capital	24	150.9	150.9
Reserves	26	498.6	508.1
Capital and reserves		649.5	659.0

The notes on pages 55 to 80 form part of these historical cost regulatory accounts.

The historical cost regulatory accounts on pages 50 to 80 were approved by the Board of Directors on 10 July 2013 and were signed on its behalf by:

C Loughlin
Chief Executive

S Davy
Finance & Regulatory Director

Historical Cost Balance Sheet at 31 March 2013 (continued)

Analysis of historical cost financial information between appointed and non-appointed business

	Appointed Business £m	Non- appointed £m	2013 Total £m	Appointed Business £m	Non- appointed £m	2012 Total £m
Fixed assets						
Tangible assets	2,460.8	4.1	2,464.9	2,450.3	-	2,450.3
Investments	3.4	-	3.4	3.4	-	3.4
	2,464.2	4.1	2,468.3	2,453.7	-	2,453.7
Current assets						
Stocks	3.8	-	3.8	3.7	-	3.7
Debtors	101.1	1.1	102.2	85.4	0.9	86.3
Investments	200.9	-	200.9	293.6	-	293.6
Cash at bank and in hand	30.5	3.0	33.5	-	6.1	6.1
Infrastructure renewals prepayment	9.5	-	9.5	8.3	-	8.3
	345.8	4.1	349.9	391.0	7.0	398.0
Current liabilities						
Creditors: amounts falling due within one year	(189.7)	(0.5)	(190.2)	(188.0)	(0.3)	(188.3)
Derivative financial instruments	(51.1)	-	(51.1)	(43.1)	-	(43.1)
Net current assets	105.0	3.6	108.6	159.9	6.7	166.6
Total assets less current liabilities	2,569.2	7.7	2,576.9	2,613.6	6.7	2,620.3
Creditors: amount falling due after more than one year	(1,781.4)	-	(1,781.4)	(1,809.8)	-	(1,809.8)
Provisions for liabilities and charges	(68.3)	-	(68.3)	(80.4)	-	(80.4)
Deferred income	(11.0)	-	(11.0)	(11.9)	-	(11.9)
Net assets excluding pension liability	708.5	7.7	716.2	711.5	6.7	718.2
Pension Liability	(66.7)	-	(66.7)	(59.2)	-	(59.2)
Net assets including pension liability	641.8	7.7	649.5	652.3	6.7	659.0
Capital and reserves						
Called-up share capital	150.9	-	150.9	150.9	-	150.9
Reserves	490.9	7.7	498.6	501.4	6.7	508.1
Capital and reserves	641.8	7.7	649.5	652.3	6.7	659.0

The "Appointed Business" comprises those activities which are necessary for the Company to fulfil its function and duties as a water and sewerage undertaker.

The notes on pages 55 to 80 form part of these historical cost regulatory accounts.

Historical Cost Cash Flow Statement for the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Net cash inflow from operating activities	29a	323.0	278.7
Returns on investments and servicing of finance	29b	(46.1)	(53.9)
Taxation		(34.0)	(28.5)
Capital expenditure and financial investment	29b	(124.9)	(145.3)
Equity dividends paid		(133.0)	(77.9)
Cash outflow before use of liquid resources and financing		(15.0)	(26.9)
Management of liquid resources	29b	100.0	30.0
Financing	29b	(56.2)	(2.0)
Increase in cash in the year		28.8	1.1

The notes on pages 55 to 80 form part of these historical cost regulatory accounts.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS

1. Accounting policies for the year ended 31 March 2013

These financial statements are "regulatory accounts" prepared in accordance with guidance issued by the Water Services Regulation Authority (Ofwat). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, and in accordance with applicable accounting standards in the UK except for the dis-application of certain parts of FRS 12 and FRS 15 in relation to infrastructure renewals accounting as described below in note 1(c)(i) and, except for the treatment of grants and contributions on infrastructure assets, with the Companies Act 2006. An explanation of this departure from the requirements of the Companies Act 2006 is given in note 1(e) below. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

These financial statements were approved by the Board of Directors on 10 July 2013.

Changes to accounting policies

There have been no changes in accounting policy during the year.

(a) Consolidated financial statements

The Company is exempt under the provisions of section 400 of the Companies Act 2006 from the requirement to produce group financial statements as it is a wholly-owned subsidiary of Pennon Group Plc which is registered within the European Economic Area and which itself produces consolidated financial statements. Accordingly consolidated financial statements have not been prepared and the financial information presented is for the Company as an individual undertaking. Group financial statements are included in the Annual Report of Pennon Group Plc which is available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.

(b) Turnover

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax and is derived only from the United Kingdom.

Turnover is not recognised until the service has been provided to the customer.

Turnover relates to charges due in the year, excluding any amounts paid in advance. Turnover for measured charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual for unbilled charges is estimated using a defined methodology reflecting historical consumption, estimated demand trends and current tariffs. Turnover for unmeasured charges is recognised on a time apportioned basis.

Turnover is only recognised when the occupiers name is known. New properties are recognised when reported as connected. Unoccupied properties are identified through physical inspection, mailings and customer contacts. These properties are given a void status within the billing system and turnover is not recognised against these properties.

Charges on income relating to debt recovery costs, which are chargeable to customers, are credited to operating costs and charged to the relevant customer account. Turnover is unaffected by these debt recovery costs.

The accounting policy within the statutory accounts recognises infrastructure charges relating to new customers as turnover; however these charges are credited to fixed assets in accordance with the regulatory accounting guidelines.

(c) Tangible fixed assets and depreciation

Tangible fixed assets comprise:-

(i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets comprise a network that, as a whole, is intended to be maintained in perpetuity at a specified level of service by the continuing replacement and refurbishment of its components.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network, in accordance with defined standards of service, and to the maintenance of the operating capacity of the network, is treated as capital expenditure on tangible fixed assets and included at cost after deducting grants and contributions.

The infrastructure renewals charge represents the level of annual expenditure required to maintain the operating capacity of the network and is calculated from an independently certified asset management plan. In accordance with Regulatory Accounting Guidelines, the relevant sections of FRS 12 and FRS 15 have been dis-applied in relation to infrastructure renewals accounting, resulting in any cumulative difference between infrastructure renewals charges and actual infrastructure renewals expenditure being held as a prepayment or accrual in the balance sheet.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(ii) Other assets (including properties, overground plant and equipment)

Other assets are stated at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:-

Buildings	30 – 60 years
Operational properties	40 – 80 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	4 – 10 years

Assets in the course of construction are not depreciated until commissioned.

(d) Leased assets

Assets held under finance leases are included as property, plant and equipment at the lower of their fair value at commencement or the present value of the minimum lease payments, and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

(e) Grants and contributions

Grants and contributions receivable in respect of capital expenditure on non-infrastructure assets are included in the balance sheet as deferred income and are released to profits over the depreciable lives of the assets to which they relate.

Grants and contributions receivable relating to infrastructure assets are deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 2006 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 12.

Grants and contributions receivable in respect of expenditure charged against profits in the year have been included in the profit and loss account.

(f) Investments

Listed investments held as current assets are stated at the lower of cost and net realisable value.

Short-dated unlisted securities held as current assets are stated at cost plus accrued income.

(g) Stocks

Stocks are stated at the lower of cost and net realisable value.

(h) Cash and cash deposits

Cash and cash deposits comprise cash in hand, short-term deposits held at banks and other short-term highly liquid deposits subject to insignificant risk of changes in value. Bank overdrafts are shown within current borrowings.

(i) Pension costs

The company operates defined benefit and defined contribution pension schemes through its parent company.

Defined benefit pension scheme assets are measured using bid price. Defined benefit pension scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term to the liability. The increase in the present value of the liabilities of the Company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on scheme assets and the increase during the period in the present value of scheme liabilities, arising from the passage of time, are included in other finance income or cost. Past-service costs are recognised immediately in the profit and loss account.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to reserves and recorded in the Statement of Total Recognised Gains and Losses.

Costs of the defined contribution pension scheme are charged to the profit and loss account in the period in which they arise.

(j) Share based payments

The Company operates a number of equity settled, share-based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market based vesting conditions are adjusted for assumptions as to the number of awards which are expected to vest.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

(k) Research and development expenditure

Research and development expenditure is charged against profits in the year in which it is incurred.

(l) Taxation

The tax charge for the year is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date.

The Company is part of the Pennon Group for tax purposes and accordingly may use the tax group provisions whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payment for group relief is made equal to the tax benefit and amounts are included within the current tax disclosures.

Deferred tax is provided in full using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future for it to be utilised. Deferred taxation balances arising are discounted by applying an appropriate post tax discount rate.

The Company's corporation tax provision of £49.6m reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed with Her Majesty's Revenue and Customs.

(m) Dividend distribution

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when authorised at a general meeting by shareholders.

(n) Exceptional items

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's financial performance.

(o) Derivatives and other financial instruments

The Company classifies its financial instruments in the following categories:

(i) Loans and receivables

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the profit and loss account through the amortisation process.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Derivative financial instruments

The Company uses derivative financial instruments, principally interest rate swaps, to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The gain or loss on remeasurement is taken to the profit and loss account except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in reserves, and the ineffective portion in the profit and loss account. The gains or losses deferred in reserves in this way are subsequently recognised in the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

In order to qualify for hedge accounting the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

(iii) Trade debtors

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts and the impact of discounting. The allowance for estimated irrecoverable amounts is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. The expected recovery rates take into account age of the debt and payment history. Actual amounts recovered may differ from the estimated levels of recovery which could impact operating results.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(iv) Trade creditors

Trade creditors are not interest-bearing and are stated at their nominal value.

(p) Fair value estimate

The fair value of the interest rate swaps is based on the market price of comparable instruments at the balance sheet date if they are publicly traded.

2. Segmental Analysis

The Directors believe that the whole of the Company's activities constitute a single class of business.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its turnover. The Company's fixed assets are all located within the United Kingdom.

3. Operating Costs

	2013 £m	2012 £m
Manpower costs (note 9)	37.9	38.0
Raw materials and consumables	14.4	14.0
Rentals under operating leases:		
– Hire of plant and machinery	1.1	1.3
– Other operating leases	1.4	1.5
Research and development expenditure	0.2	0.2
Auditors' remuneration	0.4	0.4
Other external charges	95.6	88.3
Infrastructure renewals charge	32.9	31.6
Other operating charges	21.0	20.3
	204.9	195.6

Fees payable to the Company's auditors in the year were as follows:

	2013 £000	2012 £000
Fees payable for the audit of the financial statements	123	125
Fees payable to the Company's auditor for other services:		
– Audit related assurance services	68	29
– Tax advisory services	146	99
– Other non audit services	172	102
	509	355

Expenses reimbursed to the auditors in relation to the audit of the Company were £12,000 (2012: £14,000).

4. Depreciation

	2013 £m	2012 £m
On owned non-infrastructure assets	53.2	58.1
On non-infrastructure assets held under finance leases	27.5	21.5
	80.7	79.6
Deferred income released to profits	(1.0)	(1.1)
	79.7	78.5

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

5. Exceptional Item

	2013 £m	2012 £m
Net finance costs:		
Receipt on transfer and subsequent termination of lease	15.4	-
Fair value loss on associated interest rate swap transferred from equity on termination of lease	(2.9)	-
Profit on exceptional item before tax	12.5	-
Tax arising on exceptional item:		
Current tax	(3.7)	-
Deferred tax	0.7	-
	(3.0)	-
Profit after tax on exceptional item	9.5	-

The Company received a consent fee related to the transfer and subsequent termination of lease arising from the sale of a finance lease between financial institutions.

6. Net Finance Costs

	Finance cost £m	2013 Finance income £m	Total £m	Finance cost £m	2012 Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(8.3)	-	(8.3)	(7.3)	-	(7.3)
Interest element of finance lease rentals	(39.9)	-	(39.9)	(37.8)	-	(37.8)
Other finance costs	(3.7)	-	(3.7)	(4.7)	-	(4.7)
Interest receivable	-	3.4	3.4	-	3.3	3.3
Intercompany interest to subsidiaries	(16.6)	-	(16.6)	(20.1)	-	(20.1)
	(68.5)	3.4	(65.1)	(69.9)	3.3	(66.6)
Other finance income						
Fair value losses on derivative financial instruments providing commercial hedges	-	-	(31.9)	-	(31.9)	
Investment income received	-	-	-	-	33.6	33.6
	-	-	-	(31.9)	33.6	1.7
Notional interest						
Retirement benefit obligations (note 23)	(20.4)	22.3	1.9	(20.6)	22.2	1.6
Finance (costs)/income	(88.9)	25.7	(63.2)	(122.4)	59.1	(63.3)

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

7. Tax on Profit on Ordinary Activities

(a) Analysis of charge in year

	2013 £m	2012 £m
Current tax:		
UK corporation tax at 24% (2012: 26%):		
Current year	31.6	26.6
Prior year	(9.1)	(5.7)
Adjustment in respect of group relief payable at 24% (2012: 26%):		
Current year	8.9	4.1
Prior year	13.2	2.7
Total current tax	44.6	27.7
Deferred tax:		
Origination and reversal of timing differences	(7.1)	10.4
(Decrease)/increase in discount	(0.6)	7.4
Effect of change of rate of corporation tax in future years	(3.7)	(8.2)
Total deferred tax charged to profit & loss in year (note 21)	(11.4)	9.6
Tax on profit on ordinary activities	33.2	37.3

(b) Factors affecting current tax charge for the year

The tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 24% (2012: 26%). The differences are explained below:

	2013 £m	2012 £m
Profit on ordinary activities before tax	169.5	141.1
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% (2012: 26%)	40.7	36.7
Tax effects of:		
Expenses not deductible for tax purposes	2.4	1.4
Income not charged to profits	0.7	0.6
Capital allowances for year in excess of depreciation	(2.2)	(1.2)
Other timing differences	(1.1)	(6.8)
Adjustments to tax charge in respect of prior year	4.1	(3.0)
Current tax charge for the year	44.6	27.7

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

8. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Base dividend of 41.7p per ordinary share in respect of 2011/12 paid 29 September 2011	-	62.9
Dividend of 9.9p per ordinary share in respect of outperformance for 2010/11 paid 29 September 2011	-	15.0
Dividend of 25.9p per ordinary share in respect of outperformance for 2011/12 paid 27 September 2012	39.1	-
Base dividend of 43.6p per ordinary share in respect of 2012/13 paid 27 September 2012	65.8	-
Dividend of 18.6p per ordinary share in respect of outperformance for 2012/13 paid 27 September 2012	28.1	-
	133.0	77.9

9. Employment Costs

	2013	2012
The average number of persons (including Directors) employed by the Company	1,163	1,182

	2013 £m	2012 £m
Employment costs comprise:		
Wages and salaries	34.4	34.2
Social security costs	3.1	2.8
Pension costs	8.4	8.9
Share-based payments	1.2	1.1
Total employment costs	47.1	47.0
Charged as follows:		
Manpower costs (note 3)	37.9	38.0
Capital schemes	9.2	9.0
	47.1	47.0

10. Directors' Emoluments

	2013 £000	2012 £000
Total emoluments of the Directors of the Company:		
Salary	734	702
Fees (non-executive Directors)	70	60
Performance-related bonus paid or payable	226	266
Other emoluments	184	178
Total emoluments	1,214	1,206

The performance related payment represents the cash element paid or payable. In addition, Executive Directors receive a conditional award of shares in Pennon Group Plc for a matching amount which is subject to a future service criteria.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

	Salary £	Performance** £	Other £	Fees £	Total £
Executive Directors:					
C Loughlin*	296,000	94,128	108,509		498,637
S C Bird	164,000	48,872	14,097		226,969
S J Davy	170,000	52,360	39,835		262,195
M S Read	104,000	30,992	21,509		156,501
Non Executive Directors:					
M Hagen				35,000	35,000
M Taylor				35,000	35,000
Total	734,000	226,352	183,950	70,000	1,214,302

* The Chief Executive, C Loughlin, is a director of Pennon Group Plc and part of his service is attributable to that company. His total remuneration is disclosed in the accounts of that company and included above is the proportion of his remuneration deemed attributable to his service as an executive director of South West Water.

** The performance related payment represents the cash element payable for 2012/13. In addition, Executive Directors receive a conditional award of shares in Pennon Group Plc for a matching amount which is subject to a future service criteria.

Performance related and other emoluments apply to Executive Directors only.

Other emoluments include car benefit and health care, and, in respect of C Loughlin and S Davy, cash payment in lieu of pension provision by the Company.

At 31 March 2013 retirement benefits were accruing to three Directors (2012: three Directors) under defined benefit pension schemes operated by the parent company.

C Loughlin did not participate in a company pension scheme.

The Chairman, K G Harvey, is a director of Pennon Group Plc and his remuneration is disclosed in the financial statements of that company.

Background

Directors of South West Water have their remuneration and terms of employment determined by the Remuneration Committee ('the Committee') of Pennon Group Plc, the ultimate holding company. Further details of the operation of this Committee can be found in the financial statements of Pennon Group Plc.

Elements of remuneration

The remuneration of the Executive Directors comprises salary, payments related to performance against agreed standards, long term incentives, contributory pension provision or a cash alternative, car benefit and health cover.

Payments related to performance against agreed standards

As required by the Water Act 2003 and Regulatory Accounting Guidance from the Water Services Regulation Authority (Ofwat), additional information is given regarding this aspect of remuneration.

C Loughlin (the highest paid Director) is an Executive Director of Pennon Group Plc and details of the performance related bonus arrangements for him and the amounts paid to him under those arrangements are described in the Directors' remuneration report within the Pennon Group Annual Report and Financial Statements.

In respect of the other Executive Directors, for the year 2012/13, maximum performance related bonus payments achievable in respect of service as executive directors of South West Water Limited are, expressed as a percentage of salary up to a maximum of 37.5%, as follows:

- Based on an estimate of the Service Incentive Mechanism (SIM) points to be awarded by Ofwat for 2012/13 0.25% for each position above 10th and 0.5% for each position above 6 up to a maximum of 5% for the water and sewerage companies. This reflects the importance South West Water attaches to customer service performance.
- 1.25% bonus for each area of service achieving a 'stable' classification of serviceability to a maximum of 5%.
- A bonus for outperformance of South West Water against its operating cost budget, the maximum bonus of 7.5% being achieved if outperformance is 3% or higher. Cost control and efficiency are key factors in South West Water's long term performance.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

- (iv) A bonus for outperformance of South West Water against its budget for profit before tax, the maximum bonus of 5.0% being achieved if outperformance is 5.0% or higher. Profit before tax is a key measure of performance.
- (v) A bonus for capital expenditure being below budget, up to a maximum of 2.5% if expenditure is 2.5% below budget. Cost control and efficiency are key factors in South West Water's long term performance.
- (vi) A bonus of up to 2.5% if net debt is 1% below budget. Cash control is a key factor in South West Water's long term performance.
- (vii) Up to a maximum of 10% in relation to personal objectives set for each Director and focused on development and delivery of the Company's strategic objectives.

These arrangements were approved by the Remuneration Committee of Pennon Group Plc on 26 April 2012. There are no changes to the arrangements for 2013/14.

For 2012/13 no Director achieved the maximum bonus available of 37.5% of salary. The actual performance against each agreed standard has resulted in amounts paid or payable of:

	£	% bonus achieved
S C Bird	48,872	29.8%
S J Davy	52,360	30.8%
M S Read	30,992	29.8%

As set out above, Executive Directors received a conditional award of shares in Pennon Group Plc for a matching value which is subject to future service criteria.

Awards made under the Pennon Group Performance and Co-investment Plan are linked to the Total Shareholder Return of the Pennon Group only. Further details are given in the financial statements of that company.

The above represents the maximum number of shares to which the Directors would usually become entitled if they remain employed by the Pennon Group for a further three years from the date of the awards.

This bonus plan operates in conjunction with an Executive Share Option Scheme (ESOS) which means that if the service condition is met, shares awarded under the Incentive Bonus Plan may be forfeited by Directors up to a certain value and instead taken through the ESOS. The aggregate pre-tax value of the awards made under the Incentive Bonus Plan and the ESOS are the same as if they would have been if the Incentive Bonus Plan had operated alone.

During the year the Directors received dividends on the above shares in accordance with the conditions of the Incentive Bonus Plan. A further conditional award of shares will be made in 2013/14 to match the amount of the cash bonus.

11. Directors' Interests

No Director has held any beneficial interest in the shares of the Company during the year. Messrs K G Harvey and C Loughlin are Directors of Pennon Group Plc and their interests in the shares of Pennon Group Plc are disclosed in the financial statements of that company.

M J Hagen, non-executive Director, has an interest of 3,600 shares in Pennon Group Plc as at 31 March 2013.

The interests of the other Directors holding office at 31 March 2013 in the shares of Pennon Group Plc at 31 March 2013 and 31 March 2012 were:

(a) Shareholdings

	2013 Ordinary Shares (40.7p each)	2012 Ordinary Shares (40.7p each)
S C Bird	21,145	18,758
S J Davy	28,584	19,697
M S Read	60,840	53,090

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(b) Share Incentive Plan

In addition, the shares held in Pennon Group Plc on behalf of the Directors under the Share Incentive Plan were:

	2013 Ordinary Shares (40.7p each)	2012 Ordinary Shares (40.7p each)
S J Davy	1,421	1,161
M S Read	1,991	1,710

(c) Sharesave scheme

Options to subscribe for shares in Pennon Group Plc under the all-employee Sharesave Scheme were:

	Options over Ordinary Shares of 40.7p each				
	31 March 2013	Granted in period	Exercised in period	Lapsed in period	31 March 2012
S C Bird	612	612	(2,351)	-	2,351
S J Davy	1,530	1,530	(2,351)	-	2,351
M S Read	3,850	-	-	-	3,850

(d) Incentive Bonus Plan

The Directors also had a contingent interest in the shares of Pennon Group Plc under the terms of the Pennon Group Incentive Bonus Plan, described in note 25 (iii), as follows:

	Contingent interest in Ordinary Shares of 40.7p each				
	31 March 2013	Granted in period	Vested in period	Lapsed in period	31 March 2012
S C Bird	22,257	6,949	(5,392)	(2,185)	22,885
S J Davy	20,783	7,263	(3,861)	(2,032)	19,413
M S Read	13,900	4,491	(2,941)	(1,548)	13,898

(e) Performance and Co-investment Plan

In addition to the above beneficial interests, the Directors had a conditional interest in the shares of Pennon Group Plc under the terms of the Pennon Group Performance and Co-investment Plan, described in note 25 (ii), as follows:

	Conditional interest in Ordinary Shares of 40.7p each				
	31 March 2012	Granted in period	Vested in period	Lapsed in period	31 March 2012
S C Bird	56,406	17,072	(20,731)	(2,537)	62,602
S J Davy	56,180	17,696	(18,313)	(2,241)	59,038
M S Read	36,480	10,826	(13,537)	(1,657)	40,848

Additional ordinary shares (40.7p each) have been acquired by the Directors since 31 March 2013 as follows as a result of participation in the Pennon Group's Dividend re-investment plan or the Pennon Group's Share Incentive Plan:

M S Read	393
S J Davy	55

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

12. Tangible Fixed Assets

	Freehold land and buildings £m	Infra- structure assets £m	Operational properties £m	Fixed & mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:						
At 1 April 2012	22.3	1,298.8	641.2	1,200.2	116.7	3,279.2
Additions	0.1	3.1	1.4	25.0	71.3	100.9
Grants and contributions	-	(3.9)	-	-	-	(3.9)
Transfers/reclassifications	0.9	3.2	10.6	46.4	(61.1)	-
Disposals	-	-	-	(2.7)	-	(2.7)
At 31 March 2013	23.3	1,301.2	653.2	1,268.9	126.9	3,373.5
Depreciation:						
At 1 April 2012	5.4	-	189.6	633.9	-	828.9
Charge for year	0.5	-	11.4	70.2	-	82.1
Disposals	-	-	-	(2.4)	-	(2.4)
At 31 March 2013	5.9	-	201.0	701.7	-	908.6
Net Book Value:						
At 31 March 2013	17.4	1,301.2	452.2	567.2	126.9	2,464.9
At 31 March 2012	16.9	1,298.8	451.6	566.3	116.7	2,450.3

Out of the total depreciation charge for the Company of £82.1m (2012: £81.0m), the sum of £1.4m (2012: £1.4m) has been charged to capital projects, £1.0m (2012: £1.1m) offset by deferred income and £79.7m (2012: £78.5m) against profits.

Assets held under finance lease included above:

	Infra- structure assets £m	Operational properties £m	Fixed & mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost: At 31 March 2013	368.1	465.2	370.8	0.3	1,204.4
Depreciation: Charge for year	-	7.9	19.6	-	27.5
Depreciation: At 31 March 2013	-	104.9	157.1	-	262.0
Net book value: At 31 March 2013	368.1	360.3	213.7	0.3	942.4

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

13. Fixed Asset Investments

	Joint venture £m	Subsidiary undertakings £m	Total investments £m
At 1 April 2012 and 31 March 2013	0.1	3.3	3.4

At the year end the Company held 99,999 (100%) A ordinary shares in Echo South West Limited, a joint venture previously engaged in customer contact management, established between the Company and Echo Managed Services Limited, a subsidiary of South Staffordshire Plc. The proportion of the nominal value of ordinary shares held by the Company is 50%. The joint venture in Echo South West Limited ceased operations on 31 March 2008.

Subsequent to the year end the Company's holding of Echo South West Limited was reduced to 2 A ordinary shares, the Board of Echo South West Limited has been authorised by its members to submit an application to the Registrar of Companies to request the strike off and removal of the Company from the register of Companies.

The Company has five wholly-owned subsidiaries, Peninsula Properties (Exeter) Limited, Peninsula Leasing Limited, South West Water Finance Plc, Source Contact Management Limited and Source Collections Limited. All companies are incorporated, registered and operate in England.

Consolidated financial statements have not been prepared, as explained in note 1(a).

In the opinion of the Directors the total value of investments in subsidiary and joint venture undertakings is not less than the amount at which they are shown in the balance sheet.

14. Stocks

	2013 £m	2012 £m
Raw materials and consumables	3.8	3.7

15. Debtors

	2013 £m	2012 £m
Amounts falling due within one year:		
Trade debtors	109.9	79.4
Less: provision for bad debts	(73.8)	(66.1)
	36.1	13.3
Amounts owed by subsidiary companies	1.5	1.2
Amounts owed by fellow subsidiary company	1.2	1.0
Other debtors	1.2	7.1
Prepayments and accrued income	62.2	63.7
	102.2	86.3

The effective interest rate on loans to subsidiary companies is 2.3% (2012: 2.3%). No interest is charged on trading balances with other group companies.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

16. Current Asset Investments

	2013 £m	2012 £m
Overnight deposits	-	20.0
Other short-term deposits	65.1	165.1
Other deposits	135.8	108.5
	200.9	293.6

Other deposits include £135.8m (2012: £108.5m) of restricted funds to settle long-term liabilities (note 19).

17. Creditors: Amounts Falling Due Within One Year

	2013 £m	2012 £m
Loans: (note 19)		
European Investment Bank	21.1	21.1
Bank overdrafts	-	15.3
	21.1	36.4
Obligations under finance leases (note 19)	32.3	32.3
Trade creditors	13.2	15.2
Capital creditors	33.4	30.2
Amounts owed to parent undertaking	0.7	5.4
Amounts owed to subsidiary companies	3.2	3.3
Amounts owed to fellow subsidiary undertakings	-	2.8
Other creditors	6.8	4.4
Corporation tax	49.6	32.2
Other taxation and social security	10.3	1.2
Accruals and deferred income	19.6	18.8
	190.2	182.2

18. Creditors: Amounts Falling Due After More Than One Year

	2013 £m	2012 £m
Loans: (note 19)		
European Investment Bank	210.4	231.5
Loans from subsidiary companies	379.8	372.6
	590.2	604.1
Obligations under finance leases	1,191.2	1,205.7
	1,781.4	1,809.8

The loan from subsidiary company represents a loan from South West Water Finance Plc, a UK company whose purpose is to raise borrowings for South West Water Limited. The borrowings raised are lent to the Company on 'back to back' terms.

At the balance sheet date the effective interest rate on loans from subsidiary companies is 6.1% (2012: 5.9%).

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

19. Loans and Other Borrowings

	2013 £m	2012 £m
Loans		
Repayable:		
Over five years	465.8	489.7
Over two and up to five years	93.3	93.3
Over one and up to two years	31.1	21.1
Falling due after more than one year (note 18)	590.2	604.1
Falling due within one year (note 17)	21.1	36.4
	611.3	640.5

	2013 £m	2012 £m
Obligations under finance leases		
Repayable:		
Over five years	1,017.0	1,040.4
Over two and up to five years	139.1	138.6
Over one and up to two years	35.1	26.7
Falling due after more than one year (note 18)	1,191.2	1,205.7
Falling due within one year (note 17)	32.3	32.3
	1,223.5	1,238.0

Loans and obligations under finance leases

Included above are instalment debts, of which any part falls due for payment after five years, and non-instalment debts due after five years:

	2013 £m	2012 £m
Loans	565.8	625.1
Obligations under finance leases	1,125.2	1,237.4
	1,691.0	1,862.5

Within obligations under finance leases, the Company has utilised finance lease facilities of £180.0m for certain water and sewerage business property, plant and equipment that are secured by bank letters of credit issued by United Kingdom financial institutions. These letters of credit, covering the full period of the finance leases, are renewable between the financial institutions and the Company at five-yearly intervals, the next being March 2016.

The period for repayment of these leases was extended with an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits of £52.4m at 31 March 2013 (2012: £41.9m) are being held to settle the lease liability over the period from the end of the original lease term. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

The period for repayment of certain other existing leases was extended with an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The deposit at 31 March 2013 of £83.5m (2012: £66.6m) is being held to settle the lease liability at the end of the lease term, subject to rights to release by negotiation with the lessor.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

The Company has undrawn committed borrowing facilities:

	2013 £m	2012 £m
Floating rate:		
Expiring less than one year	-	35.0
Expiring after one year	105.0	105.0
	105.0	140.0

In addition, the Company has short-term uncommitted bank facilities of £25.0m (2012: £50.0m).

20. Derivative Financial Instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in note 26.

	2013 £m	2012 £m
Liabilities		
Derivatives used for cash flow hedging	48.2	43.1
Derivatives deemed held for trading	2.9	-
	51.1	43.1

The ineffective portion recognised in the profit and loss account arising from cashflow hedges was £nil (2012: £nil).

Interest rate swaps and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 50% of net borrowings is at fixed rate. At 31 March 2013, 58% of net borrowings after the impact of derivatives, was at fixed rate (2012: 67%).

At 31 March 2013 interest rate swaps to hedge financial liabilities with a notional principal value of £1,135m existed, with a weighted average maturity of 4.1 years (2012: £705.0m, with 3.3 years) to swap from floating to fixed rate. The weighted average interest rate of the swaps was 2.7% (2012: 3.2%).

The amounts due are the fair value of swaps based on the market value of equivalent instruments at the balance sheet date.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

21. Provisions for Liabilities

	Restructuring £m	Deferred Taxation £m	Total £m
At 1 April 2012	3.7	76.7	80.4
Charged/(credited) against profits	0.5	(11.4)	(10.9)
Credited to equity (note 26)	-	(0.2)	(0.2)
Utilised during year	(1.0)	-	(1.0)
At 31 March 2013	3.2	65.1	68.3

Deferred Taxation

	2013 £m	2012 £m
Accelerated capital allowances	235.9	257.7
Other timing differences	(3.6)	(8.0)
Undiscounted provision for deferred tax	232.3	249.7
Discount	(167.2)	(173.0)
Discounted provision for deferred tax	65.1	76.7

The deferred tax balance has been reduced to recognise the change in the rate of corporation tax enacted on 17 July 2012 to reduce the rate from 1 April 2013 from 24% to 23%. The Finance Bill 2013 contains clauses to reduce the rate of corporation tax to 21% in 2014/15 and to 20.0% thereafter. If these had been enacted at the balance sheet date the impact would result in further reductions.

22. Deferred Income

	Grants and contributions £m
At 1 April 2012	
Amount to be released:	
within one year	1.0
after more than one year	11.9
	12.9
Released to profits	(1.0)
At 31 March 2013	11.9
Amount to be released:	
within one year	0.9
after more than one year	11.0

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

23. Pensions

The Company's employees are eligible to participate in funded defined benefit pension schemes and also in defined contribution section within the main scheme, operated by the parent company.

The assets of the group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of the schemes' trustees is determined by the schemes' trust documentation. The Group has a policy that one-half of all trustees other than the Chairman are nominated by active members of the fund and current pensioners.

Defined contribution schemes

Pension costs for defined contribution schemes were £0.4m (2012: £0.3m).

Defined benefit schemes

The principal actuarial assumptions at the balance sheet date were:

	2013 %	2012 %
Rate of increase in pensionable pay	3.4	3.5
Rate of increase for current and future pensions	3.4	3.3
Rate used to discount schemes' liabilities	4.4	4.7
Inflation	3.4	3.3

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2009 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected at:

	2013	2012
Male	25.0	24.9
Female	27.0	27.0

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected at:

	2013	2012
Male	25.9	25.8
Female	28.3	28.2

The amounts recognised in the profit and loss account were:

	2013 £m	2012 £m
Current service cost	(7.9)	(7.4)
Past service cost	(0.3)	(0.7)
Total included within employment costs	(8.2)	(8.1)
Expected return on pension scheme's assets	22.3	22.2
Interest cost on retirement benefit obligations	(20.4)	(20.6)
Total included within net interest payable	1.9	1.6
Total charge	(6.3)	(6.5)

The actual return on schemes' assets was an increase of £48.4m (2012: increase of £24.5m).

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

The amounts recognised in the statement of total recognised gains and losses were:

	2013 £m	2012 £m
Actuarial losses recognised in the year	(10.4)	(37.5)

The amounts recognised in the balance sheet were:

	2013 £m	2012 £m
Fair value of schemes' assets	394.0	353.7
Present value of defined benefit obligations	(480.6)	(431.6)
Deficit in scheme	(86.6)	(77.9)
Related deferred tax asset	19.9	18.7
Net liability recognised in the balance sheet	(66.7)	(59.2)

The assets in the scheme and the expected long-term rates of return at the year end were:

	2013 Value £m	Fund %	2012 Value £m	Fund %
Equities	203.5	52	177.5	50
Property	27.1	7	26.8	8
Bonds	131.0	33	117.6	33
Diversified Growth Fund	30.9	8	-	-
Other	1.5	-	31.8	9
	394.0	100	353.7	100

Other assets principally represent cash contribution received from the Company towards the year end which are invested during the subsequent financial year.

The expected return on plan assets is determined by considering the long-term returns and the balance between risk and reward on the various categories of investment assets held. Expected returns on equity and property investments reflect long-term rates of return experienced in the respective markets. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

In conjunction with its investment advisers, the trustees have structured the schemes' assets with the objectives of balancing investment returns and levels of risk. The asset allocation has three main elements:

- holding of bonds which is expected to be less volatile than most other asset classes and reflects the schemes' liabilities
- a proportion of equities, with fund managers having freedom in making investment decisions to maximise returns
- investment of a relatively small proportion of the schemes' assets (circa 10%) in alternative asset classes which give the potential for diversification (currently property).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

Movements in net liability were:

	2013 £m	2012 £m
At 1 April	(77.9)	(68.2)
Profit and loss account	(6.3)	(6.5)
Statement of total recognised gains and losses	(10.4)	(37.5)
Regular contributions	8.0	8.0
Other employer contributions	-	26.3
At 31 March	(86.6)	(77.9)

Movements in the fair value of schemes' assets were:

	2013 £m	2012 £m
At 1 April	353.7	307.0
Expected return on schemes' assets	22.3	22.2
Actuarial gains	25.6	3.7
Members' contributions	0.1	0.1
Benefits paid	(15.7)	(13.6)
Company regular contributions	8.0	8.0
Other employer contributions	-	26.3
At 31 March	394.0	353.7

Movements in the present value of schemes' defined benefit obligations were:

	2013 £m	2012 £m
At 1 April	(431.6)	(375.2)
Service cost	(8.2)	(8.1)
Interest cost	(20.4)	(20.6)
Members' contributions	(0.1)	(0.1)
Benefits paid	15.7	13.6
Actuarial losses	(36.0)	(41.2)
At 31 March	(480.6)	(431.6)

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

The five year history of experience adjustments is:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of schemes' assets	394.0	353.7	307.0	264.3	209.9
Present value of defined benefit obligations	(480.6)	(431.6)	(375.2)	(347.6)	(261.3)
Net liability recognised	(86.6)	(77.9)	(68.2)	(83.3)	(51.4)
Experience gains/(losses) on schemes' assets					
Amount (£m)	26.5	2.3	12.4	41.7	(80.7)
Percentage of schemes' assets (%)	6.7	0.7	4.0	15.8	(38.4)
Experience (gains)/losses on defined benefit obligations					
Amount (£m)	0.1	(3.5)	(9.7)	2.8	18.3
Percentage of defined benefit obligations (%)	0.0	(0.8)	(2.6)	0.8	7.0

The last triennial actuarial valuation of the Group's principle defined benefit scheme was at 1 April 2011. The Company has made no deficit recovery contributions during the year (2012: £26.3m).

The funding levels are monitored on an annual basis, and the Company expects to pay total contributions of around £8m during the year ended 31 March 2014.

24. Called-up Share Capital

	2013 £m	2012 £m
Authorised		
500,000,000 Ordinary shares of £1 each	500.0	500.0
Allotted, called-up and fully paid		
150,950,000 (2012: 150,950,000) Ordinary shares of £1 each	150.9	150.9

25. Employee share schemes

The Company operates a number of share plans for the benefit of employees. Details of each plan are set out below.

(i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees to invest up to a maximum of £250 per month for three or five years. These savings can then be used to buy shares at a price set at a 20% discount to the market value at the start of the savings period at the third or fifth year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Pennon Group before the option exercise period commences.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

Outstanding options to subscribe for Pennon Group Plc shares of 40.7p each under the Sharesave scheme are:

Date granted and subscription price fully paid		Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2013	2012
5 July 2005	270p	2008 - 2012	-	24
4 July 2006	358p	2009 - 2013	20	22
3 July 2007	522p	2010 - 2014	5	45
8 July 2008	517p	2011 - 2015	34	39
6 July 2009	386p	2012 - 2016	220	738
28 June 2010	431p	2013 - 2017	282	277
29 June 2011	536p	2014 - 2018	206	222
29 June 2012	588p	2015 - 2017	372	-
			1,139	1,367

The number and weighted average exercise price of Sharesave options:

	2013		2012	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share p	Number of Ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	1,367	425	1,410	402
Granted	382	588	226	536
Exercised	(497)	390	(227)	390
Expired	(113)	433	(42)	438
At 31 March	1,139	494	1,367	425

The weighted average price at the date of exercise of Sharesave options during the year was 731p (2012: 656p). The options outstanding at 31 March 2013 had a weighted average exercise price of 494p (2012: 425p) and a weighted average remaining contractual life of 2.0 years (2012: 1.8 years).

The aggregate fair value of options granted during the year was £0.4m (2012: £0.3m), determined using the Black-Scholes valuation model. The significant inputs into the valuation model were:

	2013	2012
Weighted average share price	735p	670p
Weighted average exercise price	588p	536p
Expected volatility	19.0%	27.4%
Expected life	3.4 years	3.9 years
Risk-free rate	0.4%	1.4%
Expected dividend yield	4.0%	4.3%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(ii) Performance and Co-investment Plan

Executive Directors and senior management receive a conditional award of Ordinary shares in Pennon Group Plc, and are also required to hold a substantial personal holding in Pennon Group Plc shares. The eventual number of shares, if any, which vest is dependent upon the achievement of conditions of the plan over the restricted period, being not less than three years.

The number and exercise price of shares in the Performance and Co-investment Plan are:

	2013		2012	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share p	Number of Ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	404	565	412	549
Granted	109	769	113	698
Vested	(128)	487	(64)	637
Lapsed	(32)	487	(57)	637
At 31 March	353	663	404	565

The awards outstanding at 31 March 2013 had a weighted average exercise price of 663p (2012: 564p) and a remaining contractual life of 1.3 years (2012: 1.3 years). The aggregate fair value of awards granted during the year was £0.5m (2012: £0.5m), determined using a Monte-Carlo simulation model. The significant inputs into the valuation model at the date of the share awards were:

	2013	2012
Weighted average share price	768p	698p
Expected volatility	19.0%	27.4%
Risk-free rate	0.4%	1.4%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

(iii) Annual Incentive Bonus Plan – deferred shares

Awards under the plan to Executive Directors and senior management involve the release of Ordinary shares in Pennon Group Plc to participants. There is no performance condition since vesting is usually conditional upon continuous service with the Pennon Group for a period of three years from the award.

The number and weighted average price of shares in the Incentive Bonus Plan are:

	2013		2012	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share p	Number of Ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	158	589	174	550
Granted	50	755	50	725
Vested	(49)	473	(61)	620
Lapsed	-	-	(5)	620
At 31 March	159	677	158	589

The awards outstanding at 31 March 2013 had a weighted average price of 677p (2012: 589p) and a weighted average remaining contractual life of 1.3 years (2012: 1.3 years). The Group's share price at the date of the awards ranged from 473p to 755p.

The aggregate fair value of awards granted during the year was £0.3m (2012: £0.3m), determined from market value. No option pricing methodology is applied since dividends declared on the shares are receivable by the participants in the scheme.

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

26. Reserves

	Profit and loss account £m	Hedging Reserve £m	Total £m
At 1 April 2012	551.2	(43.1)	508.1
Profit on ordinary activities after taxation	136.3	-	136.3
Dividends paid	(133.0)	-	(133.0)
Actuarial loss recognised in the pension scheme	(10.4)	-	(10.4)
Deferred tax relating to actuarial loss	2.5	-	2.5
Deferred tax recognised directly in equity relating to the pension deficit	(1.3)	-	(1.3)
Deferred tax recognised directly in equity	0.2	-	0.2
Share based payments (net of tax)	1.2	-	1.2
Net movement in interest rate swaps	-	(7.9)	(7.9)
Exceptional item	-	2.9	2.9
At 31 March 2013	546.7	(48.1)	498.6

27. Reconciliation of Movements in Shareholders' Funds

	2013 £m	2012 £m
Profit on ordinary activities after taxation	136.3	103.8
Dividends paid	(133.0)	(77.9)
Share based payments (net of tax)	1.2	1.1
Other recognised gains and losses relating to the year	(15.4)	(63.2)
Deferred tax recognised directly in equity	0.2	0.1
Movement on deferred tax relating to pension scheme	1.2	9.6
Net change in Shareholders' Funds	(9.5)	(26.5)
Shareholders' Funds as at 1 April	659.0	685.5
Shareholders' Funds as at 31 March	649.5	659.0

28. Commitments and Contingent Liabilities

	2013 £m	2012 £m
Capital commitments		
Contracted but not provided	98.0	51.0
Commitments under operating leases		
Rentals due during the year following the balance sheet date		
Land and buildings leases expiring:		
within one year	0.1	0.1
between one and five years	0.1	0.1
after five years	1.3	1.2
	1.5	1.4

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

	2013 £m	2012 £m
Contingent Liabilities		
Guarantee of borrowings of subsidiary undertaking	371.0	363.6

29. Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2013 £m	2012 £m
Operating profit	219.5	203.8
Depreciation charge	80.7	79.6
Adjustment for employee share schemes	1.4	1.1
Deferred income released to profits	(1.0)	(1.1)
Decrease/(increase) in retirement benefit obligations	0.2	(26.2)
(Decrease)/increase in provision for liabilities and charges	(0.5)	1.0
Increase in stocks	(0.1)	(0.4)
(Increase)/decrease in debtors (amounts falling due within or over one year)	(15.9)	2.7
Increase/(decrease) in creditors (amounts falling due within or over one year)	6.5	(12.9)
Other income	0.7	0.6
Infrastructure renewals charge	32.9	31.6
Profit on disposal of tangible fixed assets	(1.4)	(1.1)
Net cash inflow from operating activities	323.0	278.7

(b) Analysis of cash flows for headings netted in the cash flow statement

(i) Returns on investments and servicing of finance

	2013 £m	2012 £m
Interest received	1.4	3.8
Exceptional item	15.4	-
Interest paid	(18.2)	(23.6)
Interest element of finance lease rentals	(44.7)	(34.1)
Net cash outflow for returns on investments and servicing of finance	(46.1)	(53.9)

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(ii) Capital expenditure and financial investment

	2013 £m	2012 £m
Purchase of tangible fixed assets	(96.2)	(116.4)
Grants and contributions:		
Infrastructure assets	3.9	5.0
Receipts from disposal of tangible fixed assets	1.6	1.3
Infrastructure renewals expenditure	(34.2)	(35.2)
Net cash outflow for capital expenditure and financial investment	(124.9)	(145.3)

(iii) Management of Liquid Resources

	2013 £m	2012 £m
Purchase of current asset investments	(305.0)	(285.0)
Sale of current asset investments	405.0	315.0
Net cash inflow from management of liquid resources	100.0	30.0

(iv) Financing

	2013 £m	2012 £m
Decrease in debt due within one year (other than bank overdrafts)	(21.1)	(21.5)
Decrease in debt due after more than one year	-	(14.6)
Finance lease drawdowns	85.5	65.0
Capital element of finance lease rental payments	(95.3)	(4.0)
Transfers to restricted deposit accounts	(25.3)	(26.9)
Net cash outflow from financing	(56.2)	(2.0)

NOTES TO THE HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

(c) Analysis of net debt

	At 1 April 2012 £m	Cash flow £m	Non-cash movements £m	At 31 March 2013 £m
Cash at bank and in hand	-	33.5	-	33.5
Current asset investments:				
Overnight deposits	20.0	(20.0)	-	-
Bank overdrafts	(15.3)	15.3	-	-
	4.7	28.8	-	33.5
Restricted deposit accounts	108.5	25.3	2.0	135.8
Debt due within one year				
(other than bank overdrafts)	(21.1)	21.1	(21.1)	(21.1)
Debt due after more than one year	(604.1)	-	13.9	(590.2)
Finance lease obligations	(1,238.0)	9.8	4.7	(1,223.5)
	(1,754.7)	56.2	(0.5)	(1,699.0)
Current asset investments:				
other than overnight deposits	165.1	(100.0)	-	65.1
	(1,584.9)	(15.0)	(0.5)	(1,600.4)

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations and increased accrued interest on unlisted investments.

(d) Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Increase in cash in year	28.8	1.1
Cash inflow from increase in debt and finance leasing	56.2	2.0
Cash outflow from liquid resources	(100.0)	(30.0)
Increase in net debt arising from cash flows	(15.0)	(26.9)
Non-cash movements:		
Other	(0.5)	(15.2)
Increase in net debt in the year	(15.5)	(42.1)
Net debt at 1 April	(1,584.9)	(1,542.8)
Net debt at 31 March	(1,600.4)	(1,584.9)

30. Related Party Transactions

Under FRS8, transactions with other wholly owned subsidiaries of the Pennon Group Plc are not required to be set out herein since the Company is a wholly owned subsidiary within that group.

There were no related party transactions involving Directors during the year.

31. Parent Company

The parent company, and ultimate controlling party, is Pennon Group Plc which is registered in England. Group financial statements are included in the Annual Report of Pennon Group Plc which is available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.

RECONCILIATION BETWEEN STATUTORY IFRS ACCOUNTS AND HISTORICAL COST REGULATORY ACCOUNTS

South West Water prepares its statutory accounts under the historical cost convention in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRIC) interpretations, as adopted by the European Union, with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The regulatory accounts contained in this document are prepared on the basis of regulatory accounting guidelines and UK accounting standards. The principal differences between the Company's statutory accounts and its regulatory accounts are set out below.

Profit and Loss Account / Income Statement

	2013 £m	2012 £m
Turnover		
Per statutory accounts	500.1	474.7
IFRS: revenue not recognised under IFRS as deemed uncollectible	7.2	6.6
Infrastructure charges credited to fixed assets in regulatory accounts	(2.9)	(3.5)
Amounts netted off operating costs in regulatory accounts	(1.0)	(0.4)
Rental income classified as 'other income' in regulatory accounts	(0.7)	(0.6)
Per regulatory accounts	502.7	476.8

	2013 £m	2012 £m
Operating profit		
Per statutory accounts	215.2	204.7
Infrastructure charges credited to fixed assets in regulatory accounts	(2.9)	(3.5)
Rental income classified as 'other income' in regulatory accounts	(0.7)	(0.6)
IFRS: difference between infrastructure renewals charge and depreciation	(10.7)	(9.9)
IFRS: capitalisation difference – opex transfers	21.0	15.8
IFRS: capitalisation difference - IFRIC 18	(2.5)	(2.8)
Rounding	0.1	0.1
Per regulatory accounts	219.5	203.8

	2013 £m	2012 £m
Profit before tax		
Per statutory accounts	164.5	141.4
Infrastructure charges credited to fixed assets in regulatory accounts	(2.9)	(3.5)
IFRS: difference between infrastructure renewals charge and depreciation	(10.7)	(9.9)
IFRS: capitalisation difference – opex transfers	21.0	15.8
IFRS: capitalisation difference - IFRIC 18	(2.5)	(2.8)
Rounding	0.1	0.1
Per regulatory accounts	169.5	141.1

RECONCILIATION BETWEEN STATUTORY IFRS AND HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

	2013 £m	2012 £m
Tax charge		
Per statutory accounts	30.7	11.9
IFRS: difference in deferred tax charge because provision not discounted	(0.6)	7.4
IFRS: deferred tax differences on industrial buildings	(0.6)	(0.6)
IFRS: change in future rates of corporation tax	6.4	12.6
IFRS: other deferred tax timing differences between IFRS and UK GAAP	(2.7)	6.0
Per regulatory accounts	33.2	37.3

	2013 £m	2012 £m
Retained profit		
Profit for the year per statutory accounts	133.8	129.5
Profit before tax differences as above	5.0	(0.3)
Taxation differences as above	(2.5)	(25.4)
Dividends (not shown in income statement for IFRS)	(133.0)	(77.9)
Retained profit per regulatory accounts	3.3	25.9

Balance Sheet

	2013 £m	2012 £m
Tangible assets		
Net book value per statutory accounts	2,555.3	2,541.1
Cumulative infrastructure charges credited to fixed assets	(44.7)	(41.9)
IFRS: cumulative impact of adopting IFRIC 18	(73.3)	(68.4)
IFRS: difference in infrastructure assets net book value as renewals accounting not used	16.7	7.8
IFRS: grants and contributions netted against fixed assets	10.9	11.7
Net book value per regulatory accounts	2,464.9	2,450.3

	2013 £m	2012 £m
Current assets		
Per statutory accounts	340.0	382.6
Infrastructure prepayment in regulatory accounts	9.5	8.3
IFRS: receivables displayed as long-term assets	0.4	1.0
Per regulatory accounts	349.9	391.9

RECONCILIATION BETWEEN STATUTORY IFRS AND HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

	2013 £m	2012 £m
Creditors less than one year		
Per statutory accounts	213.4	199.3
IFRS: current element of provisions shown in current liabilities	(3.2)	(3.7)
IFRS: current element of derivative financial instruments shown in current liabilities	(20.0)	(13.5)
IFRS: current element of grants & contributions netted against fixed assets	0.7	0.8
IFRS: current element of IFRIC 18 deferred income on adopted assets	(0.7)	(0.6)
Rounding	-	(0.1)
Per regulatory accounts	190.2	182.2

	2013 £m	2012 £m
Creditors more than one year		
Per statutory accounts	2,205.6	2,234.7
IFRS: non-current element of IFRIC 18 deferred income on adopted assets	(62.8)	(60.3)
IFRS: deferred tax adjustment as below	(177.9)	(179.5)
IFRS: non-current element of grants & contributions netted against fixed assets	10.2	10.9
IFRS: non-current derivative financial instruments classified as current	(31.1)	(29.6)
IFRS: pension adjustment	(19.9)	(18.7)
IFRS: other current provisions shown as non current	3.2	3.7
Rounding	0.1	0.1
Per regulatory accounts	1,927.4	1,961.3

	2013 £m	2012 £m
Deferred tax provision		
Per statutory accounts	243.0	256.2
IFRS: discounting not permitted	(167.2)	(173.0)
IFRS: deferred tax differences on industrial buildings	(37.7)	(34.0)
IFRS: deferred tax asset recognised on hedging reserve for statutory accounts but not UK GAAP	7.1	8.8
IFRS: deferred tax asset relating to pension fund deficit disclosed within deferred tax rather than netted against deficit	19.9	18.7
Per regulatory accounts	65.1	76.7

	2013 £m	2012 £m
Pension fund deficit		
Per statutory accounts	86.6	77.9
IFRS: deferred tax asset relating to pension fund deficit disclosed within deferred tax rather than netted against deficit	(19.9)	(18.7)
Per regulatory accounts	66.7	59.2

RECONCILIATION BETWEEN STATUTORY IFRS AND HISTORICAL COST REGULATORY ACCOUNTS - CONTINUED

	2013 £m	2012 £m
Net assets		
Per statutory accounts	480.1	494.1
Opening difference	164.9	193.2
Profit before tax difference in year per above	5.0	(0.3)
Taxation difference in year per above	(2.5)	(25.4)
IFRS: difference in deferred tax recognised in equity	0.4	1.6
IFRS: deferred tax asset recognised on hedging reserve for statutory accounts but not UK GAAP	1.7	(4.2)
Rounding	(0.1)	-
Net assets per regulatory accounts	649.5	659.0

Current Cost Profit and Loss Account for the Appointed Business for the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Turnover	2	496.4	471.4
Current cost operating costs - wholesale	3	(275.7)	(255.8)
Current cost operating costs - retail	3	(34.6)	(40.1)
Current cost profit on disposal of fixed assets	2	1.5	1.1
Working capital adjustment		(0.5)	(0.1)
Current cost operating profit		187.1	176.5
Other income		0.3	0.4
Net interest payable		(63.2)	(63.3)
Exceptional item		12.5	-
Financing adjustment		56.9	59.5
Current cost profit before taxation		193.6	173.1
Tax on profit on ordinary activities:			
- Current tax		(43.5)	(27.5)
- Deferred tax		10.7	(9.6)
Current cost profit on ordinary activities after taxation		160.8	136.0
Dividends		(133.0)	(77.9)
Current cost surplus transferred to reserves		27.8	58.1

Current Cost Balance Sheet for the Appointed Business at 31 March 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible fixed assets	4	11,196.4	10,853.8
Third party contributions since 1989/90		(1,365.4)	(1,316.4)
Infrastructure renewals prepayment		9.5	8.3
Working capital	5	22.3	14.7
Net operating assets		9,862.8	9,560.4
Cash and investments		234.8	290.9
Non-trade debtors		2.3	8.1
Non-trade creditors due within one year		(159.8)	(158.0)
Creditors due after more than one year		(1,782.2)	(1,810.7)
Provisions for liabilities and charges:			
- Deferred tax		(65.1)	(76.7)
- Other provisions		(3.4)	(3.7)
Net assets excluding pension liability		8,089.4	7,810.3
Pension liability		(66.7)	(59.2)
Net assets employed including pension liability		8,022.7	7,751.1
Capital and reserves			
Called-up share capital		150.9	150.9
Profit and loss account	6a	582.4	567.2
Current cost reserve	6b	7,289.4	7,033.0
Total capital and reserves		8,022.7	7,751.1

Approved by the Board of Directors on 10 July 2013 and were signed on its behalf by:

C Loughlin
Chief Executive

S Davy
Finance & Regulatory Director

Current Cost Cash Flow Statement for the year ended 31 March 2013

	Notes	2013 Appointed Business		2012 Appointed Business	
		£m	£m	£m	£m
Net cash flow from operating activities	7		325.1		278.3
Returns on investment & servicing of finance:					
Interest received		1.4		3.8	
Interest paid		(18.2)		(23.6)	
Interest element of finance lease rentals		(44.7)		(34.1)	
Net cash outflow for returns on investment & servicing of finance			(61.5)		(53.9)
Taxation			(33.6)		(28.3)
Capital expenditure and financial investment:					
Gross cost of purchase of fixed assets		(96.2)		(116.4)	
Receipt of grants and contributions		3.9		5.0	
Infrastructure renewals expenditure		(34.2)		(35.2)	
Receipts from disposal of fixed assets		1.6		1.3	
Movements on long term loans to group companies		0.6		(0.4)	
Net cash outflow from investing activities			(124.3)		(145.7)
Exceptional item			15.4		-
Equity dividends paid			(133.0)		(77.9)
Management of liquid resources:					
Disposal or redemption of other liquid assets		405.0		315.0	
Purchase of other liquid investments		(305.0)		(285.0)	
Net cash from management of liquid resources			100.0		30.0
Net cash inflow before financing			88.1		2.5
Financing:					
Capital element in finance lease rentals		(95.3)		(4.0)	
New bank loans		85.5		65.0	
Repayment of borrowings		(46.4)		(63.0)	
Net cash outflow from financing			(56.2)		(2.0)
Increase in cash and cash equivalents			31.9		0.5

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS

1. Current Cost Accounting Policies

(a) General

These Financial Statements have been prepared for the Appointed Business of South West Water Limited in accordance with guidance issued by the Water Services Regulation Authority (Ofwat) 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.

The accounting policies used are the same as those adopted in the Historical Cost Regulatory Accounts except as set out below.

(b) Tangible fixed assets

Assets 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 the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would be so funded on replacement, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

The Periodic Review process provides for a re-assessment of asset valuations through a refinement of asset records as part of the Company's Asset Management Plan (AMP). The current cost gross asset values and depreciation used in the current cost statement for 2012/2013 have been based on data derived from this review.

(i) Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexation using the Retail Prices Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Periodic Reviews by adjusting for inflation as measured by changes in RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

(ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan.

In the intervening years between Periodic Reviews, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

(iii) Other fixed assets

All other 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.

(iv) 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.

(v) Grants and other third party contributions

Grants, 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 the RPI for the year and treated as deferred income.

(c) 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.

(i) Working capital adjustment

This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors.

(ii) 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.

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

2. Analysis of Turnover and Operating Income for the Appointed Business

	2013			2012		
	Water Services £m	Sewerage Services £m	Appointed Business £m	Water Services £m	Sewerage Services £m	Appointed Business £m
Turnover						
Measured:						
Household	100.5	131.3	231.8	91.2	118.9	210.1
Non-household	49.1	43.8	92.9	47.7	41.5	89.2
Unmeasured:						
Household	60.7	75.0	135.7	61.2	76.5	137.7
Non-household	4.4	5.6	10.0	3.6	5.1	8.7
Trade effluent	-	4.2	4.2	-	3.8	3.8
Large user revenues	7.2	8.6	15.8	7.3	8.4	15.7
Third party services	5.5	0.5	6.0	5.0	1.2	6.2
	227.4	269.0	496.4	216.0	255.4	471.4
Current Cost Profit on Sale of Fixed Assets	1.0	0.5	1.5	0.7	0.4	1.1

The figure for large user revenues include any trade effluent turnover arising from those customers.

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

3a. Operating cost analysis for the 12 months ended 31 March 2013 (wholesale business only)

	Water Resources £m	Raw Water Distribution £m	Water Treatment £m	Treated Water Distribution £m	Water Sub-Total £m	Sewage Collection £m	Sewage Treatment £m	Sludge Treatment £m	Sludge Disposal £m	Sewerage Sub-Total £m	Wholesale Total £m
Operating expenditure											
Power	1.0	0.8	5.5	1.3	8.6	5.4	6.8	2.9	-	15.1	23.7
Income treated as negative expenditure	(0.4)	(0.1)	(0.2)	-	(0.7)	-	-	[0.2]	-	(0.2)	(0.9)
Service charges	4.0	-	0.1	-	4.1	0.8	2.5	-	-	3.3	7.4
Bulk supply imports	-	-	-	-	-	-	-	-	-	-	-
Other operating expenditure	2.4	0.8	13.6	15.2	32.0	12.0	22.9	8.2	3.5	46.6	78.6
Local authority rates	1.5	0.4	1.9	11.4	15.2	-	5.7	0.8	-	6.5	21.7
Exceptional item	-	-	-	-	-	-	-	-	-	-	-
Total operating expenditure excluding third party services	8.5	1.9	20.9	27.9	59.2	18.2	37.9	11.7	3.5	71.3	130.5
Capital Maintenance											
Infrastructure renewals charge	2.4	0.6	-	12.6	15.6	16.8	0.5	-	-	17.3	32.9
Current cost depreciation	3.2	1.6	18.5	14.0	37.3	10.3	54.1	6.2	0.1	70.7	108.0
Recharges to other business units	-	-	-	-	-	-	-	-	-	-	-
Recharges from other business units	-	-	-	-	-	-	-	-	-	-	-
Amortisation of deferred credits	-	-	(0.4)	(0.1)	(0.5)	(0.2)	(0.6)	(0.1)	-	(0.9)	(1.4)
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	-
Total Capital maintenance excluding third party services	5.6	2.2	18.1	26.5	52.4	26.9	54.0	6.1	0.1	87.1	139.5
Third party services											
Operating expenditure	-	-	-	3.3	3.3	1.8	0.5	0.1	-	2.4	5.7
Infrastructure renewals charge	-	-	-	-	-	-	-	-	-	-	-
Current cost depreciation	-	-	-	-	-	-	-	-	-	-	-
Total operating costs	14.1	4.1	39.0	57.7	114.9	46.9	92.4	17.9	3.6	160.8	275.7

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

3b. Operating cost analysis for the year ended 31 March 2013 (retail business only)

	Retail Household £m	Retail Non- Household £m	Retail Total £m
Direct Costs			
Customer services	7.8	0.8	8.6
Debt management	0.8	-	0.8
Doubtful debts	16.0	0.7	16.7
Meter reading	1.1	0.2	1.3
Services to developers	-	0.2	0.2
Other operating expenditure	3.2	0.3	3.5
Local authority rates	0.1	-	0.1
Exceptional item	-	-	-
Total operating expenditure excluding third party services	29.0	2.2	31.2
Third party services operating expenditure	-	-	-
Total operating expenditure	29.0	2.2	31.2
Capital Maintenance			
Current cost depreciation	3.1	0.3	3.4
Recharges to other business units	-	-	-
Recharges from other business units	-	-	-
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	3.1	0.3	3.4
Total operating costs	32.1	2.5	34.6
Debt written off	8.0	0.8	8.8

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

4a. Current cost analysis of fixed assets (wholesale business only)

	Water Resources £m	Raw Water Distribution £m	Water Treatment £m	Treated Water Distribution £m	Water Sub-Total £m	Sewage Collection £m	Sewage Treatment £m	Sludge Treatment £m	Sludge Disposal £m	Sewerage Sub-Total £m	Wholesale Total £m
Non- Infrastructure assets											
Gross replacement cost											
Gross replacement cost at 1 April	71.5	42.0	596.6	511.5	1,221.6	334.2	1,539.9	144.6	2.6	2,021.3	3,242.9
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	(1.1)	1.9	3.9	64.4	69.1	(8.2)	(15.2)	1.3	(1.5)	(23.6)	45.5
RPI adjustment	2.3	1.4	19.7	18.9	42.3	10.9	50.0	4.9	0.1	65.9	108.2
Disposals	(0.1)	-	(0.3)	(0.6)	(1.0)	(0.2)	(0.3)	(0.1)	-	(0.6)	(1.6)
Additions	1.0	-	10.0	17.1	28.1	11.9	39.4	2.9	-	54.2	82.3
Gross replacement cost at 31 March	73.6	45.3	629.9	611.3	1,360.1	348.6	1,613.8	153.6	1.2	2,117.2	3,477.3
Depreciation											
Depreciation at 1 April	41.1	29.4	323.3	246.5	640.3	142.5	859.7	74.9	1.3	1,078.4	1,718.7
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	(1.0)	1.1	2.5	33.8	36.4	(3.7)	(5.0)	0.6	(0.7)	(8.8)	27.6
RPI adjustment	1.3	1.0	10.7	9.2	22.2	4.6	28.0	2.5	-	35.1	57.3
Disposals	(0.1)	-	(0.3)	(0.5)	(0.9)	(0.2)	(0.3)	(0.1)	-	(0.6)	(1.5)
Charge for year	3.5	1.7	18.7	14.2	38.1	10.4	54.4	6.3	0.1	71.2	109.3
Depreciation at 31 March	44.8	33.2	354.9	303.2	736.1	153.6	936.8	84.2	0.7	1,175.3	1,911.4
Net book amount at 31 March	28.8	12.1	275.0	308.1	624.0	195.0	677.0	69.4	0.5	941.9	1,565.9
Net book amount at 1 April	30.4	12.6	273.3	265.0	581.3	191.7	680.2	69.7	1.3	942.9	1,524.2
Infrastructure assets											
Gross replacement cost											
Gross replacement cost at 1 April	399.4	94.8	-	3,125.2	3,619.4	5,522.3	147.0	-	-	5,669.3	9,288.7
AMP adjustment	-	-	-	-	-	-	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-
RPI adjustment	13.1	3.1	-	102.5	118.7	181.2	4.8	-	-	186.0	304.7
Disposals	-	-	-	-	-	-	-	-	-	-	-
Additions ⁽¹⁾	2.1	-	-	6.0	8.1	12.1	-	-	-	12.1	20.2
Gross replacement cost at 31 March	414.6	97.9	-	3,233.7	3,746.2	5,715.6	151.8	-	-	5,867.4	9,613.6

(1) To meet the requirements of RAG 1.05 adopted assets have been included in fixed asset additions at their MEA value with the corresponding credit to third party contributions.

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

4b. Current cost analysis of fixed assets (retail business only)

	Retail Household £m	Retail Non- Household £m	Retail Total £m
Gross Replacement Cost			
Gross replacement cost at 1 April 2012	74.2	8.4	82.6
AMP adjustment	-	-	-
Reclassification adjustment	(44.4)	(5.2)	(49.6)
RPI adjustment	1.0	0.1	1.1
Disposals	(0.4)	(0.1)	(0.5)
Additions	0.9	0.1	1.0
Gross replacement cost at 31 March 2013	31.3	3.3	34.6
Depreciation			
Depreciation at 1 April 2012	37.5	4.2	41.7
AMP adjustment	-	-	-
Reclassification adjustment	(24.6)	(2.9)	(27.5)
RPI adjustment	0.4	-	0.4
Disposals	(0.3)	-	(0.3)
Charge for year	3.1	0.3	3.4
Depreciation at 31 March 2013	16.1	1.6	17.7
Net book amount at 31 March 2013	15.2	1.7	16.9
Net book amount at 1 April 2012	36.7	4.2	40.9

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

4c. Analysis of Capital Expenditure, grants and land sales for the 12 months ended 31 March 2013

	2013			2012		
	Gross £m	G&C £m	Net £m	Gross £m	G&C £m	Net £m
Capital expenditure - water						
Base:						
Infrastructure Renewals Expenditure (IRE)	14.7	-	14.7	20.5	-	20.5
Maintenance non-infrastructure (MNI)	21.5	-	21.5	25.5	-	25.5
Enhancements:						
Infrastructure enhancements	5.5	(0.5)	5.0	6.6	(1.1)	5.5
Non-infrastructure enhancements	7.1	-	7.1	10.9	-	10.9
Total capital expenditure - water	48.8	(0.5)	48.3	63.5	(1.1)	62.4
Grants and Contributions - water						
Developer contributions		(0.5)			(1.1)	
Infrastructure charge receipts		(1.5)			(1.8)	
Other contributions		-			-	
Total grants and contributions - water		(2.0)			(2.9)	
Capital expenditure - sewerage						
Base:						
Infrastructure Renewals Expenditure (IRE)	19.5	-	19.5	14.7	-	14.7
Maintenance non-infrastructure (MNI)	41.8	-	41.8	42.2	-	42.2
Enhancements:						
Infrastructure Enhancements	11.4	(0.5)	10.9	7.4	(0.5)	6.9
Non-infrastructure Enhancements	13.0	-	13.0	12.8	-	12.8
Large projects capex:						
Infrastructure enhancements	-	-	-	-	-	-
Non-infrastructure enhancements	-	-	-	-	-	-
Total capital expenditure - sewerage	85.7	(0.5)	85.2	77.1	(0.5)	76.6
Grants and Contributions - Sewerage						
Developer contributions		(0.5)			(0.5)	
Infrastructure charge receipts		(1.4)			(1.6)	
Other contributions		-			-	
Total grants and contributions - sewerage		(1.9)			(2.1)	
Total capital expenditure - water and sewerage	134.5	(1.0)	133.5	140.6	(1.6)	139.0
Land sales - Proceeds from disposal of protected land			1.4			1.0

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

5. Working Capital

	2013 £m	2012 £m
Stocks	3.8	3.7
Trade debtors:		
Measured household	0.9	(7.4)
Unmeasured household	16.9	13.6
Measured non-household	6.6	5.5
Unmeasured non-household	0.2	0.4
Other	10.4	0.2
Measured income accrual	56.0	57.7
Prepayments and other debtors	7.8	7.1
Trade creditors	(12.7)	(14.9)
Deferred income - customer advance receipts	(4.8)	(5.4)
Capital creditors	(33.4)	(30.2)
Accruals and other creditors	(29.4)	(15.6)
Total working capital	22.3	14.7
Total revenue outstanding - household	119.4	102.8
Total revenue outstanding - non-household	10.4	10.0

6. Reserves

(a) Profit and Loss Account

	£m
At 1 April 2012	567.2
Profit on ordinary activities after taxation	160.8
Dividends paid	(133.0)
Actuarial loss recognised in the pension scheme	(10.4)
Deferred tax relating to actuarial loss	2.5
Movement on deferred tax recognised directly in equity	(1.1)
Share-based payments	1.4
Net movement on interest rate swaps	(5.0)
At 31 March 2013	582.4

(b) Current Cost Reserve

	2013 £m	2012 £m
At 1 April	7,033.0	6,763.6
RPI adjustments:		
Fixed assets	356.0	334.5
Working capital	0.5	0.1
Financing	(56.9)	(59.5)
Grants and third party contributions	(43.2)	(5.7)
At 31 March	7,289.4	7,033.0

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

7. Notes to the Cash Flow Statement

Reconciliation of operating profit to net cash inflow from operating activities

	2013 £m	2012 £m
Current cost operating profit	187.1	176.5
Working capital adjustment	0.5	0.1
Increase in working capital	(10.8)	(5.7)
Receipts from other income	0.3	0.4
Current cost depreciation	110.1	104.6
Current cost profit on sale of fixed assets	(1.5)	(1.1)
Infrastructure renewals charge	32.9	31.6
Movement in provisions	6.5	(28.1)
Net cash flow from operating activities	325.1	278.3

8. Analysis of Net Debt

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Borrowings (excluding preference shares)	(868.2)	(584.6)	(382.0)	(1,834.8)
Preference share capital	-	-	-	-
Total Borrowings (including overdraft of £nil)				(1,834.8)
Cash				33.5
Short term deposits				200.9
Net Debt				(1,600.4)
Regulatory capital value				2,915.7
Gearing				55%
Full year equivalent nominal interest cost	29.0	1.4	34.8	65.2
Full year equivalent cash interest payment	29.0	1.4	18.8	49.2
Indicative interest rates:				
Indicative weighted average nominal interest rate			3.6%	3.6%
Indicative weighted average cash interest rate			2.7%	2.7%
Weighted average years to maturity	24	25	39	27

NOTES TO THE CURRENT COST REGULATORY ACCOUNTS - CONTINUED

9. Regulatory Capital Value (RCV)

	2013 £m
Opening RCV for the year (indexed by RPI)	2,920
Capital Expenditure	128
Infrastructure renewals expenditure	45
Grants and contributions	(8)
Depreciation	(121)
Infrastructure renewals charge	(33)
Outperformance of Regulatory Assumptions (5 years in arrears)	(15)
Closing RCV carried forward	2,916
Average RCV	2,870

The table shows the RCV used in setting the price limits for 2012/13. The differences between the assumptions for the component parts such as capital expenditure shown above and the actual amounts do not affect the price limits in the current review period. Variances in capital expenditure in the current price setting period, after agreeing adjustments with Ofwat through the process of logging up / logging down of capital expenditure, will be taken into account in the calculation of the RCV used to set prices for the next review period. The opening RCV for the year shown above is inflated from the closing RCV for the previous year by RPI.

10. Non-financial information for the year ended 31 March

	2013		2012	
	Water	Sewerage	Water	Sewerage
Number of properties ('000s)				
Households billed	708.3	653.4	704.5	649.9
Non-households billed	72.9	46.6	72.6	46.1
Household voids	10.5	9.7	9.2	8.6
Non-household voids	2.5	1.9	2.5	2.0
Per capita consumption (excluding supply pipe leakage) l/h/d:				
Unmeasured household	172.96		163.46	
Measured household	118.56		119.01	
Volume (Ml/d)				
Bulk supply export	0.04		0.03	
Bulk supply import	-		0.04	
Distribution input	415.65		415.08	

The information in the table above is not audited.

ADDITIONAL INFORMATION REQUIRED UNDER CONDITION F OF THE COMPANY'S LICENCE

(a) Statement of compliance with condition F and RAG 5.05

It is confirmed that to the best of the directors' knowledge, all transactions between the Appointed Business and Associated Companies have been disclosed and that these transactions have been conducted at arm's length and that cross subsidy is not occurring.

(b) Sales of services between the Appointed Business and Associated Companies

(i) Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Group expenses	Pennon Group Plc	9.6	Recharge of appropriate costs	3.5
Dry waste and sludge transport	Viridor Waste Group	703.8	Competitive letting/other market testing	0.5
Property sales	Peninsula Properties (Exeter) Limited	0.2	Other market testing	0.2
Insurance premiums	Peninsula Insurance Limited	1.2	Other market testing	0.3
Billing and Collection Services	Source Contact Management Limited	1.3	Other market testing	8.8
				13.3

(ii) Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Administrative services	Pennon Group Plc	Recharge of appropriate costs	0.5
Tankered waste & trade effluent charges	Viridor Waste Group	Commercial at arms length	0.7
Other services	Various	Recharge of appropriate costs	1.5
			2.7

(c) Dividends paid to Associated Companies

The company has established a dividend policy which involves the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital.
- a further level of growth funded by efficiency out-performance.
- consistency with the assumptions made by Ofwat in setting prices for the K4 period.

Taking into account balance sheet considerations, dividend payments are also designed to ensure that key financial ratios are not prejudiced and that the ability of the Appointee to finance its Appointed Business is not impaired.

Dividends totalling £133.0m (2012: £77.9m) were paid to the parent undertaking, representing a base dividend for 2012/13 of £65.8m, dividend in respect of outperformance of £28.1m for 2012/13 and £39.1m of outperformance for 2011/12. These dividends were calculated with reference to the projections in the Final Determination 2009.

ADDITIONAL INFORMATION REQUIRED UNDER CONDITION F OF THE COMPANY'S LICENCE - CONTINUED

(d) Borrowings from Associated Companies

Company	Principal Amount £m	Repayment date	Interest rate %
South West Water Finance Plc:			
loan notes 2040	132.5	2040	6.83% (fixed until July 2040)
South West Water Finance Plc:			
index-linked bond 2057	247.3	2057	RPI + 1.99%
Peninsula Leasing Limited:			
Finance leases in respect of motor vehicles	0.7	2013/14 to 2015/16	6.06%

(e) Loans to Associated Companies

Company	Principal £m	Repayment date	Interest rate %	Interest received £m
Peninsula Leasing Limited	1.0	2013/14 to 2015/16	Variable	0.1

(f) Guarantees

The Company has provided guarantees to third party lenders in respect of loans and finance leases extended to its subsidiary, South West Water Finance Plc (£371.0m at 31 March 2013). The funds raised were lent to the Company on 'back to back' terms, as described in section (d) above.

(g) The role of South West Water Limited's Directors in Associated Companies

The Company has taken a conscious decision to minimise the role of its Directors on the boards of associated companies and hence avoid the potential risk of conflict of interest.

Apart from the roles of the Non-executive Chairman and Company Secretary, and that of the Chief Executive on the Board of the parent company, the only cross-directorships are that of the Chief Executive on the Boards of Peninsula Water Limited, Source Contact Management Limited and South West Water Finance Plc, S J Davy on the Boards of Peninsula Leasing Limited, Peninsula Properties (Exeter) Limited, South West Water Finance Plc, Source Contact Management Limited and Source Collections Limited.

ADDITIONAL INFORMATION REQUIRED UNDER CONDITION F OF THE COMPANY'S LICENCE - CONTINUED

Full details are provided in the following table:

Name	Position in appointed business	Associated company	Position in associated company
K G Harvey	Chairman	Pennon Group Plc	Chairman
		Viridor Waste Limited	Chairman
		Viridor Limited	Chairman
		Peninsula Trustees Limited	Chairman
		Pennon Pension Trustees Limited	Chairman
C Loughlin	Chief Executive	Pennon Group Limited	Director
		Peninsula Water Limited	Chairman
		Source Contact Management Limited	Chairman
		Echo South West Limited (resigned 18 February 2013)	Director
		South West Water Finance Plc	Director
K D Woodier*	Company Secretary	Echo South West Limited	Secretary
		Peninsula Properties (Exeter) Limited	Secretary
		Peninsula Leasing Limited	Director/Secretary
		Pennon Group Plc	Secretary
		Peninsula Water Limited	Secretary
		Viridor Waste Limited	Secretary
		Viridor Waste Suffolk Limited	Secretary
		Viridor Waste (Thames) Limited	Secretary
		Viridor Limited	Secretary
		South West Water Finance Plc	Director/Secretary
		Pennon Pension Trustees Limited	Director
		Peninsula Trustees Limited	Secretary
S C Bird	Operations Director	Peninsula Trustees Limited	Director
		Pennon Pension Trustees Limited	Director
S J Davy	Finance & Regulatory Director	Peninsula Leasing Limited	Director
		Peninsula Properties (Exeter) Limited	Director
		South West Water Finance Plc	Director
		Source Contact Management Limited	Director
		Source Collections Limited	Director
		Pennon Pension Trustees Limited	Director
M S Read	Customer Relations & Business Development Director	Echo South West Limited	Director

* Mr K D Woodier, in his capacity as Company Secretary for the Pennon Group, is a Director and / or Secretary for most companies in the Pennon Group in addition to South West Water and its subsidiaries. He does not participate in the executive management of South West Water Limited and its subsidiaries.

(h) Methodology for allocating costs between services (note 3)

Direct operating and capital costs which are incurred directly by a specific service are not required to be allocated. Other direct costs are allocated based on an appropriate driver or according to local managers' assessment.

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