SCOTTISH WATER

Financial Statements
for the year ended 31 March 2010

Scottish Water

Consolidated income statement

For the year ended 31 March 2010

	Note	2010 £m	2009 £m
Revenue	3	**1,124.1**	**1,094.6**
Cost of sales		(674.3)	(609.2)
Gross surplus		**449.8**	**485.4**
Administrative expenses		(104.5)	(101.8)
Operating surplus	3, 4	**345.3**	**383.6**
Finance income	7	38.9	56.4
Finance costs	7	(238.9)	(236.2)
Surplus before taxation		**145.3**	**203.8**
Taxation	8	(37.7)	(76.8)
Surplus for the year	20	**107.6**	**127.0**

Consolidated statement of comprehensive income

For the year ended 31 March 2010

	Note	2010 £m	2009 £m
Surplus for the year	20	107.6	127.0
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of deferred taxation	22	(160.8)	(134.7)
Total comprehensive expense for the year		(53.2)	(7.7)

The surplus for the period and total comprehensive income for the period are attributable to the owners of Scottish Water.

Scottish Water

Consolidated statement of changes in equity

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2008		615.3	133.4	748.7
Surplus for the year		127.0		127.0
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax	22	(134.7)		(134.7)
Balance at 31 March 2009		**607.6**	**133.4**	**741.0**
Surplus for the year		107.6		107.6
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax	22	(160.8)		(160.8)
Balance at 31 March 2010		**554.4**	**133.4**	**687.8**

Company statement of changes in equity

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2008		609.4	133.4	742.8
Surplus for the year	20	118.3		118.3
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax	22	(134.1)		(134.1)
Balance at 31 March 2009		**593.6**	**133.4**	**727.0**
Surplus for the year	20	97.2		97.2
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax	22	(158.8)		(158.8)
Balance at 31 March 2010		**532.0**	**133.4**	**665.4**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Corporate Governance Direction, are recorded on the balance sheet under Equity.

Scottish Water

Balance Sheets

As at 31 March 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Assets					
Non-current assets					
Property, plant and equipment	9	4,972.5	4,743.1	4,959.1	4,738.5
Investments	10	-	-	37.6	37.6
Deferred tax asset	15	0.9	0.3	-	-
		4,973.4	4,743.4	4,996.7	4,776.1
Current assets					
Inventories	11	2.6	3.2	2.5	2.9
Trade and other receivables	12	143.8	135.9	52.2	64.4
Current tax asset		0.3	0.5	0.2	0.5
Cash and cash equivalents	13	218.5	75.2	153.5	15.9
		365.2	214.8	208.4	83.7
Total assets		**5,338.6**	**4,958.2**	**5,205.1**	**4,859.8**
Liabilities					
Current liabilities					
Trade and other payables	14	(383.3)	(337.4)	(341.8)	(320.2)
Other loans and borrowings	17	(15.1)	(15.9)	(15.1)	(15.9)
Current tax liabilities		(2.3)	(2.6)	-	-
Provisions for liabilities	16	(12.7)	(9.1)	(12.3)	(8.7)
		(413.4)	(365.0)	(369.2)	(344.8)
Non-current liabilities					
Trade and other payables	14	(43.4)	(63.6)	(37.3)	(57.8)
Other loans and borrowings	17	(452.4)	(467.9)	(452.4)	(467.9)
Deferred tax liabilities	15	(210.9)	(244.4)	(211.8)	(245.0)
Retirement benefit obligations	22	(462.8)	(223.4)	(459.6)	(222.9)
Provisions for liabilities	16	(3.2)	(10.0)	(3.2)	(10.0)
		(1,172.7)	(1,009.3)	(1,164.3)	(1,003.6)
Total liabilities		**(1,586.1)**	**(1,374.3)**	**(1,533.5)**	**(1,348.4)**
Net assets		**3,752.5**	**3,583.9**	**3,671.6**	**3,511.4**
Equity					
Government loans	18	3,064.7	2,842.9	3,006.2	2,784.4
Retained earnings	20	554.4	607.6	532.0	593.6
Other reserves		133.4	133.4	133.4	133.4
		3,752.5	**3,583.9**	**3,671.6**	**3,511.4**

These financial statements were approved by the Board of Members on 2 June 2010 and signed on their behalf by

Richard Ackroyd
Chief Executive

Scottish Water

Statements of cash flow

For the year ended 31 March 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Surplus before taxation		145.3	203.8	130.6	190.4
Depreciation charges		223.1	189.6	222.5	188.8
Amortisation of grants		(1.1)	(1.1)	(0.9)	(0.9)
Surplus on disposal of property, plant and equipment		(1.6)	(1.5)	(1.6)	(1.5)
Non cash adjustment for retirement benefit obligations		(3.3)	(3.4)	(3.1)	(3.3)
Finance costs - net		200.0	179.8	199.0	179.4
Operating cashflow before changes in working capital and provisions		**562.4**	**567.2**	**546.5**	**552.9**
Changes in working capital and provisions:					
(Increase)/decrease in receivables		(7.9)	18.1	12.2	72.5
Decrease in inventories		0.6	0.7	0.4	0.7
(Decrease)/increase in payables		(29.1)	49.3	(52.1)	53.0
Decrease in provisions		(4.4)	(1.7)	(4.5)	(2.1)
Cash flows from operating activities		**521.6**	**633.6**	**502.5**	**677.0**
Taxation (paid)/refund		(4.8)	(5.9)	0.1	(1.3)
Net cash generated from operating activities		516.8	627.7	502.6	675.7
Cash flows from investing activities					
Purchase of property, plant and equipment		(406.2)	(673.5)	(397.1)	(672.1)
Sale of property, plant and equipment		2.0	3.0	2.0	3.0
Government grants and other contributions		1.3	0.3	-	-
Infrastructure income receipts		7.1	7.8	7.1	7.8
Net cash used in investing activities		(395.8)	(662.4)	(388.0)	(661.3)
Cash flows from financing activities					
Repayments of loans		(121.1)	(493.4)	(121.1)	(245.5)
Proceeds from borrowings		339.9	713.2	339.9	406.8
Interest received		0.6	3.1	0.3	0.9
Interest paid		(183.8)	(180.9)	(182.8)	(178.3)
Payment of finance lease liabilities		(13.3)	(12.3)	(13.3)	(12.3)
Net cash generated from / (used in) financing activities		22.3	29.7	23.0	(28.4)
Net increase/(decrease) in cash and cash equivalents		**143.3**	**(5.0)**	**137.6**	**(14.0)**
Cash and cash equivalents at beginning of year	13	75.2	80.2	15.9	29.9
Cash and cash equivalents at end of year	13	**218.5**	**75.2**	**153.5**	**15.9**

1 Accounting policies

General information

Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

Basis of preparation

This is the first year that Scottish Water has presented the consolidated and company financial statements under International Financial Reporting Standards (IFRS), in accordance with the Chancellor of the Exchequer's announcement in the 2008 Budget. The financial statements of Scottish Water for the year ended 31 March 2010 have been prepared in accordance with EU Endorsed IFRS and IFRIC interpretations, as interpreted by the International Government Financial Reporting Manual (FReM). The FReM is published by HM Treasury and is available from their website.

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, in a form directed by Scottish Ministers in accordance with section 45(2) of the Water Industry (Scotland) Act 2002. The Company's financial statements have been prepared on the same basis and, as permitted by Section 408 of the Companies Act 2006, no income statement is presented for the Company.

Following the implementation of IFRS, Scottish Water's accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented and in preparing the opening IFRS balance sheet as at 1 April 2008 for the purposes of the transition to adopted IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies (note 2).

As at the date of authorisation of these financial statements, the following IFRS and IFRIC were in issue but not yet effective. Scottish Water has not applied these IFRS and IFRIC in the preparation of the financial statements:

- effective from 1 July 2009. The amendments relate primarily to accounting for non-controlling interests and the losses of control of a subsidiary. It also addresses the guidance for applying the acquisition method of accounting.

- Improvements to IFRS', issued in April 2009 and effective from 1 January 2010, is a collection of amendments to 12 standards, part of the IASB programme of annual improvements.

The impact on Scottish Water's financial statements of the future adoption of the standards is under review, but Scottish Water does not expect any of the changes to have a material effect on the results or net assets of the group.

Scottish Water has adopted early the revised IAS 24 'Related Party Disclosures' which simplifies and clarifies the definition of a related party. It also removes the requirement for government related entities to disclose details of all transactions with the government and other government releated entities.

The consolidated financial statements are presented in Pounds Sterling which is the functional and presentational currency of Scottish Water and its subsidiaries.

Basis of consolidation

(a) Subsidiaries

The consolidated financial information incorporates the results of Scottish Water (the Company) and its trading subsidiaries. The consolidated financial information does not include the non trading subsidiaries as permitted under section 405 of the Companies Act 2006. Subsidiaries are all entities over which Scottish Water has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Scottish Water Business Stream Ltd (Business Stream) is treated as a subsidiary although special governance arrangements, established in conjunction with the Water Commission for Scotland and associated with the conditions attached to Business Stream's licence for the supply of water and waste water services, limit Scottish Water's control over its operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to Scottish Water; they are de-consolidated from the date when control ceases.

Intercompany transactions, balances and any unrealised gains on transactions between Scottish Water related companies have been eliminated within the consolidated financial statements.

(b) Jointly controlled operations

The nature of the contractual agreement between Scottish Water and the other shareholders in Scottish Water Solutions Limited is such that the parties are engaged in joint activities that do not constitute an entity carrying on a trade or business in its own right. Consequently, Scottish Water Solutions Limited has been accounted for under IAS 31 'Interests in joint ventures', as a jointly controlled operation. On this basis Scottish Water accounts directly for its own gross assets, liabilities and cash flows in the joint operation.

1 Accounting policies (continued)

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Scottish Water.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer. Revenue is shown net of value added tax and after eliminating sales between the Scottish Water related companies. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue.

Revenue comprises charges to customers for water and wastewater services, and related services provided during the year in the normal course of business. For measured customers, turnover includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects which either do not meet the criteria defined in IAS 38 'Intangible assets' or are deemed to be not material, are recognised as an expense as incurred. Development costs which meet the relevant criteria are capitalised and written off over their expected useful lives. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Finance income and costs

Finance income comprises interest receivable on funds invested and expected returns on pension scheme assets recognised in the income statement. Finance costs comprise interest payable on borrowings and interest on pension scheme liabilities. Interest income and costs are recognised in the income statement as they accrue, on an effective interest rate method.

Borrowing costs incurred by Scottish Water that are not directly attributable to the acquisition, construction or production of qualifying assets are expensed in the period in which they are accrued.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, unless it relates to items recognised directly in reserves, in which case it is recognised in reserves.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is held at fair value.

Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly.

Due to the specialised nature of the majority of these assets, they are measured at cost less depreciation and after impairments where applicable. Cost includes expenditure that is directly attributable to the acquisition of the items or, for self-constructed assets, includes the cost of materials, direct labour and an appropriate proportion of production overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Infrastructure assets

The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1 (revised), the Group identified the carrying value of these assets as at the inception of Scottish Water and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the income statement.

Depreciation

Freehold land and assets under construction are not depreciated. Depreciation is provided on other assets to write-off cost, less residual values, on a straight-line basis over their estimated operational lives, from the date of beneficial use as follows:

Infrastructure assets	80 to 150 years
Non-specialised operational buildings and structures	60 years
Specialised operational buildings and structures	20 to 80 years
Plant, machinery and vehicles	1 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leased assets

Leases where Scottish Water control through ownership, beneficial entitlement or otherwise, any significant residual interest in the assets at the end of the service concession agreements are treated as finance leases. Private Finance Initiative (PFI) contracts are treated as finance leases, in accordance with IFRIC 12.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at their fair value or, if lower, at the present value of the minimum lease payments, as determined at the inception of the PFI contract. The corresponding liability is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Finance charges are charged directly to the income statement. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are categorised as operating leases. Payments made under operating leases are charged to the income statement over the term of the lease on a straight-line basis.

Impairment of assets

The carrying values of the Group's non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1 Accounting policies (continued)

Capital grants and customer contributions

Capital grants and customer contributions in respect of infrastructure assets are deducted from the cost of the fixed asset. Grants and contributions received in respect of non-infrastructure assets are credited to deferred income and are released to the income and expenditure account over the expected useful lives of the relevant fixed assets.

Investments

Investments in subsidiaries, held as non-current assets, are stated at cost less any provision for impairment. Any impairment is charged to the income statement as it arises.

Inventories

Inventories and work in progress are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost includes all costs incurred in bringing each asset to its present location and condition. The valuation of work in progress is based on the cost of labour and materials plus appropriate overheads.

Financial instruments

Scottish Water's financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, as well as trade and other payables that arise directly from operations.

(a) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision necessary where there is evidence that Scottish Water will not be able to collect all amounts due. The provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile of the outstanding debt. Trade receivable balances are written off when Scottish Water determines that it is unlikely that future remittances will be received. Trade receivables do not carry any interest.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks, which have a maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value.

(c) Trade and other payables

Trade and other payables are measured initially at fair value and are subsequently measured at amortised cost.

(d) Interest-bearing loans and borrowings

Borrowings are recognised initially at fair value and are subsequently stated at amortised cost. Overdrafts and non Government loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial instruments are recognised in the balance sheet when an obligation is identified and released as that obligation is fulfilled. No trading in derivative financial instruments was undertaken.

Scottish Water's policy is not to trade or speculate in financial instruments. All treasury activities are undertaken in accordance with the permitted activities as set out in the Scottish Water Governance Directions 2009.

Employee benefit obligations

Employees of Scottish Water participate in the Local Government Pension Scheme administered by Aberdeen, Glasgow and Edinburgh City Councils, all of which are defined benefit schemes. Pension scheme assets are measured using the bid market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the defined benefit pension schemes expected to arise from employee service in the period is charged to operating surplus. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in finance income and finance costs. Actuarial gains and losses are recognised in full as an item of 'other comprehensive income' in the consolidated statement of comprehensive income. Pension scheme deficits and surpluses, to the extent that the surplus is considered recoverable, are recognised in full and presented on the face of the balance sheet.

1 Accounting policies (continued)

Provisions
Provisions are recognised when there is a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions currently relate to onerous property rental costs, income uncertainty and redundancy costs associated with employees who will leave Scottish Water under voluntary redundancy and early retirement. Pension related liabilities associated with employees who have left Scottish Water under the voluntary severance scheme are recognised in the pension liability.

Indebtedness to the Scottish Ministers
Loans from the National Loans Fund, the Scottish Consolidated Fund and other Government borrowings are treated as part of capital and reserves, including loan repayments due within one year, in accordance with the Scottish Water Governance Directions 2009.

2 Accounting estimates and judgements

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical of these accounting judgement and estimation areas are noted below.

(a) Revenue recognition

Revenue relating to metered customers includes an estimate of the value of water or waste water services supplied between the date of the last meter reading and the year end. At the balance sheet date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Using historical consumption patterns, management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have no material impact upon the amount of revenue recognised.

(b) Retirement benefits

The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. Further information is provided in note 22. While these assumptions are believed to be appropriate, a change in these assumptions would impact the earnings of the Group and the carrying amount of pension obligations.

(c) Provisions

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The evaluation of the likelihood of the contingent events has required the best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseen developments, this likelihood could alter.

(d) Impairment of trade and other receivables

Scottish Water follows the guidance of IAS 39 to determine when trade and other receivables have been impaired. This determination requires significant judgement. In making this judgement, Scottish Water evaluates, amongst other factors, the duration and extent to which the carrying value of a receivable is less than its cost, the risk profile of the customer, historical experience and near-term business outlook.

3 Segmental analysis

The principal activities of the Scottish Water Group are the supply of water and wastewater services to household and business customers across Scotland. In view of the integrated nature of Scottish Water's operational activities, the financial statements include all of the costs of water and wastewater collection, treatment and distribution within cost of sales. All revenue and operating surplus arises from continuing operations within the United Kingdom.

Scottish Water's reportable segments are the provision of regulated water and waste water services, Business Stream (a licensed provider in the supply of water and waste water services to non-domestic customers) and non regulated business activities. These operating segments reflects the internal management reporting that are reviewed regularly by the Board in order to allocate resources to and assess the performance of the segments.

An analysis of revenue, operating surplus and total assets by segment is provided below:

	2010 £m	2009 £m
Revenue		
Regulated water and waste water services	1,066.2	1,029.7
Business Stream	356.3	355.4
Non regulated trading activities	21.9	31.5
	1,444.4	1,416.6
Less Intercompany elimination	(320.3)	(322.0)
	1,124.1	**1,094.6**
Operating surplus		
Regulated water and waste water services	329.3	368.7
Business Stream	17.8	13.5
Non regulated trading activities	0.7	3.4
	347.8	385.6
Less Intercompany elimination	(2.5)	(2.0)
	345.3	**383.6**
Total assets		
Regulated water and waste water services	5,165.4	4,820.6
Business Stream	153.0	117.0
Non regulated trading activities	20.2	20.6
	5,338.6	**4,958.2**

4 Operating surplus

Operating surplus is arrived at after charging/(crediting):

		2010 £m	2009 £m
PFI operating costs		94.0	91.8
Depreciation of property, plant and equipment (note 9)		223.1	189.6
Surplus on sale of property, plant and equipment		(1.6)	(1.5)
Release of deferred income in relation to capital grants		(1.1)	(1.1)
Operating lease rentals		3.4	3.7
Auditors' remuneration	- audit services	0.2	0.2
	- other	-	-
Research and development expenditure		0.3	0.3

5 Staff costs

	2010 £m	2009 £m
Wages and salaries	115.5	113.6
Social security costs	9.5	9.3
IAS 19 pension costs (note 22)	16.0	12.5
Other pension costs (Remuneration Report, section 6)	0.1	0.1
Employee benefit expense	**141.1**	**135.5**
Less: charged as capital expenditure	(39.6)	(36.8)
Less: seconded staff charged to Scottish Water Solutions Limited	(2.8)	(4.2)
	98.7	**94.5**

The average number of people (including Executive and Non-executive Members) employed by Scottish Water, split by activity, during the year was:

	2010	2009
Regulated water and waste water services	3,295	3,278
Business Stream	169	154
Non regulated trading activities	181	213
Scottish Water Solutions Limited secondees	58	92
	3,703	**3,737**

6 Members' remuneration

Information concerning Members' remuneration, incentive schemes and pensions is detailed in the Remuneration Report on pages 28 to 32. No Member or Director had, during the year or at the end of the year, any material interest in any contract of significance in relation to Scottish Water's business.

7 Finance income and costs

	2010 £m	2009 £m
Interest income:		
Short-term deposits	0.6	3.1
Expected return on pension scheme assets (note 22)	38.3	53.3
Finance income	**38.9**	**56.4**
Interest expense:		
Government loans	(155.9)	(151.6)
Other loans	(0.9)	(1.4)
Finance lease liabilities	(27.8)	(28.5)
Interest on pension scheme liabilities (note 22)	(54.3)	(54.7)
Finance costs	**(238.9)**	**(236.2)**
Net finance costs	**(200.0)**	**(179.8)**

8 Taxation

Analysis of tax charge recognised in the income statement	2010 £m	2009 £m
Current tax: UK corporation tax	4.7	5.4
Deferred tax: Origination and reversal of timing differences (note 15)	33.0	71.4
Total taxation charge	**37.7**	**76.8**

The charge for the year can be reconciled to the surplus per the income statement as follows:

	2010 £m	2009 £m
Group surplus before tax	145.3	203.8
Tax on surplus on ordinary activities at standard UK corporation tax rate of 28% (2009: 28%)	40.7	57.1
Adjustment in respect of prior years	(6.1)	6.5
Accounting gain with no capital gain	(0.5)	(0.4)
Depreciation on non qualifying additions	3.6	12.8
Capital gains	-	0.8
Total tax charge for the year	**37.7**	**76.8**

Tax credit recognised directly in reserves	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Deferred tax relating to:				
Pension scheme actuarial movements (note 15)	(67.1)	(49.2)	(66.3)	(49.1)

9 Property, plant and equipment

	Specialised operational properties & structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery & vehicles £m	Assets under construction £m	Total £m
Group						
Cost						
At 1 April 2008	2,214.8	61.5	1,422.4	1,383.3	871.0	5,953.0
Additions	-	-	-	0.5	647.7	648.2
Disposals	(5.3)	-	-	(1.9)	-	(7.2)
Reclassifications	110.5	2.8	112.6	200.8	(426.7)	-
At 31 March 2009	2,320.0	64.3	1,535.0	1,582.7	1,092.0	6,594.0
Additions	4.8	-	-	3.1	445.0	452.9
Disposals	(3.3)	(0.1)	-	(0.9)	-	(4.3)
Reclassifications	94.5	2.0	105.9	263.7	(466.1)	-
At 31 March 2010	2,416.0	66.2	1,640.9	1,848.6	1,070.9	7,042.6
Accumulated depreciation						
At 1 April 2008	630.2	23.6	380.4	632.8	-	1,667.0
Charge for the year	57.0	0.8	10.2	121.6	-	189.6
Disposals	(3.8)	-	-	(1.9)	-	(5.7)
At 31 March 2009	683.4	24.4	390.6	752.5	-	1,850.9
Charge for the year	55.7	1.2	11.0	155.2	-	223.1
Disposals	(3.0)	-	-	(0.9)	-	(3.9)
At 31 March 2010	736.1	25.6	401.6	906.8	-	2,070.1
Net book value						
At 31 March 2010	**1,679.9**	**40.6**	**1,239.3**	**941.8**	**1,070.9**	**4,972.5**
At 31 March 2009	1,636.6	39.9	1,144.4	830.2	1,092.0	4,743.1

All capital investment is recognised initially within assets under construction. When assets are capable of performing the function for which they were constructed and come into beneficial use, they are reclassified and transferred from assets under construction to the appropriate fixed asset category.

Capital grants received during the year and credited to deferred income were £1.3m (2009: £nil). No capital grants were received during the year in respect of infrastructure assets.

9 Property, plant and equipment (continued)

	Specialised operational properties & structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery & vehicles £m	Assets under construction £m	Total £m
Company						
Cost						
At 1 April 2008	2,214.8	61.5	1,422.4	1,376.5	871.0	5,946.2
Additions					646.9	646.9
Intercompany transfer	(1.2)	-	-	-	(2.2)	(3.4)
Disposals	(5.3)	-	-	(1.9)	-	(7.2)
Reclassifications	108.0	2.8	112.6	200.8	(424.2)	-
At 31 March 2009	2,316.3	64.3	1,535.0	1,575.4	1,091.5	6,582.5
Additions	4.8	-	-	-	438.7	443.5
Disposals	(3.3)	(0.1)	-	(0.9)	-	(4.3)
Reclassifications	94.3	2.0	105.9	263.7	(465.9)	-
At 31 March 2010	2,412.1	66.2	1,640.9	1,838.2	1,064.3	7,021.7
Accumulated depreciation						
At 1 April 2008	630.2	23.6	380.4	626.7	-	1,660.9
Charge for the year	56.9	0.8	10.2	120.9	-	188.8
Disposals	(3.8)	-	-	(1.9)	-	(5.7)
At 31 March 2009	683.3	24.4	390.6	745.7	-	1,844.0
Charge for the year	55.4	1.2	11.0	154.9	-	222.5
Disposals	(3.0)	-	-	(0.9)	-	(3.9)
At 31 March 2010	735.7	25.6	401.6	899.7	-	2,062.6
Net book value						
At 31 March 2010	**1,676.4**	**40.6**	**1,239.3**	**938.5**	**1,064.3**	**4,959.1**
At 31 March 2009	1,633.0	39.9	1,144.4	829.7	1,091.5	4,738.5

9 Property, plant and equipment (continued)

Included within specialised operational properties and structures and plant, machinery and vehicles are the following PFI assets which are held under finance leases. These assets are included within the previous tables for both the Group and the Company.

	Specialised operational properties & structures £m	Plant, machinery & vehicles £m	Total £m
Group & Company			
Cost			
At 1 April 2008, 31 March 2009 and 31 March 2010	221.7	347.1	568.8
Accumulated depreciation			
At 1 April 2008	32.8	99.2	132.0
Charge for the year	3.7	11.6	15.3
At 31 March 2009	36.5	110.8	147.3
Charge for the year	3.7	11.6	15.3
At 31 March 2010	40.2	122.4	162.6
Net book value			
At 31 March 2010	**181.5**	**224.7**	**406.2**
At 31 March 2009	185.2	236.3	421.5

10 Investments

	Company 2010 £m	2009 £m
Cost and net book value		
At 1 April 2009	37.6	34.6
Additions	-	3.0
At 31 March 2010	**37.6**	**37.6**

Group
Investment in Jointly Controlled Operations

On 26 June 2002 Scottish Water formed a company, Scottish Water Solutions Limited (SWS). This company, which commenced trading on 30 June 2003 and is jointly owned with Stirling Water Limited and UUGM Limited, delivers the majority of Scottish Water's capital investment programme. The nature of the contractual agreement between Scottish Water and the other shareholders in Scottish Water Solutions Limited is such that the parties are engaged in joint activities that do not constitute an entity carrying on a trade or business in its own right. Consequently, Scottish Water Solutions Limited has been accounted for, under IAS 31 'Interests in Joint Ventures', as a Jointly Controlled Operation.

10 Investments (continued)

Details of the investments are as follows:

	Country of incorporation	% of Ordinary shares and votes held	Value £	Principal activity
Scottish Water Solutions Limited	Scotland	51.0	510	Contracting services

Summary aggregated financial information on jointly controlled entities – 51 per cent:	2010 £m	2009 £m
Current assets	15.6	18.7
Current liabilities	15.6	18.7
Income	120.4	177.9
Expenses	120.4	177.9

The information detailed above for 2010 was extracted from the draft financial statements for SWS. SWS itself has no contingent liabilities and there are no contingent liabilities relating to Scottish Water's interest in SWS.

Company
Investment in subsidiaries

Principal subsidiary undertakings	Country of incorporation	% of Ordinary shares and votes held	Value £m	Principal activity
Scottish Water Business Stream Holdings Limited	Scotland	100.0	34.6	Holding company
Scottish Water Horizons Holdings Limited	Scotland	100.0	3.0	Holding company
Scottish Water Business Stream Limited*	Scotland	100.0	11.5	Licensed water and waste water services
Scottish Water Horizons Limited **	Scotland	100.0	-	Commercial non regulated water and waste water services

* *owned by Scottish Water Business Stream Holdings Limited*
** *owned by Scottish Water Horizons Holdings Limited*

Scottish Water owns shares in a further eleven companies, which did not trade during the year ended 31 March 2010. The companies' financial statements have not been consolidated as permitted by Section 405 of the Companies Act 2006, as they did not trade during the year and the issued share capital is immaterial.

11 Inventories

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Raw materials and consumables	2.2	2.5	2.2	2.5
Work in progress - recoverable work	0.5	0.8	0.4	0.5
Less provision held	(0.1)	(0.1)	(0.1)	(0.1)
	2.6	**3.2**	**2.5**	**2.9**

All inventories will be recovered within 12 months.

12 Trade and other receivables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Trade receivables	383.5	344.8	329.5	301.2
Less provision for impairment of trade receivables	(307.7)	(282.8)	(297.7)	(271.7)
Net trade receivables	75.8	62.0	31.8	29.5
Other receivables	13.6	20.6	11.9	21.0
Prepayments and accrued income	54.4	53.3	7.3	13.2
Amounts due from subsidiaries	-	-	1.2	0.7
	143.8	**135.9**	**52.2**	**64.4**

The following table shows the development of the provision for impairment of trade receivables:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Balance at 1 April	282.8	261.0	271.7	250.5
Charge for the year	29.3	25.7	26.7	21.2
Amounts written down during the year	(4.4)	(3.9)	(0.7)	-
Balance at 31 March	307.7	282.8	297.7	271.7

Management considers the carrying value of trade and other receivables are equal to the fair value.

13 Cash and cash equivalents

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	45.5	38.2	13.5	15.9
Short-term bank deposits	173.0	37.0	140.0	-
Cash and cash equivalents per the statement of cash flows	**218.5**	**75.2**	**153.5**	**15.9**

The fair values of cash and cash equivalents are not different from those disclosed above.

14 Trade and other payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current				
Trade payables	25.0	25.7	23.2	23.9
Non trade payables and accruals	96.5	69.9	96.2	69.9
Accruals	156.0	156.4	130.1	127.8
Payments received in advance	43.7	33.7	20.9	31.2
Other payables	22.7	19.1	8.8	10.0
Deferred income	3.0	5.3	1.0	1.8
Other taxes and social security	3.0	2.8	2.9	2.7
Amounts due to subsidiaries	-	-	25.3	28.4
Amounts due to Scottish Water Solutions Limited	33.4	24.5	33.4	24.5
	383.3	**337.4**	**341.8**	**320.2**
Non-current				
Other payables	18.7	39.0	18.7	38.5
Deferred income	24.7	24.6	18.6	19.3
	43.4	**63.6**	**37.3**	**57.8**

The fair values of trade and other payables are not different from those disclosed above.

15 Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
Group					
At 1 April 2008	283.8	(13.3)	(30.7)	(17.9)	221.9
Charge/(credit) to income statement (note 8)	64.5	-	8.7	(1.8)	71.4
Credit to reserves (note 22)	-	(49.2)	-	-	(49.2)
At 31 March 2009	348.3	(62.5)	(22.0)	(19.7)	244.1
Charge/(credit) to income statement (note 8)	59.6	-	(22.7)	(3.9)	33.0
Credit to reserves (note 22)	-	(67.1)	-	-	(67.1)
At 31 March 2010	**407.9**	**(129.6)**	**(44.7)**	**(23.6)**	**210.0**
Company					
At 1 April 2008	283.9	(13.3)	(30.7)	(17.0)	222.9
Charge/(credit) to income statement	64.7	-	8.7	(2.2)	71.2
Credit to reserves (note 22)	-	(49.1)	-	-	(49.1)
At 31 March 2009	348.6	(62.4)	(22.0)	(19.2)	245.0
Charge/(credit) to income statement	58.7	-	(22.4)	(3.2)	33.1
Credit to reserves (note 22)	-	(66.3)	-	-	(66.3)
At 31 March 2010	**407.3**	**(128.7)**	**(44.4)**	**(22.4)**	**211.8**

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Deferred tax assets	(0.9)	(0.3)	-	-
Deferred tax liabilities	210.9	244.4	211.8	245.0
At 31 March	**210.0**	**244.1**	**211.8**	**245.0**

The Members believe that the deferred tax assets will be recoverable against projected taxable profits over the foreseeable future in the companies to which they relate.

No deferred income tax is provided on temporary differences arising on investments in subsidiaries because, in each case, the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised is £26m (2009: £16m) for both the Company and the Group. No tax is expected to be payable in this regard.

16 Provisions for liabilities

Group	Restructure provision £m	Income uncertainty provision £m	Onerous lease costs £m	Total £m
At 1 April 2008	5.4	8.9	0.5	14.8
Charged to the income statement	3.9	1.7	-	5.6
Utilised during the year	(0.7)	(0.4)	(0.2)	(1.3)
At 31 March 2009	8.6	10.2	0.3	19.1
Charged to the income statement	8.5	-	0.3	8.8
Utilised during the year	(8.8)	(3.1)	(0.1)	(12.0)
At 31 March 2010	**8.3**	**7.1**	**0.5**	**15.9**

Company	Restructure provision £m	Income uncertainty provision £m	Onerous lease costs £m	Total £m
At 1 April 2008	5.4	8.9	0.5	14.8
Charged to the income statement	3.5	1.7	-	5.2
Utilised during the year	(0.7)	(0.4)	(0.2)	(1.3)
At 31 March 2009	8.2	10.2	0.3	18.7
Charged to the income statement	8.1	-	0.3	8.4
Utilised during the year	(8.4)	(3.1)	(0.1)	(11.6)
At 31 March 2010	**7.9**	**7.1**	**0.5**	**15.5**

Analysis of total provisions	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Current	12.7	9.1	12.3	8.7
Non-current	3.2	10.0	3.2	10.0
	15.9	19.1	15.5	18.7

The restructuring provision relates to redundancy costs associated with employees who will leave Scottish Water under voluntary redundancy and early retirement. It is expected that the provision will be utilised within the next 2 years. Pension related liabilities associated with employees who have left Scottish Water under the voluntary severance scheme are recognised in the pension liability (note 22).

The income uncertainty provision relates to wholesale non domestic revenues. The reconciliation process, through the Central Market Agency, relating to each financial year is finalised 18 months after the end of the relevant financial year. Therefore the provision relating to 2009/10 will be utilised by 2011.

The other provision of £0.5m relates to onerous property rental costs which will be utilised over the next two years.

17 Other loans and borrowings

Group and Company	2010 £m	2009 £m
Current		
Non-government loans	1.4	2.9
Obligations under finance leases	13.7	13.0
	15.1	**15.9**
Non current		
Non-government loans	5.7	7.2
Obligations under finance leases	446.7	460.7
	452.4	**467.9**
Total		
Non-government loans	7.1	10.1
Obligations under finance leases	460.4	473.7
	467.5	483.8

(i) Non-government loans

Other loans are repayable as follows:

	Up to 1 year £m	1-2 years £m	3-5 years £m	6-10 years £m	Over 10 years £m	Total £m
At 31 March 2010	1.4	1.6	3.1	0.5	0.5	7.1
At 31 March 2009	2.9	1.5	4.2	0.5	1.0	10.1

The carrying amounts and fair value of the non-government borrowings are as follows:

	Book value 2010 £m	Book value 2009 £m	Fair value 2010 £m	Fair value 2009 £m
Non-government loans	7.1	10.1	8.4	11.9

(ii) Finance lease liabilities - PFI liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010 £m	2009 £m	2010 £m	2009 £m
Amounts payable:				
Within one year	13.7	13.0	13.1	12.4
Between one and five years	81.5	77.0	53.2	62.3
After five years	365.2	383.7	191.2	172.1
	460.4	473.7	257.5	246.8
Less future finance charge	(202.9)	(226.9)		
Present value of lease obligations	257.5	246.8		

17 Other loans and borrowings (continued)

PFI - Service concession arrangements

Upon its creation in April 2002 Scottish Water inherited nine concession contracts which had been entered into with nine private sector consortia ("PFI Cos") by its three predecessor authorities (i.e. East of Scotland Water Authority, North of Scotland Water Authority and West of Scotland Water Authority). Scottish Water acts as the client body to the nine private sector consortia that provide wastewater and sludge treatment and disposal services to Scottish Water.

These contracts are based over a wide geographic area including the Aberdeen, Dundee, Edinburgh, Glasgow and Inverness conurbations as well as the Ayrshire coast, Leven valley and Moray coast.

Characteristics of the arrangements

Description

The length of these contracts varies between 25 and 40 years with expiry dates ranging from December 2021 through to October 2040. Under the terms of these contracts the private sector have either upgraded or built new wastewater and sludge treatment assets, and, in certain circumstances, network assets (e.g. sewers and pumping stations) in order to meet Scottish Water's legal obligations in respect of the treatment and disposal of these products. These consortia are also responsible for the operation and maintenance of these assets over the lifetime of each contract.

Significant terms

The key terms relate to the basis upon which Scottish Water pays the services provided by the PFI Cos. The levels of such payments are predominantly dependent upon the volume of wastewater and sludge treated, although in a minority of contracts there is either a partial availability payment element or some part of the payment is linked to the strength of the wastewater. Scottish Water also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated wastewater.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

Scottish Water's primary obligations are to deliver wastewater to the PFI Cos and thereafter pay for the treatment services provided, making the appropriate deduction where the PFI Cos fail to meet the appropriate performance standards. The PFI Cos provided the initial construction services through a sub-contract and also entered into a separate sub-contract for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase.

A majority of the contracts have limited extension options. However, termination during the contractual period can arise for a number of reasons including default (by either the PFI Co or Scottish Water), force majeure, uninsurable events or voluntary termination by Scottish Water. Each contract contains a formula from which termination compensation payable by Scottish Water is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of handback conditions linked to the remaining life of certain assets.

18 Government loans

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Government loans	3,064.7	2,842.9	3,006.2	2,784.4

Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002. The limit at 31 March 2010 on these powers was that total net new borrowings for the year ended 31 March 2010 should not exceed £218.8m. Net new borrowings were £218.8m in the year.

Government loans, both short and long term, are recorded on the balance sheet under Capital and Reserve in accordance with the Scottish Water Governance Directions 2009.

(a) Analysis of borrowings by type and maturity

Government loans, both short and long-term, are recorded on the balance sheet under Capital and Reserves in accordance with the Corporate Governance Direction. Other debt is recorded under short and long-term payables following best practice.

	Up to 1 year £m	1-2 years £m	3-5 years £m	6-10 years £m	Over 10 years £m	Total £m
Scottish Consolidated Fund - SW Company	136.4	60.9	183.5	300.5	1,339.3	2,020.6
Scottish Consolidated Fund - subsidiaries	58.5	-	-	-	-	58.5
Scottish Consolidated Fund - SW Group	194.9	60.9	183.5	300.5	1,339.3	2,079.1
National Loans Fund	5.0	21.0	46.0	126.0	563.9	761.9
Public Works Loan Board	39.1	12.5	55.8	92.1	24.2	223.7
At 31 March 2010	**239.0**	**94.4**	**285.3**	**518.6**	**1,927.4**	**3,064.7**
At 31 March 2009	176.7	66.4	233.8	404.0	1,962.0	2,842.9

(b) Fair values

The carrying amounts and fair value of the Government borrowings are as follows:

	Book value 2010 £m	Book value 2009 £m	Fair value 2010 £m	Fair value 2009 £m
Scottish Consolidated Fund	2,079.1	1,826.8	2,076.7	1,908.0
National Loans Fund	761.9	779.9	916.8	997.4
Public Works Loan Board	223.7	236.2	284.4	315.7
	3,064.7	2,842.9	3,277.9	3,221.1

19 Analysis of net debt

	As at 1 April 2009 £m	Increase in cash £m	Decrease/ (increase) in debt £m	As at 31 March 2010 £m
Group				
Cash and cash equivalents (note 13)	75.2	143.3	-	218.5
Government loans (note 18)	(2,842.9)	-	(221.8)	(3,064.7)
Other loans (note 17)	(10.1)	-	3.0	(7.1)
Net debt	(2,777.8)	143.3	(218.8)	(2,853.3)
Company				
Cash and cash equivalents (note 13)	15.9	137.6	-	153.5
Government loans (note 18)	(2,784.4)	-	(221.8)	(3,006.2)
Other loans (note 17)	(10.1)	-	3.0	(7.1)
Net debt	(2,778.6)	137.6	(218.8)	(2,859.8)

20 Reserves

	Retained earnings excluding actuarial gains/(losses) £m	Actuarial gains/(losses) on pension obligations £m	Retained earnings including actuarial gains / (losses) £m
Group			
At 1 April 2008	591.2	24.1	615.3
Retained surplus for the year	127.0	-	127.0
Actuarial loss, net of deferred taxation (note 22)	-	(134.7)	(134.7)
At 31 March 2009	**718.2**	**(110.6)**	**607.6**
Retained surplus for the year	107.6	-	107.6
Actuarial loss, net of deferred taxation (note 22)	-	(160.8)	(160.8)
At 31 March 2010	**825.8**	**(271.4)**	**554.4**
Company			
At 1 April 2008	585.4	24.0	609.4
Retained surplus for the year	118.3	-	118.3
Actuarial loss, net of deferred taxation (note 22)	-	(134.1)	(134.1)
At 31 March 2009	**703.7**	**(110.1)**	**593.6**
Retained surplus for the year	97.2	-	97.2
Actuarial loss, net of deferred taxation (note 22)	-	(158.8)	(158.8)
At 31 March 2010	**800.9**	**(268.9)**	**532.0**

21 Results of the holding company

Of the results for the financial year, a retained surplus of £97.2m (2009: £118.3m) is dealt with in the consolidated financial statements of Scottish Water. The Members have taken advantage of the exemption available under section 408 of the Companies Act 2006 and do not present a income statement for Scottish Water alone.

22 Pensions

Employees of Scottish Water participate in the Aberdeen City Council Pension Fund, the Lothian Pension Fund and the Strathclyde Pension Fund, which are part of the Local Government Pension Scheme administered by Aberdeen, Edinburgh and Glasgow City Councils respectively. The schemes provide defined benefits based on final pensionable pay. Actual pension costs for the year for each fund, as a % of pensionable pay, were 19.1% (2009: 17.9%), 22.3% (2009: 21.5%) and 18.5% (2009: 18.2%) respectively.

A full actuarial valuation was carried out at 31 March 2008 for all three funds and updated at 31 March 2010 by a qualified independent actuary, to take account of the requirements of IAS 19.

The major assumptions used by the actuaries were:

	2010	2009
	%	%
Rate of increase in pensionable salaries	5.3	4.6
Rate of increase in pensions payment	3.8	3.1
Discount rate	5.5	6.5
Inflation rate	3.8	3.1

Longevity assumptions on retiring at age 65 adopted for each fund:

	Aberdeen	Lothian	Strathclyde
	Years	Years	Years
Retiring at 31 March 2010			
Male staff	22.6	23.5	22.7
Male operatives	22.6	20.7	19.9
Female staff	24.7	26.7	25.8
Female operatives	24.7	24.7	23.9
Retiring at 31 March 2030			
Male staff	24.4	25.4	24.6
Male operatives	24.4	22.5	21.7
Female staff	26.7	28.7	27.8
Female operatives	26.7	26.7	25.8

The sensitivities regarding the principal assumptions used to measure the liability in the Funds are:

Assumption	Change in assumption	Approximate Impact on IAS 19 liability %	Approximate Impact on IAS 19 deficit £m
Rate of increase in pensionable salaries	+/- 0.5% per annum	Increase / decrease by c. 3.5% - 4.5%	Increase / decrease by c. £46m to £59m
Discount rate	+/- 0.5% per annum	Decrease / increase by c. 9% - 10%	Decrease / increase by c. £118m to £131m
Inflation rate	+/- 0.5% per annum	Increase / decrease by c. 9% - 10%	Increase / decrease by c. £118m to £131m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.0% - 4.0%	Increase by c. £39m to £52m

22 Pensions (continued)

Scottish Water's share of the assets in the schemes and the expected rate of return were:

	Group				Company			
	Long term rate of return %	Value 2010 £m	Long term rate of return %	Value 2009 £m	Long term rate of return %	Value 2010 £m	Long term rate of return %	Value 2009 £m
Equities	7.8	667.0	7.0	461.2	7.8	662.1	7.0	458.3
Bonds	5.1	89.8	4.4	77.3	5.1	89.0	4.4	76.7
Property	5.8	61.6	4.9	51.1	5.8	61.1	4.9	50.8
Other	0.5	25.5	0.5	25.9	0.5	25.3	0.5	25.7
Total market value of assets		**843.9**		**615.5**		**837.5**		**611.5**
Present value of scheme liabilities		(1,306.7)		(838.9)		(1,297.1)		(834.4)
Gross pension liability		**(462.8)**		**(223.4)**		**(459.6)**		**(222.9)**
Related deferred tax asset		129.6		62.5		128.7		62.4
Net pension liability		(333.2)		(160.9)		(330.9)		(160.5)

Scheme assets are stated at their bid values.

Reconciliation of opening and closing retirement benefit liabilities and assets

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Movements in liabilities during the year:				
Opening value of total liabilities	(838.9)	(796.9)	(834.4)	(794.2)
Current service cost	(16.0)	(12.5)	(15.6)	(12.2)
Interest on pension scheme liabilities	(54.3)	(54.7)	(54.0)	(54.4)
Contributions by members	(6.6)	(5.7)	(6.4)	(5.5)
Actuarial (loss)/gain	(421.2)	1.0	(417.0)	1.1
Impact of settlements	-	-	-	0.8
Impact of curtailments	(1.0)	(0.9)	(1.0)	(0.8)
Benefits paid	31.3	30.8	31.3	30.8
Closing value of total liabilities	(1,306.7)	(838.9)	(1,297.1)	(834.4)
Movement in assets during the year:				
Opening fair value of total assets	615.5	749.4	611.5	746.6
Expected return on pension scheme assets	38.3	53.3	38.0	53.0
Contributions by members	6.6	5.7	6.4	5.5
Contributions by the employer	20.5	21.9	20.0	21.4
Actuarial gain/(loss)	189.1	(184.0)	187.7	(183.5)
Impact of settlements	5.2	-	5.2	(0.7)
Benefits paid	(31.3)	(30.8)	(31.3)	(30.8)
Closing fair value of assets	843.9	615.5	837.5	611.5
Gross deficit in the schemes at 31 March	(462.8)	(223.4)	(459.6)	(222.9)

22 Pensions (continued)

Return on assets

As required by IAS 19, the expected return on assets is based on the long-term expectation of returns for each asset class at the beginning of the year. The return on equities is 2.7% per annum in excess of the yield on government bonds. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected rate for each class over the actual asset allocation at 31 March 2010.

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Actual return/(loss) on pension scheme assets	227.4	(151.6)	225.7	(150.7)

Actuarial gain/(loss) in other comprehensive income in the consolidated statement of comprehensive income

	2010 £m	2009 £m	2010 £m	2009 £m
Variance between pension fund actuarial assumptions and actual experience	(232.1)	(183.0)	(229.3)	(182.4)
Impact of settlements and curtailments	4.2	(0.9)	4.2	(0.7)
Gross actuarial loss recognised in the pension fund	**(227.9)**	**(183.9)**	**(225.1)**	**(183.1)**
Deferred tax movement	67.1	49.2	66.3	49.0
Net actuarial loss recognised in other comprehensive income in the consolidated statement of comprehensive income	**(160.8)**	**(134.7)**	**(158.8)**	**(134.1)**

Amounts recognised in the consolidated income statement

	2010 £m	2009 £m
Current service cost (note 5)	16.0	12.5
Interest cost on pension scheme liabilities (note 7)	54.3	54.7
Expected return on pension scheme assets (note 7)	(38.3)	(53.3)
	32.0	13.9

The unpaid contributions outstanding at the year end included in other payables (note 14) was £2.2m (2009: £1.8m). It is estimated that Scottish Water will make contributions of £19.4m to the pension funds in financial year 2010/11.

22 Pensions (continued)

History of experience gains and losses

Group	2010 £m	2009 £m	2008 £m
Difference between the expected and actual return on scheme assets:			
Amount	189.1	(184.0)	(80.7)
Fair Value of assets	843.9	615.5	749.4
Experienced gains/(losses) on scheme liabilities:			
Amount	(0.4)	13.1	(0.3)
Present value of liabilities	1,306.7	838.9	796.9
Changes in assumptions underlying the present value of scheme liabilities:			
Amount	(420.8)	(12.1)	180.0
Total variance between pension fund actuarial assumptions and actual experience	**(232.1)**	**(183.0)**	**99.0**
Gross deficit in the schemes at 31 March	(462.8)	(223.4)	(47.5)

Company	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Difference between the expected and actual return on scheme assets:					
Amount	187.7	(183.5)	(80.4)	1.7	89.4
Fair Value of assets	837.5	611.5	746.6	777.9	720.0
Experienced gains/(losses) on scheme liabilities:					
Amount	(0.4)	13.3	(0.3)	(5.3)	(4.0)
Present value of liabilities	1,297.1	834.4	794.2	927.7	955.7
Changes in assumptions underlying the present value of scheme liabilities:					
Amount	(416.6)	(12.2)	179.1	79.4	(114.1)
Total variance between pension fund actuarial assumptions and actual experience	**(229.3)**	**(182.4)**	**98.4**	**75.8**	**(28.7)**
Gross deficit in the schemes at 31 March	(459.6)	(222.9)	(47.6)	(149.8)	(235.7)

23 Commitments

(a) Capital commitments

The Group has contracted capital commitments of £92.5m (2009: £340.3m) relating to property, plant and equipment at the balance sheet date. These commitments are expected to be settled within the following financial year.

(b) Operating lease commitments

The Group leases various operational properties and offices under non-cancellable operating lease agreements. The lease terms are between 1 and 150 years, with the majority of lease agreements being renewable at the end of the lease period at market rates.

The Group also leases vehicles under cancellable operating lease agreements. The Group is able to give notice at any time within the lease period for the termination of these agreements. Termination costs are incurred on early termination. The lease expenditure charged to the consolidated income statement during the year is disclosed in note 4.

The total minimum lease payments under non-cancellable operating leases are as follows:

	2010 £m	2009 £m
Within one year	0.5	0.6
Between one and five years	3.0	0.5
After five years	33.2	33.0
	36.7	34.1

24 Contingent liabilities

Scottish Water has the following contingent liabilities in respect of companies limited by guarantees:

Central Market Agency

The Central Market Agency (CMA), a company limited by guarantee, co-ordinates the non household retail market for business customers in Scotland. As a market participant, Scottish Water is liable to pay charges to the CMA to cover part of the operating, financing and any other capital costs of the organisation. These charges are set annually in advance and approved by the CMA Board. Scottish Water's liability, as a member, for the debts and liabilities of the CMA is limited to £1.

Water Regulatory Advisory Service

Water Regulatory Advisory Service Limited (WRAS) is a company established by all UK water companies as a company limited by guarantee to provide guidance on the development and application of the Water Regulations (England and Wales) and the Water Bylaws (Scotland). WRAS operates on a subscription basis. Scottish Water's liability, as a member, in the event of the company going into default, is limited to £1. Scottish Water may withdraw from the company by giving one year's notice.

25 Related party transactions

The Group has related party relationships with the Scottish Government, with its subsidiaries and jointly controlled operations (note 10), and with its Members and Executive Management. Details of transactions between the Group and other related parties are disclosed below.

Scottish Government

material transactions with the Scottish Government, namely the drawdown and repayment of loans. Details of the loans from the Scottish Government are shown in note 18.

During the year Scottish Water had various material transactions with entities for which the Scottish Government is regarded as the parent. The main entities which fall into this category are the Local Authorities, the Scottish Environmental Protection Agency, the Water Industry Commission for Scotland and the Central Market Agency. However, as permitted under IAS 24 'Related Party Disclosures' paragraph 25 (which has been adopted early), Scottish Water is exempt from the disclosure requirements of IAS 24, paragraph 18 in respect of these government related entities.

Jointly controlled operations

In the course of normal operations, Scottish Water contracted on an arms-length basis with Scottish Water Solutions Limited, a Joint Arrangement between Scottish Water, Stirling Water Limited and UUGM Limited. The aggregate transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below, gross of value added tax:

	2010 £m	2009 £m
Sales and costs charged to Scottish Water Solutions Limited	12.9	13.0
Purchases from Scottish Water Solutions Limited	(273.6)	(407.5)
Amounts due to Scottish Water Solutions Limited (note 14)	33.4	24.5

Subsidiaries

During the year the Company entered into the following transactions with its subsidiaries (note 10):

	2010 £m	2009 £m
Loans repaid by subsidiaries	-	58.5
Interest charged to subsidiaries	-	2.8
Sale of water and wastewater services	320.3	322.0

Key management personnel

The key management under IAS 24 'Related Party Disclosure' is defined as those persons who have authority and responsibility for planning, directing and controlling the entity's activities, directly or indirectly. The Group's key management comprises the Executive Members and Non-executive Members. The remuneration of the Members is determined by Scottish Water's Remuneration Committee in accordance with its stated policy. Further information about the remuneration and pension details of individual Members is provided in the Members' Remuneration Report on pages 28 to 32.

26 Financial instruments and risks

The management of Scottish Water and the execution of strategy are subject to a number of risks as detailed below. All risks are reviewed by the Board and appropriate processes are in place to monitor and mitigate them. See the Corporate Governance report on pages 25 to 27.

(a) Qualitative risk disclosures

Operational and business risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes losses due to external factors such as the market situation or government regulations. Reputational risk is included in this category. The risk register and risk management processes identify key operational and other risks and are reviewed on a regular basis.

26 Financial instruments and risks (continued)

Credit risk

Credit risk is the risk that Scottish Water is exposed to loss if another party fails to perform its financial obligation to Scottish Water. Credit risk arises from cash, cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Scottish Water monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure that they are within board approved limits and that there are no significant concentrations of credit risk. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

Liquidity risk

Liquidity risk is the risk that Scottish Water will have insufficient funds to meet its liabilities. Scottish Water's policy is to ensure that it has adequate financial resources to enable it to finance its day-to-day operations and capital investment programme, based on cash flow projections, while adhering to the annual limits set by the Scottish Government for new borrowings. Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002.

Interest rate risk

All of Scottish Water's borrowings are at fixed interest rates. Therefore Scottish Water is not deemed to bear any interest rate risk.

(b) Categories of financial assets and liabilities and fair values

Scottish Water's financial assets and liabilities comprise trade and other receivables (note 12), cash and cash equivalents (note 13), borrowings (notes 17 and 18) and trade and other payables (note 14). No trading in derivative financial instruments was undertaken.

Basis of determining fair value

The financial assets of the Group and the Company fall into the 'loans and receivables' category. The financial liabilities of the Group and the Company fall into the category of 'financial liabilities measured at amortised cost'.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing partners, other than in a forced or liquidation sale, and excludes accrued interest.

The carrying amounts of financial assets and liabilities, excluding borrowings, are equal to their fair values. Borrowings are held at cost in the balance sheet but the fair value is disclosed in notes 17 and 18.

Credit risk

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

The trade receivables total includes an allowance for impairment. Trade receivables comprise receivables from business customers and receivables from domestic household customers.

	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
Trade receivables per note 12:				
Trade receivables	383.5	344.8	329.5	301.2
Less provision for impairment of trade receivables	(307.7)	(282.8)	(297.7)	(271.7)
Net trade receivables	75.8	62.0	31.8	29.5
Analysed between:				
Household receivables	324.8	297.2	324.8	297.2
Less provision for impairment	(296.9)	(270.9)	(296.9)	(270.9)
Net household receivables	27.9	26.3	27.9	26.3
Business customer receivables	58.7	47.6	4.7	4.0
Less provision for impairment	(10.8)	(11.9)	(0.8)	(0.8)
Net business customer receivables receivables	47.9	35.7	3.9	3.2

26 Financial instruments and risks (continued)

Household water and wastewater services are billed to customers by Local Authorities as an element of the annual Council Tax bills. The Local Authorities are responsible for the collection and transfer to Scottish Water of the amounts due in accordance with the statutory regulations. Household charges are billed by individual financial year and are payable within the same year. Provision is made against outstanding debt, in respect of prior years, based primarily on historical collection rates and the near-term business outlook. Household water and wastewater debt is a statutory debt recoverable from the occupier. Debt since the establishment of the former Water Authorities in 1996 continues to be collected. As at 31 March 2010 trade debtors in respect of household customers totalled £324.8m with a provision of £296.9m (2009: £297.2m and £270.9m respectively).

As at 31 March 2010 trade receivables from business customers totalled £58.7m (2009: £47.6m). The ageing analysis of trade receivables from business customers and the related provisioning is as follows:

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Group					
Gross receivable	58.7	42.3	7.3	6.8	2.3
Provision	(10.8)	(1.1)	(2.5)	(4.9)	(2.3)
Net trade receivable as at 31 March 2010	47.9	41.2	4.8	1.9	-
Gross receivable	47.6	32.3	8.1	5.3	1.9
Provision	(11.9)	(0.7)	(5.1)	(4.2)	(1.9)
Net trade receivable as at 31 March 2009	35.7	31.6	3.0	1.1	-
Company					
Gross receivable	4.7	2.8	0.8	0.8	0.3
Provision	(0.8)	-	(0.1)	(0.4)	(0.3)
Net trade receivable as at 31 March 2010	3.9	2.8	0.7	0.4	-
Gross receivable	4.0	2.6	0.7	0.5	0.2
Provision	(0.8)	-	(0.1)	(0.5)	(0.2)
Net trade receivable as at 31 March 2009	3.2	2.6	0.6	-	-

27 Ultimate controlling body

Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

28 Regulatory information

The Water Industry Commission for Scotland (the 'Commission') has the general function of promoting interests for customers in relation to the provision of core services. The Commission determines Scottish Water's price limits and approves Scottish Water's annual charges scheme.

The Commission monitors Scottish Water's performance on efficiency and customer service and approves our code of practice. Each year the Commission publishes reports on the exercise of its functions. In preparing these reports, the Commission assesses our performance by using information supplied by Scottish Water and by making comparisons with information obtained on other regulated water companies. In carrying out this performance monitoring, the Commission may make regulatory amendments to figures published in Scottish Water's audited financial statements to ensure like for like comparisons with other companies.

29 Post balance sheet event

On 6 April 2010 Scottish Water Solutions 2 Limited (SWS2) commenced trading. This company is jointly owned with Laing O'Rourke Infrastructure Ltd and Jacobs UK Ltd, and will deliver part of Scottish Water's capital investment programme for the 2010-15 regulatory period. The nature of the contractual agreement between Scottish Water and the other shareholders in SWS2 is such that the parties are engaged in joint activities that do not constitute an entity carrying on a trade for business in its own right. Consequently, SWS2 will be accounted for, under IAS 31 'Interests in Joint Ventures', as a Jointly Controlled Operation.

30 Principal impact of IFRS

Explanation of transition to IFRS

Scottish Water is required to report its financial results using International Financial Reporting Standards (IFRS) from 1 April 2009. This is the first year that Scottish Water has presented the consolidated and company financial statements under IFRS. The date of transition to IFRS was 1 April 2008. The last financial statements under UK GAAP were for the year ended 31 March 2009.

The financial information provided is covered by IFRS 1 'First-time adoption of International Financial Reporting Standards' which establishes the requirements for the first-time adoption of IFRS. The transition date is the beginning of the earliest period for which full comparative information is presented under the International Standards. Accordingly, Scottish Water has applied retrospectively, where appropriate, the selected accounting policies which comply with the IFRS in issue as at 31 March 2010. Scottish Water has therefore prepared, on a consolidated basis, the opening balance sheet as at 1 April 2008, and the income statement, balance sheet and cash flow statement for the year to 31 March 2009 in accordance with IFRS. The Company has prepared its balance sheets as at 1 April 2008 and 31 March 2009 under IFRS.

IFRS 1 (revised) allows a number of exemptions to be taken in preparing the opening balance sheet as at 1 April 2008 and in preparing the comparative financial information. The Group has elected to take the following key exemption as permitted under IFRS 1 (revised):

Fair value or revaluation as deemed cost
Scottish Water has identified the carrying value of the infrastructure assets as at the creation of Scottish Water in April 2002 and rolled this balance forward for additions and depreciation, based on useful economic lives ranging from 80 to 150 years to arrive at the IFRS net book value.

Reconciliation between UK GAAP and IFRS

Set out on the following pages are the UK GAAP to IFRS reconciliations for the Group and the Company. The statements provided are:
- Consolidated income statement for the year to 31 March 2009;
- Consolidated balance sheets as at 1 April 2008 and 31 March 2009;
- Company balance sheets as at 1 April 2008 and 31 March 2009.

Certain income statement and balance sheet items, previously reported under UK GAAP, have been reclassified to comply with the Group's format for reporting under adopted IFRS. In addition to this, certain other balances have been re-measured by applying the Group's new accounting policies in accordance with adopted IFRS from 1 April 2008. A description of the key differences between UK GAAP and IFRS are detailed below.

Property, plant and equipment
The most significant impact of IAS 16 'Property, plant and equipment' relates to infrastructure assets. In accordance with UK GAAP, infrastructure assets, which comprise a network of water and wastewater systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls, were accounted for using the renewals accounting method. Under renewals accounting, capital expenditure to maintain the asset is treated as an addition to fixed assets and the depreciation charge is the estimated level of annual expenditure required to maintain the operating capability of the network. No other depreciation was applied to the infrastructure network.

Under IAS 16, infrastructure renewals accounting is not permitted and infrastructure assets are now depreciated over the estimated economic lives of the identified components of the network. Expenditure on infrastructure assets which is judged to enhance the asset base or where it is probable that future economic benefits will flow to Scottish Water is capitalised. All other expenditure is charged as an operating cost.

In addition, rather than applying IAS 16 retrospectively, a deemed cost has been established for the infrastructure assets based on fair value in accordance with IFRS 1 (revised).

PFI assets

Under IAS17 'Leases' and IFRIC 12 'Service concession arrangements', the PFI service concession agreements have been classified as finance leases resulting in the PFI assets being brought on to Scottish Water's balance sheet. Assets held under finance leases are recognised as part of the property, plant and equipment of the Group and depreciated accordingly. The corresponding finance lease liability is included in the balance sheet as a finance lease obligation, within Other loans and borrowings. The PFI costs incurred are broken down into three categories: operating costs, finance costs and reduction of the finance lease obligation. The operating and finance costs are charged directly to the income statement.

Deferred tax

Under UK GAAP, deferred tax was recognised in respect of all timing differences that had originated but not reversed at the balance sheet date where transactions or events had occurred at that date that would result in an obligation to pay more, or a right to pay less, tax.

Under IFRS, IAS 12 'Income taxes' requires that deferred taxation be recognised on all taxable temporary differences between the carrying values and the related tax base of assets and liabilities.

In addition, the carrying values of deferred tax assets and liabilities in the balance sheet have been adjusted to reflect the restatement of assets and liabilities arising from the adoption of IFRS.

Employee benefits

Under UK GAAP, the Group had fully adopted FRS 17 'Retirement benefits'. The Group's revised policy is to account for retirement and other benefits in accordance with the revised version of IAS 19 'Employee benefits'. The method of accounting for pension scheme assets and liabilities, actuarial gains and losses and income and charges associated with such schemes under IAS 19 is very similar to FRS 17. The only notable difference is that surpluses or deficits on the Group's schemes are reported gross on the face of the balance sheet rather than net of deferred tax, as is the practice under UK GAAP.

The other accounting change for the Group in applying IAS 19 is the recognition of the expected cost of the unused entitlement to paid annual leave which has accumulated at the balance sheet date.

Reclassifications

The reclassifications within the income statement are in respect of interest payable into 'Finance costs' and the return on pension scheme assets into 'Finance income'. Under UK GAAP these items had been netted within 'Net interest payable' and 'Other finance costs' respectively.

Reclassifications within the balance sheet are required for:

(i) PFI assets transferred to service providers reclassified as Property, plant & equipment from receivables;
(ii) Deferred tax assets and liabilities shown separately, not netted;
(iii) Non Government loans reclassified from within creditors to 'Other loans and borrowings', which is a separate category on the balance sheet; and
(iv) Provisions analysed between current and non current liabilities on the balance sheet.

Investments

Under UK GAAP, Scottish Water's investment in Scottish Water Solutions Limited was accounted for as a joint arrangement that is not an entity (JANE), in accordance with FRS 9 'Associates and Joint Ventures'. Under IFRS, IAS 31 'Interests in Joint Ventures', due to the nature of the contractual agreement, the investment is accounted for as a jointly controlled operation. Although there is no JANE category under IFRS, the treatment and disclosure of a jointly controlled operation is essentially the same. Therefore the transition to IFRS has had no impact on the presentation of the investment in Scottish Water Solutions Limited.

Restatement of cash flow statement from UK GAAP to IFRS

The transition from UK GAAP to IFRS has no effect upon the reported cash flows generated by the Group. The application of IFRS has changed the presentation of the cash flow statement which now classifies cash flows as arising under only three activities - operating, investing and financing. The following are the most significant consequent reclassifications of cash flows under IFRS:

- income taxes paid are classified as operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK GAAP;
- interest paid and interest received are both shown under financing activities, but were included in a separate category of returns on investments and servicing of finance cash flows under UK GAAP.

Company

The adopted IFRS policies of the Company are identical to those of the Group, where applicable.

30 Principal impact of IFRS (continued)

Reconciliation of the consolidated income statement under UK GAAP to IFRS for the year ended **31 March 2009**

	UK GAAP £m	IAS 16 Property, plant & equipment £m	IAS 17 (IFRIC 12) PFI £m	IAS 12 Income taxes £m	IAS 19 Employee benefits £m	Reclass-ifications £m	IFRS £m
Revenue	1,094.6						1,094.6
Cost of sales	(632.7)	(1.8)	25.4		(0.1)		(609.2)
Gross surplus	461.9	(1.8)	25.4	-	(0.1)	-	485.4
Administrative expenses	(101.8)						(101.8)
Operating surplus	360.1	(1.8)	25.4	-	(0.1)	-	383.6
Finance income	(149.9)					206.3	56.4
Finance costs	(1.4)		(28.5)			(206.3)	(236.2)
Surplus before taxation	208.8	(1.8)	(3.1)	-	(0.1)	-	203.8
Taxation	(63.9)			(12.9)			(76.8)
Surplus for the year	**144.9**	**(1.8)**	**(3.1)**	**(12.9)**	**(0.1)**	**-**	**127.0**

30 Principal impact of IFRS (continued)

Reconciliation of the consolidated balance sheet under UK GAAP to IFRS as at **31 March 2009**

	UK GAAP £m	IAS 16 Property, plant & equipment £m	IAS 17 (IFRIC 12) PFI £m	IAS 12 Income taxes £m	IAS 19 Employee benefits £m	Reclass-ifications £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	4,253.8	35.6	421.5			32.2	4,743.1
Deferred tax asset	-					0.3	0.3
	4,253.8	35.6	421.5	-	-	32.5	4,743.4
Current assets							
Inventories	3.2						3.2
Trade and other receivables	168.6					(32.7)	135.9
Current tax asset	-					0.5	0.5
Cash and cash equivalents	75.2						75.2
	247.0	-	-	-	-	(32.2)	214.8
Total assets	**4,500.8**	**35.6**	**421.5**	**-**	**-**	**0.3**	**4,958.2**
Liabilities							
Current liabilities							
Trade and other payables	(299.0)	(42.2)			(1.7)	5.5	(337.4)
Other loans and borrowings	-		(13.0)			(2.9)	(15.9)
Current tax liabilities	-					(2.6)	(2.6)
Provisions for liabilities	-					(9.1)	(9.1)
	(299.0)	(42.2)	(13.0)	-	(1.7)	(9.1)	(365.0)
Non-current liabilities							
Trade and other payables	(70.8)					7.2	(63.6)
Other loans and borrowings	-		(460.7)			(7.2)	(467.9)
Deferred tax liabilities	(300.8)			(5.8)	62.5	(0.3)	(244.4)
Retirement benefit obligations	(160.9)				(62.5)		(223.4)
Provisions for liabilities	(19.1)					9.1	(10.0)
	(551.6)	-	(460.7)	(5.8)	-	8.8	(1,009.3)
Total liabilities	**(850.6)**	**(42.2)**	**(473.7)**	**(5.8)**	**(1.7)**	**(0.3)**	**(1,374.3)**
Net assets	**3,650.2**	**(6.6)**	**(52.2)**	**(5.8)**	**(1.7)**	**-**	**3,583.9**
Equity							
Government loans	2,842.9						2,842.9
Retained earnings	673.9	(6.6)	(52.2)	(5.8)	(1.7)		607.6
Other reserves	133.4						133.4
	3,650.2	**(6.6)**	**(52.2)**	**(5.8)**	**(1.7)**	**-**	**3,583.9**

30 Principal impact of IFRS (continued)

Reconciliation of the consolidated balance sheet under UK GAAP to IFRS as at **1 April 2008** (date of transition)

	UK GAAP £m	IAS 16 Property, plant & equipment £m	IAS 17 (IFRIC 12) PFI £m	IAS 12 Income taxes £m	IAS 19 Employee benefits £m	Reclass-ifications £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	3,820.1	(4.8)	436.8			33.9	4,286.0
Deferred tax asset	-					1.0	1.0
	3,820.1	(4.8)	436.8	-	-	34.9	4,287.0
Current assets							
Inventories	3.9						3.9
Trade and other receivables	187.9					(33.9)	154.0
Cash and cash equivalents	80.2						80.2
	272.0	-	-	-	-	(33.9)	238.1
Total assets	**4,092.1**	**(4.8)**	**436.8**	**-**	**-**	**1.0**	**4,525.1**
Liabilities							
Current liabilities							
Trade and other payables	(313.3)				(1.6)	10.6	(304.3)
Other loans and borrowings	-		(12.3)			(8.0)	(20.3)
Current tax liabilities	-					(2.6)	(2.6)
Provisions for liabilities	-					(5.7)	(5.7)
	(313.3)	-	(12.3)	-	(1.6)	(5.7)	(332.9)
Non-current liabilities							
Trade and other payables	(75.2)					10.0	(65.2)
Other loans and borrowings	-		(473.6)			(10.0)	(483.6)
Deferred tax liabilities	(242.3)			7.1	13.3	(1.0)	(222.9)
Retirement benefit obligations	(34.2)				(13.3)		(47.5)
Provisions for liabilities	(14.8)					5.7	(9.1)
	(366.5)	-	(473.6)	7.1	-	4.7	(828.3)
Total liabilities	**(679.8)**	**-**	**(485.9)**	**7.1**	**(1.6)**	**(1.0)**	**(1,161.2)**
Net assets	**3,412.3**	**(4.8)**	**(49.1)**	**7.1**	**(1.6)**	**-**	**3,363.9**
Equity							
Government loans	2,615.2						2,615.2
Retained earnings	663.7	(4.8)	(49.1)	7.1	(1.6)		615.3
Other reserves	133.4						133.4
	3,412.3	**(4.8)**	**(49.1)**	**7.1**	**(1.6)**	**-**	**3,363.9**

30 Principal impact of IFRS (continued)

Reconciliation of the company balance sheet under UK GAAP to IFRS as at **31 March 2009**

	UK GAAP £m	IAS 16 Property, plant & equipment £m	IAS 17 (IFRIC 12) PFI £m	IAS 12 Income taxes £m	IAS 19 Employee benefits £m	Reclass-ifications £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	4,249.2	35.6	421.5			32.2	4,738.5
Investments	37.6						37.6
	4,286.8	35.6	421.5	-	-	32.2	4,776.1
Current assets							
Inventories	2.9						2.9
Trade and other receivables	97.1					(32.7)	64.4
Current tax asset	-					0.5	0.5
Cash and cash equivalents	15.9						15.9
	115.9	-	-	-	-	(32.2)	83.7
Total assets	**4,402.7**	**35.6**	**421.5**	**-**	**-**	**-**	**4,859.8**
Liabilities							
Current liabilities							
Trade and other payables	(279.2)	(42.2)			(1.7)	2.9	(320.2)
Other loans and borrowings	-		(13.0)			(2.9)	(15.9)
Provisions for liabilities	-					(8.7)	(8.7)
	(279.2)	(42.2)	(13.0)	-	(1.7)	(8.7)	(344.8)
Non-current liabilities							
Trade and other payables	(65.0)					7.2	(57.8)
Other loans and borrowings			(460.7)			(7.2)	(467.9)
Deferred tax liabilities	(301.6)			(5.8)	62.4		(245.0)
Retirement benefit obligations	(160.5)				(62.4)		(222.9)
Provisions for liabilities	(18.7)					8.7	(10.0)
	(545.8)	-	(460.7)	(5.8)	-	8.7	(1,003.6)
Total liabilities	**(825.0)**	**(42.2)**	**(473.7)**	**(5.8)**	**(1.7)**	**-**	**(1,348.4)**
Net assets	**3,577.7**	**(6.6)**	**(52.2)**	**(5.8)**	**(1.7)**	**-**	**3,511.4**
Equity							
Government loans	2,784.4						2,784.4
Retained earnings	659.9	(6.6)	(52.2)	(5.8)	(1.7)		593.6
Other reserves	133.4						133.4
	3,577.7	**(6.6)**	**(52.2)**	**(5.8)**	**(1.7)**	**-**	**3,511.4**

30 Principal impact of IFRS (continued)

Reconciliation of the company balance sheet under UK GAAP to IFRS as at **1 April 2008** (date of transition)

	UK GAAP £m	IAS 16 Property, plant & equipment £m	IAS 17 (IFRIC 12) PFI £m	IAS 12 Income taxes £m	IAS 19 Employee benefits £m	Reclass-ifications £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	3,819.4	(4.8)	436.8			33.9	4,285.3
Investments	34.6						34.6
	3,854.0	(4.8)	436.8	-	-	33.9	4,319.9
Current assets							
Inventories	3.9						3.9
Trade and other receivables	181.0					(33.9)	147.1
Cash and cash equivalents	29.9						29.9
	214.8	-	-	-	-	(33.9)	180.9
Total assets	**4,068.8**	**(4.8)**	**436.8**	**-**	**-**	**-**	**4,500.8**
Liabilities							
Current liabilities							
Trade and other payables	(295.1)				(1.6)	8.0	(288.7)
Other loans and borrowings	-		(12.3)			(8.0)	(20.3)
Provisions for liabilities	-					(5.7)	(5.7)
	(295.1)	-	(12.3)	-	(1.6)	(5.7)	(314.7)
Non-current liabilities							
Trade and other payables	(74.9)					10.0	(64.9)
Other loans and borrowings	-		(473.6)			(10.0)	(483.6)
Deferred tax liabilities	(243.3)			7.1	13.3		(222.9)
Retirement benefit obligations	(34.3)				(13.3)		(47.6)
Provisions for liabilities	(14.8)					5.7	(9.1)
	(367.3)	-	(473.6)	7.1	-	5.7	(828.1)
Total liabilities	**(662.4)**	**-**	**(485.9)**	**7.1**	**(1.6)**	**-**	**(1,142.8)**
Net assets	**3,406.4**	**(4.8)**	**(49.1)**	**7.1**	**(1.6)**	**-**	**3,358.0**
Equity							
Government loans	2,615.2						2,615.2
Retained earnings	657.8	(4.8)	(49.1)	7.1	(1.6)		609.4
Other reserves	133.4						133.4
	3,406.4	**(4.8)**	**(49.1)**	**7.1**	**(1.6)**	**-**	**3,358.0**

Scottish Water

Direction by the Scottish Ministers

in accordance with section 45(2) of the Water Industry (Scotland) Act 2002

In March 2010 the Scottish Government issued amendments to the Scottish Water Governance Directions 2009. These Directions are available on the Scottish Government web site.

Under the Directions, Scottish Water is required to disclose details of certain types of expenditure which exceed given thresholds and which are not disclosed elsewhere in the Annual Report and Accounts. The required information is presented in the following table:

Project expenditure	**Threshold**	**Project**	**Cost**
Capital expenditure on major works including improvements to existing assets	£10 million	Aviemore (Blackpark) WTW Campbeltown WWTW Edinburgh City Tram project (service diversions) Dunoon Sewerage Scheme Meadowhead & Stevenson UID project Seafield WWTW (Odour improvement project)	£24.7 million £26.8 million £15.9 million £43.7 million £62.7 million £13.4 million
Purchase of individual capital items, including land, with a life of more than one year	£1 million	None	-
Advertising	£1 million	None	-
Sponsorship	£10,000	None	-
Gifts	£100	None	-