South Staffordshire Water PLC

Accounts for the Year Ended 31 March 2011
Together with Directors'
And
Independent Auditor's Reports

(Company Registration No : 2662742)

Highlights

- Levels of service continue at the highest levels in the UK Water Industry.
- £28.0m of planned capital investment successfully completed.
- 52km of mains replaced.
- Third lowest domestic charges in England and Wales at an average of £126 per annum – 25% below the national average.
- Continued high water quality performance.
- Water resource position remains healthy
- Challenging and demanding targets for leakage met.

	Turnover		Operating Profit*	
	2011	2010	2011	2010
Regulated	£84.5m	£82.3m	£19.4m	£20.5m
Non-Regulated	£3.3m	£3.8m	£1.1m	£1.1m

* Operating profit includes other income

OPERATING AND FINANCIAL REVIEW

South Staffordshire Water PLC ("South Staffs Water") is part of the South Staffordshire Plc group of companies, a privately owned Group concentrating on regulated water supply and complimentary service businesses Formed in 1853 to provide water to the inhabitants of the Black Country, the Company supplies a population of nearly 1 25 million, over an area of 1,490 square kilometres The area of supply stretches from the edge of Ashbourne in the north, to Halesowen in the south, and from Burton on Trent in the East to Kinver in the West

The Company obtains its water resources from three main sources Blithfield Reservoir, the River Severn and 26 groundwater sites across the Company's area of supply Surface water is treated at two water treatment works and is distributed through nearly 6,000 km of mains

South Staffs Water is a water only company and as such does not supply sewerage services However, it does bill customers for these services on behalf of Severn Trent Water

MANAGING DIRECTOR'S REVIEW

Regulated Water Supply

South Staffs Water is proud to be recognised as one of the leading companies in a challenging sector, where the need to ensure a continuous supply of safe and clean water, coupled with excellent value and customer service, is of paramount importance This recognition is largely based upon the Company's consistent track record of providing excellent value to its customers, combining high levels of service and efficiency with low charges

Consistent with the Company's long term-term Strategic Direction Statement that underpins the recent regulatory Periodic Review, the Company's strategy is based on the 3Cs which epitomises the three main drivers for the decisions the Company makes and the policies that it adopts The balancing of the 3Cs drivers is not always straightforward, particularly with the carbon agenda gaining pace

The 3Cs represent

- **Customers** - provide an excellent customer experience
- **Carbon** - reduce carbon footprint
- **Costs** - control costs to maximise the Company's efficiency

South Staffs Water's domestic customers continue to pay the third lowest water bills in England and Wales, with the average of £126 being some 25% below the industry average

OPERATING AND FINANCIAL REVIEW

The Company's Overall Performance Assessment (OPA), as measured by the industry regulator Ofwat, continues to reflect excellent levels of service, with scores that remain well above the industry average

South Staffs Water is also recognised for being one of the most efficient in the sector and is ranked in the top band for efficiency by Ofwat For operating costs South Staffs Water attained upper Band A efficiency status in the recent Periodic Review (2009) This is the highest banding possible to achieve and it is South Staffs Water's intention to maintain this position Whilst costs continue to be very carefully controlled and further savings are being achieved, the cost base is also being influenced by factors outside of the Company's control such as power and fuel costs and a volatile inflation rate

Historically water companies' service performance has been assessed using the OPA as detailed above The measure has served the industry well in incentivising improved performance year on year In the future, whilst the majority of the regulatory targets which underpin the OPA will still need to be achieved, Ofwat have introduced a new measure, the Service Incentive Mechanism (SIM) which is based on assessing levels of customer satisfaction There has been much work done in the year to review our processes and systems in order to enhance the experience and satisfaction of our customers when they have contact with us on billing or operational matters

The year has seen many challenges not least of which was an early winter with unprecedented severity of conditions Despite this, customer disruptions in the distribution system were kept to a minimum by the hard work and fast response of our staff and contractors Through all of these efforts our performance in this area has been excellent with achievement of the reduced leakage target and the reporting of low numbers of prolonged supply interruptions Whilst overall the Company's water resource position is very healthy, both the summer and winter weather conditions provided challenges in the balancing of those resources

With the year being the first of a new AMP period (2010-15), much work has been undertaken on our procurement, contracting and AMP5 capital investment delivery strategies which has seen us deliver significant efficiency savings within the capital programme The business put significant effort into the production of a robust business plan for 2010-15 and is now in the process of delivering the plan's operational strategies to ensure that the Company continues to operate efficiently and provide the service standards customers expect

OPERATING AND FINANCIAL REVIEW

In the past couple of years, a comprehensive review of the business' current and future IT capabilities has been undertaken to ensure the Company can continue to be efficient in its operations and meet customers' rising service expectations now and into the future This review identified further investment in systems over a number of years to provide better information for customers and improve response times regarding operational job activities and to sustain high operational efficiency

South Staffs Water is proud of its achievements and is determined to remain one of the best companies in the industry based on the provision of excellent value to its customers with continued high levels of service and efficiency This will only be possible through the continued hard work and support of our employees, suppliers and contractors

REGULATORY ENVIRONMENT

South Staffs Water, like the rest of the water industry, is regulated by three government bodies, the Water Services Regulation Authority (Ofwat), the Drinking Water Inspectorate (DWI), and the Environment Agency

Ofwat is the economic regulator of the industry and its role is to seek value for customers This also includes setting limits on what companies can charge Ofwat sets the Company's limits on prices through a periodic review process every five years The price limits for the period 2010 – 2015 were determined in November 2009 and were as follows

Year	2010-11	2011-12	2012-13	2013-14	2014-15
% increase	1 5	0 0	1 9	0 0	-0 6

These increases are also adjusted annually by the change in the Retail Price Index (RPI)

The Drinking Water Inspectorate is responsible for assessing the quality of drinking water in England and Wales

The Company's interaction with the Environment Agency includes many aspects of environmental regulation including the granting of abstraction licenses that stipulate how much water can be taken from sources and discharge consents

OPERATING AND FINANCIAL REVIEW

OPERATIONAL PERFORMANCE

Historically, Ofwat have measured operational performance against a number of performance indicators as follows

- Number of properties suffering low water pressure
- Number of properties affected by unplanned and prolonged interruptions to supply
- Number of properties affected by water restrictions
- Speed of response to billing contacts
- Speed of response to written complaints
- Meter reading performance
- Quality of response to telephone contacts
- Drinking water quality
- Pollution incidents
- Leakage

Performance against these indicators was measured and combined to give an Overall Performance Assessment (OPA) score

For more than ten consecutive years, South Staffs Water has been represented in the top five in the industry for the OPA, an achievement that was recognised by Ofwat in the recent Periodic Review in awarding South Staffs Water a premium for its high levels of service Although Ofwat are no longer using the OPA for regulatory purposes in the future, the provisional results for 2010-11, which represent our highest score, would also have been excellent, especially taking account of the effects of severe weather impacting on the pipe network

The DWI publishes an annual report assessing the water quality of every company in the industry During the period, the Company complied with 99 983% of all tests carried out on drinking water supplies This result continues the trend of high compliance rates achieved by the Company over a number of years

In addition to the above performance indicators, the Company also submits further operational and financial information to Ofwat in an annual 'June Return'

CAPITAL INVESTMENT

The Company has made good progress in delivering its capital programme, to ensure that its assets remain in good condition, maintain stable asset serviceability and good quality, reliable supplies to customers Capital expenditure for the year of £28 0m net of contributions is slightly ahead of the amount included in the 2009 Ofwat Final Determination

FINANCIAL

Turnover for the regulated business has increased by 2 7% to £84 5m (2010 £82 3m) primarily due to the price increase allowed by Ofwat of 1 5% (plus inflation) Non-regulated turnover fell by £0 5m reflecting lower volumes of bottled water sales Operating profit for the regulated business was £19 4m (2010 £20 5m) with a reduction in the cost of capital allowed by Ofwat for AMP5 (5 7% to 4 9%) and the full year impact of a new power contract which commenced in October 2009 at higher prices partly offset by the allowed increase in charges and reductions in other operating costs reflecting the Company's commitment to maintaining cost efficiency Non-regulated operating profits were unchanged from the previous year at £1 1m

The Company generated an exceptional profit on the sale of land of £1 5m in the year (2010 £Nil), which has been reported after operating profit

Dividends of £8 5m have been paid in respect of 2010-11 (2010 £9 0m) In addition, a final dividend of £6 9m was paid in the year reflecting better than expected cash flows and levels of debt in 2009-10

Overall, the book value of net debt amounted to £190 7m at 31 March 2011 (2010 £180 2m) Net debt includes index-linked debt, debenture stock, finance leases, bank loans and overdraft less cash This differs from the value used for covenant reporting purposes of £174 6m (2010 £161 6m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt This represents 73 2% (2010 73 7%) of the Company's Regulated Asset Value (RAV) of £238 5m (2010 £219 4m) being the Final Determination RAV uplifted for inflation This ratio reflects the higher than expected level of inflation (RPI) at March 2011 of 5 3%, which is used to inflate RAV, whereas the majority of index-linked debt was inflated using RPI at July 2010 of 4 8% The Company's dividend policy is to pay dividends to 77% of net debt/RAV although over the AMP5 period this ratio is expected to be at or below 77% The Company maintains significant headroom in respect of all borrowing covenants

Standard and Poors continues to rate the Company as BBB+, well within investment grade

Treasury policy

The main purpose of the Company's financial instruments is to finance the Company's operations and reduce risk to fluctuations in external indices outside the control of the Company It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken The Company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest and long and short term debt

Financial Risks

A detailed analysis of Financial Risk is included in note 24 to the financial statements

Accounting Policies

The Company's accounting policies are disclosed in note 1 to the financial statements There has been no change in these accounting policies during the year With respect to depreciable fixed assets, the estimated useful lives adopted are based on engineering judgement by the Company's asset management team based on their experience and expertise The asset lives adopted are similar to the rest of the water industry

Covenants and Key Performance Indicators (KPIs)

There are two financial covenants relating to the Company's debt These are set out below along with the actual ratios for the year and show that there is significant headroom in both covenants

	Covenant Ratio	Actual Ratio 31 March 2011	Actual Ratio 31 March 2010
Historic net cashflow less current cost depreciation & infrastructure renewals / Historic cost debt service	>1 5 1	2 9 1	2 9 1
Net Debt / Regulated Asset Value	<0 85	0 73	0 74

A number of other financial KPIs are used by senior management and are measured against the Company's budget for the year and the Final Determination as set by Ofwat in 2009 including

- Turnover
- Operating costs
- Net cashflow
- Net Capital expenditure

ENVIRONMENT

The Company has a strong belief in the value of environmental sustainability and continues to investigate and commit to ways to reduce its carbon footprint Preparations for reporting under the Carbon Reduction Commitment Energy Efficiency Scheme have been completed and the Company continues to focus efforts on reducing energy use and carbon emissions in its activities South Staffs Water has delivered the first year of an enhanced five-year programme to improve pumping efficiency and improvements have been in line with expectations

The Company will continue to work to evolve environmental strategies and encourage further development in this area, both with employees and external organisations, to the benefit of environments within its control

COMMUNITY

We take our relationship with the local community very seriously and have continued to assist charities that have a direct impact on the communities in which the Company's businesses operate

South Staffs Water once again supported the national water industry charity, Water Aid, raising much-needed funds for the development of safe drinking water and proper sanitation in developing countries, the total raised by the Company and its employees exceeded £10,000

South Staffs Water continued to focus on delivering quality learning programmes for Key Stage 2 Science at its Education Centre Over 2,500 pupils studied the water cycle, learnt about woodland plant and insect life, as well as undertaking pond-dipping studies relating to the aquatic food chain The Company is aiming to extend the range of programmes on offer to cover secondary schools and colleges

RELATIONSHIPS

Employees

South Staffs Water's success depends upon the skill and enthusiasm of our employees The Company is concerned about it's employees well being and looks to a range of benefits that will assist to provide a measured work/life balance

All employees are offered membership of a pension scheme and are eligible for life assurance cover for the benefit of their dependants, regardless of pension membership The Company remains committed to supporting its final salary pension scheme and, whilst the scheme is closed to new members, an excellent money purchase scheme is available

Employees have access to discounted private medical insurance schemes and an Employee Assistance Programme, which provides a dedicated and confidential helpline

The Company ensures that its equal opportunities policies are effectively operated, making every reasonable effort to ensure that all people have equal opportunities for employment, training and promotion and strives for continued employment under normal terms and conditions where possible if an employee becomes disabled

Our commitment to learning and development for our employees continues by combining internal and external training in all areas of the business in order to update our staff skills and competencies in areas such as customer service and management development

Customers

The Company has a diverse range of customers, from private consumers to commercial customers Relationships with all customers are characterised by high quality customer service, built on long term relationships, which are key to future business success and stability

Significant work is being undertaken to enhance the experience and satisfaction of our customers when they contact us on billing or operational matters

The Company provides a Special Services Scheme for customers who require additional assistance, bills are available in Braille, large print and audiably if required and additional tariffs are available for customers in vulnerable groups

The South Staffordshire Water Charitable Trust provides financial help to those customers who are unable to pay for the supply of water to their home, such as the elderly, sick or some families claiming State Benefits, on very low incomes or experiencing transitional difficulties Nominations for potential beneficiaries are received from a broad range of sources, including direct applications from customers, but also from local councils, the Citizens Advice Bureau and other registered care agencies

Suppliers

The Company operates a competitive tendering process for the procurement of goods and services If the value of the tender is above the EU threshold, the Company follows the relevant EU directives The Company has very good relationships with its suppliers

Directors' Report

The Directors have pleasure in submitting their report and accounts for the year ended 31 March 2011

Principal Activity

The principal activity of the Company is the abstraction, treatment and distribution of water to domestic, commercial and industrial customers

Business Review

A detailed review of the businesses operations during the year ended 31 March 2011 and the future development of the Company is presented in the Operating and Financial Review on pages 1 to 9 This forms part of the Directors' report

Directors

The Directors who held office during the year and subsequently are as follows

Dr Jack Carnell	Managing Director – Resigned 31 October 2010
Dr Elizabeth Anne Swarbrick	Managing Director
Adrian Peter Page	Group Finance Director
Rachel Elizabeth Barber	Customer Operations Director
Keith Harold Marshall	Supply Director
Matthew James Lewis	Finance and Regulation Director
Simon Riggall	Non-Executive Director
Alexander William Francis Black	Non-Executive Director
Michael Alan Hughes	Independent Non-Executive Director
Richard Panton Corbett	Independent Non-Executive Director – Resigned 24 June 2011
David Baldwin Sankey	Independent Non-Executive Director – Resigned 30 September 2010
Jeremy Pelczer	Independent Non-Executive Director – Appointed 1 October 2010
Sir James Perowne	Independent Non-Executive Director – Appointed 1 January 2011

Financial Results

The Company's financial results are shown in the profit and loss account on page 18 and in pages 1 to 9 of the Operating and Financial Review

Risk Management

There is an established risk management and internal control framework in place within the Company The Directors believe that all significant risks faced by the Company are appropriately managed

The Directors' assessment of the most significant financial risks faced by the Company and how these are managed are detailed in note 24 to the accounts

Donations

No financial charitable donations were made by the Company during either year All charitable donations are made by the Company's parent, South Staffordshire Plc There were no political contributions in either year

Payment of Creditors

The Company's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services Trade creditors at 31 March 2011 represent 32 days (2010 30 days) of purchases in the year

Corporate Governance and Internal Control

The Board supports the principles of the Combined Code and welcomes the emphasis on flexibility and common sense in relation to its application

The Board of Directors attaches considerable importance to its systems of internal control and for reviewing its effectiveness, including its responsibility for taking reasonable steps for the safeguarding of the assets of the Company and for preventing and detecting fraud and other irregularities Such a system is designed to manage rather than eliminate the risk and can nonetheless provide only reasonable and not absolute assurance against misstatement or loss The Board has delegated some responsibility for such reviews to the Audit Committee

There is an established internal control framework that is continually reviewed and updated taking into account the nature of the Company's operations This process includes the identification, evaluation and management of significant risks faced by the Company The Board confirms that this process was in place throughout the financial year to which these statements apply and up to the date of approval of these accounts The Board considers internal audit arrangements in operation are appropriate to the size and complexity of the business but will continue to review these arrangements on a regular basis

DIRECTORS' REPORT

Regulatory Reporting

South Staffordshire Water PLC makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate and is supported by suitable systems and procedures The Board, including Non-Executive Directors, are involved in the approval process for key regulatory information, and this process supports the governance in place and the review of information by our Ofwat Reporters (Monson Engineering) and our external auditor (Deloitte LLP)

The Company places great emphasis on regulatory reporting to ensure that it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat and other regulators It is important to the Company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business with reference to this data

Going Concern and Basis for Assumption

The Directors consider that it is appropriate to prepare the accounts on a going concern basis This is based upon a review of the Company's budget for 2011-12, the current three-year plan and the investment programme, together with the committed borrowing facilities available to the Company In addition, the Directors are required to certify to Ofwat under Condition F of its Instrument of Appointment that sufficient financial resources are available for at least the next 12 months

The Company's business activities, together with the factors likely to affect its future development, are set out in the Operating and Financial Review on pages 1 to 9 The financial position of the Company, its liquidity position and borrowing facilities are set out on pages 1 to 6 of the Operating and Financial Review, the balance sheet on page 19 and in note 24 to the accounts, which includes the Company's objectives for managing its financial risks, details of its financial instruments and hedging activities and its exposure to interest, credit and liquidity risk The Company has a large number of both domestic and commercial customers, none of which make up a significant proportion of the businesses turnover The Company has significant undrawn borrowing facilities in addition to its net cash balances and has significant headroom in respect of all of its borrowing covenants, both on a historic and forward looking basis

Auditor

In accordance with the provisions of s418 of the Companies Act 2006, the Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

A resolution proposing the reappointment of Deloitte LLP as auditor will be put to the Annual General Meeting

By Order of the Board

J R Goodwin
Company Secretary
14 July 2011
Registered Office Green Lane, Walsall, West Midlands WS2 7PD
Registered in England and Wales, Number 2662742

THE DIRECTORS' RESPONSIBILITIES STATEMENT

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, set out on pages 16 and 17, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the accounts.

The Directors are required by Company Law, and under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, as a water undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year Under Company Law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

In preparing the accounts the Directors are required to

- Select suitable accounting policies (see pages 21 to 24) and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions and or qualifications as necessary

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which will enable them to ensure that the accounts comply with the Companies Act 2006

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to detect and prevent fraud and other irregularities

The Directors, having prepared the accounts, are required to provide to the auditor such information and explanations as the auditor thinks necessary for the performance of his duties

THE DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors have the responsibility for the maintenance and integrity of the Company's website Information published on the Internet is accessible in many countries with different legal requirements Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

We have audited the financial statements of South Staffordshire Water PLC for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 26 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Hall, FCA

David Hall FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
July 2011

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover	2	**87,843**	86,088
Operating costs (net)	3	**(67,377)**	(64,423)
Operating profit		**20,466**	21,665
Exceptional profit on sale of tangible fixed assets	6	**1,465**	-
Finance charges (net)	7	**(8,998)**	(8,658)
Profit on ordinary activities before taxation		**12,933**	13,007
Taxation on profit on ordinary activities	8	**(1,413)**	(2,834)
Profit on ordinary activities after taxation	21, 22	**11,520**	10,173
Earnings per share			
Basic	10	**542.6p**	479 1p
Diluted	10	**542.6p**	479 1p

The results above are derived from continuing operations

A statement of movements in reserves is given in note 21 to the financial statements

The accompanying notes are an integral part of these financial statements

BALANCE SHEET

As at 31 March 2011

	Note	2011	2010
		£'000	£'000
Fixed Assets			
Tangible assets	11	**194,348**	186,543
Current Assets			
Stocks	14	**1,785**	1,492
Debtors - amounts recoverable within one year	15	**13,899**	12,933
Debtors - amounts recoverable in more than one year	15	**44,564**	44,571
Cash at bank and in hand		**1,640**	2,098
		61,888	61,094
Creditors - amounts falling due within one year	16	**(35,905)**	(27,041)
Net current assets		**25,983**	34,053
Total assets less current liabilities		**220,331**	220,596
Creditors - amounts falling due after more than one year	17	**(197,998)**	(192,993)
Accruals and deferred income	13	**(6,653)**	(6,791)
Provisions for liabilities	19	**(10,839)**	(12,234)
Net Assets		**4,841**	8,578
Capital and Reserves			
Called-up share capital	20	**2,123**	2,123
Share premium account	21	**495**	495
Hedging reserve	21	**(5,079)**	(5,224)
Capital redemption reserve	21	**4,450**	4,450
Profit and loss account	21	**2,852**	6,734
Shareholders' Funds	22	**4,841**	8,578

The accompanying notes are an integral part of these financial statements

The financial statements of South Staffordshire Water PLC (Company number 2662742) were approved by the Board of Directors and authorised for issue on 14 July 2011

M. J. Lewis **E. A. Swarbrick**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2011

	Note	2011	2010
		£'000	£'000
Profit on ordinary activities after taxation		**11,520**	10,173
Movement in hedging reserve (net of deferred tax)	21	**145**	153
Total recognised gains and losses relating to the year		**11,665**	10,326

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Accounting Policies

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

a) Basis of Accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards on a going concern basis as stated in the Directors' Report on page 12 In order to show a true and fair view, the Company has departed from the Companies Act 2006 in respect of accounting for capital contributions Further details are provided in (d) below

b) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services in the normal course of business and includes amounts billed for water together with an estimation of amounts unbilled at the year end

c) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (consisting of water mains, impounding and pumped raw water storage reservoirs and dams), operational structures (being pumping stations, treatment stations, boreholes and service reservoirs) and other assets

Infrastructure Assets

Infrastructure assets comprise a network of systems that, as a whole, is intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of its components Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks and on maintaining the operating capability of the network in accordance with defined standards of service is treated as additions which are capitalised at cost

The depreciation charge for infrastructure assets is the average level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan

Operational Structures and Other Fixed Assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated The estimated useful lives of the assets are as follows

Buildings and Service Reservoirs	50-80 years
Boreholes	100 years
Fixed Plant	20-30 years
Meters	15 years
Mobile Plant	5 years
Motor Vehicles	3-7 years
Office Equipment	5-7 years

d) Capital Contributions

Capital contributions are treated as deferred income and amortised over the useful lives of the assets concerned, except in the case of contributions towards the cost of infrastructure assets, which are not amortised 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 it is not possible to amortise contributions to the profit and loss account over the lives of the fixed assets concerned, as infrastructure assets do not have determinable finite lives

e) Leased Assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the Company, are included within fixed assets, and the net obligation to pay future rentals is included in creditors Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding

f) Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value Cost includes materials and an appropriate element of overheads Provision is made for obsolete, slow-moving or defective items where appropriate

g) Pensions

The Company is required to account for pension schemes in accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17) For the defined contribution scheme the amount charged to the profit and loss account is the contributions payable in the year The defined benefit scheme is a multi-employer scheme and the Company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with the amount charged to the profit and loss account being the contributions payable in the year

h) Research and Development

Research and Development is charged to the profit and loss account in the year in which it is incurred

i) Taxation

Current tax is charged on taxable profits at the current rate

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation changing rates enacted or substantially enacted at the balance sheet date The liability is discounted, using the yield to maturity on government gilts, to reflect the time value of money over the period between the balance sheet date and the date on which the timing differences are expected to reverse

j) Financial Instruments

Financial Assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable are categorised as "loans and receivables" which are measured at amortised cost Cash and cash equivalents comprise cash at bank and in hand and short-term deposits

Financial Liabilities

Financial liabilities are all categorised as "other financial liabilities" which are initially measured at fair value and subsequently measured at amortised cost The premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument which is included in finance charges (net) in the profit and loss account

k) Hedge Accounting

The Company designates certain hedging instruments as cash flow hedges At inception of the hedge relationships, the Company documents the relationships between the hedging instruments and the hedged items along with the Company's risk management strategy and objectives in relation to each hedge At the inception of the hedges, and on an ongoing basis, the Company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity in a hedging reserve The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account The amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account

Hedge accounting is discontinued when the Company de-designates the hedging relationships, the hedging instruments expire, are terminated or are sold or they no longer qualify for hedge accounting Any cumulative gain or loss that remains in the hedging reserve at the time is recognised when hedged forecast transactions are ultimately recognised in the profit and loss account When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account

l) Cash Flow Statement

Under the provisions of Financial Reporting Standard Number One, the Company has not prepared a cash flow statement because its immediate parent company, South Staffordshire Plc, which holds more than 90% of the Company's share capital, has prepared consolidated accounts which include the accounts of the Company for the year ended 31 March 2011, which contain a consolidated cash flow statement and which are publicly available

m) Dividends

Dividends are recognised in the profit and loss account if they have been paid or if they have been approved by the Company's Board and shareholder before the period end

2. Segmental Information

The Directors consider that the Company operates substantially in the UK in one class of business, that being water supply No analysis of turnover, profit before tax or net assets, by geographical area or class of business, is considered necessary

3. Operating Costs (Net)

	2011 **£'000**	2010 £'000
Operating costs (net) were as follows		
Other operating income (see note 6)	**(670)**	(571)
Raw materials and consumables	**4,200**	4,237
Staff costs (see note 4)	**17,130**	15,794
Depreciation non-infrastructure assets	**10,853**	10,125
Depreciation infrastructure assets	**9,555**	9,339
Amortisation of Capital Contributions	**(507)**	(506)
Other operating costs	**26,816**	26,005
	67,377	64,423

Auditor's remuneration is analysed as follows:

	2011 **£'000**	2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**38**	38
Other services pursuant to legislation	**18**	18
	56	56

4. Staff Costs

	2011 **£'000**	2010 £'000
Wages and salaries	**12,951**	12,778
Social security costs	**1,038**	987
Pension costs (see note 23)	**3,141**	2,029
	17,130	15,794

	2011 **Number**	2010 Number
Average number of employees	**398**	395

5. Directors' Remuneration

	2011 £'000	2010 £'000
Emoluments	**768**	636

There were no contributions made by the Company to money purchase pension schemes in respect of the Directors in either year

During the year and the prior year, certain Directors received no emoluments as Directors of this Company These directors were remunerated by the immediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £407,000 (2010 £705,000) No contributions were paid by the immediate parent undertaking to a money purchase pension scheme in respect of these Directors in either year 6 Directors (2010 6) who held office at the end of the year were accruing benefits under a defined benefit pension scheme and no Director was a contributing member under a money purchase scheme at either year end

The highest paid directly employed Director received emoluments of £202,000 (2010 £266,000) and at the end of both years was no longer accruing benefits under the defined benefit pension scheme

6. Other Operating Income

	2011 £'000	2010 £'000
Profit on disposal of fixed assets (non exceptional)	**220**	182
Rental income	**450**	389
	670	571

During the year ended 31 March 2011, the Company disposed of land generating a profit of £1,465,000 Due to the high value and exceptional nature of this profit it has been reported as an exceptional item after operating profit This gain has not impacted the tax charge of the Company for the year

7. Finance Charges (Net)

	2011 £'000	2010 £'000
Interest payable and similar charges		
Index-linked debt (Cash)	**5,563**	5,351
Index-linked debt (Non-cash)	**5,172**	5,006
Bank overdraft and other interest	**451**	743
Finance charges in respect of finance leases	**118**	103
Debenture interest	**67**	67
	11,371	11,270
Interest receivable		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(24)**	(279)
	8,802	8,446
Other finance charges (net)		
Amounts recycled from hedging reserve	**196**	212
	8,998	8,658

8. Taxation on Profit on Ordinary Activities

	2011 £'000	2010 £'000
Current tax		
Current year	**3,004**	3,403
Adjustment in respect of prior years	**(145)**	53
Total current tax charge	**2,859**	3,456
Deferred tax		
Origination and reversal of timing differences	**(160)**	(123)
Decrease / (increase) in discount	**565**	(266)
Adjustment in respect of prior years	**(361)**	(233)
Impact of change in future tax rates (before discount)	**(1,490)**	-
Total deferred tax credit	**(1,446)**	(622)
Total tax on profit on ordinary activities	**1,413**	2,834

The principal differences between the current corporation tax rate based on the profit before tax and the standard rate of corporation tax are as follows

Standard rate of corporation tax	**28.0%**	28 0%
Timing differences in respect of finance charges	**5.5%**	5 9%
Capital allowances in excess of depreciation (net)	**(4.2%)**	(4 6%)
Adjustments in respect of prior years	**(1.1%)**	0 4%
Other timing differences	**0.0%**	(0 4%)
Other permanent differences	**(6.1%)**	(2 7%)
Current corporation tax rate for the year	**22.1%**	26 6%

9. Dividends Paid

	2011 £'000	2010 £'000
Equity interests		
Ordinary dividends paid of 725 4p (2010 423 9p) per share	**15,402**	9,000

10. Earnings per Share

The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the year

The calculations of earnings per share are based on the following profits and number of shares

	2011 £'000	2010 £'000
Profit on ordinary activities after taxation and profit for earnings per share	**11,520**	10,173

	2011 Number of Shares	2010 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	**2,123,210**	2,123,210

11. Tangible Fixed Assets

	Specialised Operational Assets £'000	Non Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Cost					
At 1 April 2010	112,552	18,920	163,271	93,349	388,092
Additions	5,565	(149)	13,516	13,082	32,014
Capital Contributions	-	-	(3,624)	-	(3,624)
Disposals	-	-	(1,169)	(662)	(1,831)
At 31 March 2011	**118,117**	**18,771**	**171,994**	**105,769**	**414,651**
Depreciation					
At 1 April 2010	44,305	4,285	107,699	45,260	201,549
Charge for the year	4,163	277	9,555	6,413	20,408
Disposals	-	-	(1,169)	(485)	(1,654)
At 31 March 2011	**48,468**	**4,562**	**116,085**	**51,188**	**220,303**
Net Book Value					
At 31 March 2011					
Owned	67,897	14,209	51,682	52,784	186,572
Leased	1,752	-	4,227	1,797	7,776
	69,649	**14,209**	**55,909**	**54,581**	**194,348**
Net Book Value					
At 31 March 2010					
Owned	66,287	14,635	51,345	46,828	179,095
Leased	1,960	-	4,227	1,261	7,448
	68,247	14,635	55,572	48,089	186,543

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £13,389,000 (2010 £12,904,000) less accumulated depreciation of £5,710,000 (2010 £5,456,000) Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £534,000 (2010 £482,000) Tangible fixed assets include freehold land of £1,912,000 (2010 £1,912,000) which is not subject to depreciation

Infrastructure renewals expenditure and the charge to the profit and loss account have been included within infrastructure asset cost and accumulated depreciation respectively The net book value of infrastructure assets is stated net of capital contributions The balance of capital contributions at 31 March 2011 and movements in the year are set out in note 13 below Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £12,395,000 at 31 March 2011 (2010 £7,774,000)

12. Commitments

Capital commitments outstanding at 31 March 2011 were £454,000 (2010 £798,000)

13. Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 2010	**82,197**	6,791
Capital contributions received	**3,624**	369
Disposals	**(589)**	-
Amortised in year	-	(507)
Balance at 31 March 2011	**85,232**	6,653

Capital contributions in respect of other assets are included in accruals and deferred income

14. Stocks

	2011 £'000	2010 £'000
Raw materials and consumables	**1,785**	1,492

There is no material difference between the balance sheet value of stocks and their replacement cost

15. Debtors

	2011 £'000	2010 £'000
Amounts recoverable within one year		
Trade debtors	**8,489**	7,842
Other debtors	**236**	201
Amounts due from Other Group undertakings	**1**	2
Prepayments and accrued income	**5,173**	4,888
	13,899	12,933
Amounts recoverable in more than one year		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**4,490**	4,495
Other debtors	**74**	76
	44,564	44,571
	58,463	57,504

16. Creditors – amounts falling due within one year

	2011 £'000	2010 £'000
Bank loans and overdraft (unsecured)	**5,334**	1,128
Obligations under finance leases	**766**	559
Payments received in advance	**9,572**	8,763
Trade creditors	**8,857**	7,270
Other creditors	**4,655**	3,908
Amounts owed to other Group undertakings	**3,820**	2,900
Corporation tax payable	**2,494**	2,108
Other taxation and social security	**407**	405
	35,905	27,041

17. Creditors – amounts falling due after more than one year

	2011 £'000	2010 £'000
Irredeemable debenture stock (unsecured) (note 18)	**1,633**	1,633
Obligations under finance leases		
payable between one and two years	**398**	410
payable between two and five years	**608**	197
Other Creditors	**11,796**	12,362
Retail Price Index-linked debt (unsecured)	**183,563**	178,391
	197,998	192,993

Obligations under finance leases are secured on the assets to which they relate

18. Irredeemable Debenture Stock

	2011 £'000	2010 £'000
3 5%	**476**	476
4 0%	**627**	627
5 0%	**500**	500
	1,603	1,603
Net premium on irredeemable debenture stock	**30**	30
	1,633	1,633

19. Provisions for Liabilities

	2011 £'000	2010 £'000
Deferred Tax		
Deferred tax is provided as follows		
Accelerated capital allowances	**17,756**	18,921
Timing differences in respect of finance charges	**3,262**	4,277
Timing differences in respect of hedging reserve	**(1,834)**	(2,032)
Other timing differences	**(288)**	(310)
Undiscounted provision for deferred tax	**18,896**	20,856
Discount	**(8,057)**	(8,622)
Discounted provision for deferred tax	**10,839**	12,234

	£000
Balance at 1 April 2010	**12,234**
Profit and loss account credit	**(1,446)**
Charge to Statement of Total Recognised Gains and Losses	**51**
Balance at 31 March 2011	**10,839**

Reductions to the future corporation tax rate of 26% were substantively enacted during the year ending 31 March 2011 and as such deferred tax has been provided at this rate The government has also indicated that it intends to enact further reductions in the corporation tax rate of 1% per annum reducing to 23% by 1 April 2014 These further reductions had not been substantially enacted at the balance sheet date and therefore have not been reflected in the financial statements

The decrease in the discount of £565,000 represents the charge to profit and loss for the year and includes the impact of the change in future tax rates to 26% as explained above There is an unprovided deferred tax liability of £1,668,000 (2010 £1,340,000) on capital gains rolled over into other assets of the Company This will crystallise if the Company sells the assets into which the gain has been rolled into

20. Share Capital

	2011 £'000	2010 £'000
Authorised		
8,800,000 Ordinary shares of £1 each	**8,800**	8,800
Allotted, called-up and fully-paid		
2,123,210 Ordinary shares of £1 each	**2,123**	2,123

21. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000
Balance at 1 April 2010	495	4,450	6,734	(5,224)
Profit for the financial year	-	-	11,520	-
Dividends paid (note 9)	-	-	(15,402)	-
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	145
Balance at 31 March 2011	**495**	**4,450**	**2,852**	**(5,079)**

22. Reconciliation of Movements in Shareholders' Funds

	2011 £'000	2010 £'000
Profit for the financial year	**11,520**	10,173
Dividends paid (note 9)	**(15,402)**	(9,000)
Movement on hedging reserve (net of deferred tax)	**145**	153
Net (reduction) / increase to shareholders' funds	**(3,737)**	1,326
Opening shareholders' funds	**8,578**	7,252
Closing shareholders' funds	**4,841**	8,578

23. Pension Retirement Benefits

The Company operates a number of funded pension schemes for the benefit of its employees The Company participates in the Water Companies Pension Scheme, by way of a separate sub-fund, which provides benefits based on final pensionable pay In addition, the Company participates in a Group defined contribution Money Purchase Pension Scheme The assets of both schemes are held separate from those of the Company, being invested by discretionary fund managers

The contributions to the defined contribution scheme are charged against profits as incurred As detailed in note 1, the defined benefit scheme is classified as a multi employer scheme as it includes employees of other Group entities and it is not practicable to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with contributions charged against profits as incurred

The amount charged to the profit and loss account for the defined benefit scheme for the year ended 31 March 2011 was £3,006,000 (2010 £1,908,000) representing an employer's contribution rate of 23 0% and a fixed contribution of £1,640,000 (2010 27 6%) Contributions rates for the year ending 31 March 2012 remain at this level for the employer and remain at 9 5% for the employee with an increase to the fixed contribution to £1,715,000 The amount charged to the profit and loss account for the defined contribution scheme for the year ended 31 March 2011 was £135,000 (2010 £121,000) There was no overdue contributions payable at either year end

Additional disclosures regarding the defined benefit pension scheme are required by FRS17 The latest actuarial valuation of the scheme as at 31 March 2011, prepared for the purposes of the consolidated financial statements of the parent company, shows a surplus before deferred tax of £15,885,000 (2010 deficit of £5,560,000) The market value of the assets in the scheme and the present value of the liabilities in the scheme at the balance sheet date were

	2011 Valuation £'000	2010 Valuation £'000	2009 Valuation £'000
Equities	**79,005**	84,407	60,993
Bonds / gilts	**68,917**	70,430	64,340
Diversified growth funds	**16,895**	-	-
Cash	**174**	53	349
Market value of assets	**164,991**	154,890	125,682
Present value of scheme liabilities	**(146,365)**	(160,450)	(122,828)
Surplus / (deficit) in the scheme	**18,626**	(5,560)	2,854
Amount not recognised due to asset limit	**(2,741)**	-	-
Surplus / (deficit) before deferred tax	**15,885**	(5,560)	2,854
Related deferred tax (liability) / asset	**(4,130)**	1,557	(799)
Surplus / (deficit) after deferred tax	**11,755**	(4,003)	2,055

Further details required by FRS 17 in respect of the scheme are provided in the consolidated accounts of South Staffordshire Plc

24. Financial Assets and Liabilities

The analysis of the Company's financial assets and liabilities included below includes cash, loans receivable, borrowings, trade creditors and trade debtors Borrowings represent bank loans and overdrafts, finance lease obligations, index-linked debt and irredeemable debenture stock The main purpose of these financial instruments is to finance the Company's operations It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken The Company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating interest rates and long and short term debt while not exposing the Company to significant risk of market movements (see below) The Company is not exposed to any material foreign exchange risk

Interest Rate Risk Profile

Borrowings

The interest rate profile of the borrowings of the Company as at 31 March 2011 was as follows

	Total	Fixed rate financial liabilities	Floating rate financial liabilities	Retail price Index-Linked debt
	£'000	£'000	£'000	£'000
31 March 2011	**192,302**	**3,405**	**5,334**	**183,563**
31 March 2010	182,318	2,799	1,128	178,391

The floating rate financial liabilities as at 31 March 2011 and 31 March 2010 comprised bank loans and overdrafts that bear interest at rates based on LIBOR The Company's cash balances earn interest at floating rates linked to LIBOR The Company's trade debtors and trade creditors are not subject to interest unless considered to be overdue

For all financial assets and liabilities, the book values and fair values are not materially different, except for the £111,400,000 (2010 £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2011 of £145,619,000 (2010 £141,678,000), and a fair value of £170,497,000 (2010 £170,509,000) and the £35,000,000 (2010 £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2011 of £37,944,000 (2010 £36,713,000) and a fair value of £30,251,000 (2010 £33,954,000)

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2011	**6.3**	**1 7**
31 March 2010	5 8	1 8

Borrowing Facilities

The Company has various borrowing facilities available to it The undrawn committed facilities available at 31 March 2011 in respect of which all conditions precedent have been met were as follows

	2011 £'000	2010 £'000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	**10,000**	10,000
Expiring in more than two years but not more than five years	**5,000**	10,000
	15,000	20,000

Financial Risks

The Company's activities result in it being subject to a limited number of financial risks, principally interest rate risk, as the Company has a floating rate and Retail Price Index-linked borrowings and credit risk as the Company has financial assets receivable from third parties Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable The Company has formal principals for overall risk management as well as specific policies to manage individual risks

1) Interest Rate Risk
Interest rate risk arises from borrowings issued at floating rates including those linked to LIBOR and the Retail Price Index (RPI) that expose the Company's earnings and cashflows to changes in LIBOR and RPI Risks of increases in LIBOR are managed by limiting the value and proportion of the Company's borrowings that are linked to this variable Risks associated with increases in RPI are effectively hedged against the revenues and the Regulatory Asset Value of the regulated water business, both of which are also linked to RPI

2) Credit Risk
As is market practice, the Company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers Full details of the way this risk is managed are provided below Credit risk also includes the risk over recovery of loans receivable This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans

3) Liquidity Risk

Liquidity risk represents the risk of the Company having insufficient liquid resources to meet its obligations as they fall due The Company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are matched with cash inflows and availability of adequate banking facilities The table above details the undrawn committed borrowing facilities available to the Company to mange this risk

Sensitivity Analysis

The following analysis, required by the Financial Reporting Standard 29, is intended to illustrate the sensitivity to reasonably possible movements during the year, in variables affecting financial liabilities, being LIBOR and the long term forecast for the UK Retail Price Index (RPI) on the pre-tax profit and loss account of the Company for the year ended 31 March 2011 There is no impact on reserves other than the impact on the profit and loss account after tax

	2011	2010
	£'000	£'000
RPI +0 25%	**(417)**	(414)
RPI -0 25%	**417**	414
LIBOR +1 00%	**13**	(14)
LIBOR -1 00%	**(13)**	14

The impact on the pre-tax profit and loss account for 2011 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2010 and remained different to the actual variables recorded by the stated amount during the year and with all other variables remaining at the actual amounts The comparative figures have been calculated using the same methodology assuming the change to the variables occurred on 1 April 2009

Maturity of Financial Assets and Liabilities

The maturity profile of the Company's financial liabilities at current repayment value at 31 March 2011 was as follows

Borrowings

	2011	2010
	£'000	£'000
In one year or less or on demand	**6,100**	1,687
In more than one year, but not more than two years	**398**	410
In more than two years, but not more than five years	**608**	197
In more than twenty years	**169,106**	161,366
	176,212	163,660

Other Financial Liabilities

In one year or less or on demand	**29,805**	25,354
In more than one year, but not more than two years	**329**	312
In more than two years, but not more than five years	**1,100**	1,043
In more than five years, but not more than twenty years	**9,132**	8,657
In more than twenty years	**1,235**	2,350
	217,813	201,376

The table above excludes future interest payments and future indexation on financial liabilities Index-linked borrowings of £167,473,000 (2010 £159,733,000) included in the table above are stated at the principal amount indexed by RPI to the balance sheet date The estimated redemption value of index-linked borrowings at redemption in 2045 is £399,467,000 (2010 £399,467,000) and at redemption in 2051 is £139,996,000 (2010 £139,996,000)

Debtors recoverable in more than one year of £44,564,000 (2010 £44,571,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2010 £40,000,000) with £15,000,000 (2010 £15,000,000) due to be repaid within five to twenty years and £25,000,000 having no fixed repayment date (2010 £25,000,000)

Trade Debtors

Before accepting orders from new customers and offering credit terms, the Company undertakes appropriate credit assessments and uses this information to determine if the order is accepted and the credit terms that will be offered Provision is made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age The total amount charged to the profit and loss account in the year to March 2011 in respect of such provisions was £2,976,000 (2010 £2,010,000) Total trade debtors as at 31 March 2011 were £8,489,000 (2010 £7,842,000) The total amount of the provision included in the above, as at 31 March 2011 was £13,119,000 (2010 £10,508,000) The Company does not hold collateral over its trade debtors

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value The largest balance outstanding from any single customer at 31 March 2011 was £24,000 (2010 £230,000), representing only 0 3% of the Company total (2010 3%)

An ageing analysis of trade debtors that are invoiced but not impaired is provided below

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2011	**4,527**	**1,506**	**1,007**	**339**	**41**	**-**	**7,420**
2010	5,337	1,633	736	168	-	-	7,874

Non-Regulated	<1 month	1-2 months	>2months	Total
2011	**322**	**69**	**24**	**415**
2010	423	112	26	561

Non-regulated debtors that are considered to be impaired of £5,000 (2010 £11,000) were all more than two months past due.

An ageing analysis of regulated debtors that are considered to be impaired is provided below

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2011	**2,469**	**2,396**	**2,023**	**1,931**	**1,682**	**2,613**	**13,114**
2010	1,947	1,869	1,731	1,663	1,388	1,899	10,497

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 15 approximates to their fair value

25. Related Party Transactions

As at 31 March 2011, the Company was an indirectly wholly owned subsidiary undertaking of Hydriades IV Limited As such, the Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Hydriades IV Limited, as consolidated financial statements for this Company in which the accounts of the Company are included, are publicly available

During the year ended 31 March 2009, South Staffordshire Water PLC entered into a series of agreements with a parent undertaking, Hydriades I LP The agreements were put in place to offset the impact on the Company of certain hedging relationships entered into with a third party bank, on both the cash flow and the profit and loss account The balance due from Hydriades I LP in respect of these transactions at 31 March 2011 was £4,746,000 (2010 £4,859,000) This amount has been recognised within debtors in the Balance Sheet In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact

26. Ultimate Controlling Party

The immediate parent company is South Staffordshire Plc which is registered in England and Wales and is the smallest group preparing consolidated accounts that include South Staffordshire Water PLC The ultimate parent company in the United Kingdom is Hydriades IV Limited, also registered in England and Wales which is the largest group preparing consolidated accounts that include South Staffordshire Water PLC The consolidated accounts of both of these companies can be obtained from the Company's registered office The ultimate controlling party is Alinda Capital Partners LLC a company registered in the United States of America

South Staffordshire Water PLC

Regulatory Accounts

Year Ended 31 March 2011

CURRENT COST ACCOUNTS REVIEW OF THE APPOINTED BUSINESS

The operatıng and financıal revıew of South Staffordshıre Water PLC ıs set out ın pages 1 to 9 of the statutory accounts

Financial Results - Current Cost Accounts

The results of the appoınted busıness are shown ın the current cost profit and loss account on page 51 Turnover for the year has ıncreased by 2 7% to £84 5m (2010 £82 3m) reflectıng the ıncrease ın charges allowed by Ofwat of 1 5% plus ınflatıon Current cost operatıng profit before exceptıonal ıtems was £15 8m (2010 £17 3m) wıth a reductıon ın the cost of capıtal allowed by Ofwat for AMP5 (5 7% to 4 9%) and the full year ımpact of a new power contract whıch commenced ın October 2009 at hıgher prıces partly offset by the allowed ıncrease ın charges and reductıons ın other operatıng costs reflectıng the Company's commıtment to maıntaınıng cost efficıency

Current Cost Depreciation

The Current Cost Depreciatıon charge (CCD) for the year net of amortısatıon was £14 2m (2010 £13 3m), a year on year ıncrease of £0 9m Thıs reflects the CCD on non ınfrastructure asset addıtıons ın the year of £18 1m (net of contrıbutıons)

Infrastructure Renewals Charge

The Infrastructure Renewals Charge (IRC) for the year, based upon the Company's long term expectatıons of maıns replacement for the perıod 2010-11 to 2024-25, was £9 6m (2010 £9 3m) and reflects the level of maıns replacement to arrest rısıng trends ın burst levels and to assıst wıth leakage control actıvıtıes 52km of maıns were replaced durıng the year

RELATIONSHIP BETWEEN DIRECTORS REMUNERATION AND STANDARDS OF PERFORMANCE

The remuneration policy of the Company continues to provide a remuneration package designed to attract, retain and motivate good quality senior executives Remuneration comprises salary, benefits and performance related bonus Each Director receives a base salary which does not vary in relation to business or individual performance

During the year ended 31 March 2011, Executive Directors had bonus arrangements in place which are payable upon achievement of certain performance objectives, with the intention of rewarding excellent performance As part of the Company's policy on Corporate Governance, Independent Non-Executive Directors do not have bonus arrangements in place

The annual bonuses awarded to Executive Directors are linked to the following Standards of Performance of the Company

Service Levels (Based upon the Overall Performance Assessment as reported by Ofwat)
Operating Profitability (As reported in published accounts)
Operating Costs (As reported in published accounts)
Cash Generation (As reported in published accounts)

Bonus awards are linked to the above standards of performance as the Remuneration Committee considers such arrangements will maintain consistency between the objectives of the Directors and its principal stakeholders including its customers and its shareholders The standards of performance to which bonuses are linked are reviewed annually by the Remuneration Committee to ensure this consistency continues to be maintained

The bonus awarded to each Director in the above categories is based on a "sliding scale" with the bonus awarded in each category increasing with performance up to a specified maximum award for excellent performance In addition, each Director has a number of personal targets to achieve for the year, in total worth an average of 15% of salary

RELATIONSHIP BETWEEN DIRECTORS REMUNERATION AND STANDARDS OF PERFORMANCE

The following performance against target was achieved during the year

Standard of performance	Target	Actual	Average % of salary awarded
Service Levels	286 points	287 points *	5%
Operating Profitibilty	Budget	Target achieved	5%
Operating costs	Below Budget	Target not achieved	0%
Cash Generation	Budget	Target achieved	10%

* Provisional results

The following bonuses in respect of the above performance and individual targets were paid to Directors employed directly by the Company in respect of the year ended 31 March 2011

	£'000
J Carnell	0
E A Swarbrick	16
K H Marshall	15
M J Lewis	15
R E Barber	13

The above annual bonus is payable following the year end In order to incentivise retention, a similar amount is payable two years later if the Director remains with the Company

The Directors of the Company who are Executive Directors of South Staffordshire Plc are remunerated based upon the performance of the Group as a whole to reflect their Group wide roles and therefore only part of their remuneration was directly or indirectly linked to the performance standards of the Company

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2011

	Note	2011 Appointed Business	2011 Non-Appointed Business	2011 Total	2010 Appointed Business	2010 Non-Appointed Business	2010 Total
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover	3	84,494	3,349	87,843	82,272	3 816	86,088
Operating costs		(54,821)	(2,881)	(57,702)	(52,150)	(3 225)	(55,375)
Historic cost depreciation		(10,318)	(28)	(10,346)	(9,592)	(27)	(9,619)
Other operating income / (expenses)		3	218	221	15	167	182
Operating Profit		19,358	658	20,016	20,545	731	21 276
Other income		1,465	450	1,915	-	389	389
Net interest		(9,007)	9	(8,998)	(8,667)	9	(8,658)
Profit on Ordinary Activities before Taxation		11,816	1,117	12,933	11,878	1,129	13,007
Taxation - Current		(2,612)	(252)	(2,864)	(3,186)	(270)	(3,456)
Taxation - Deferred		1,451	-	1,451	622	-	622
Profit on Ordinary Activities after Taxation		10,655	865	11,520	9 314	859	10,173
Dividends		(14,537)	(865)	(15,402)	(8,141)	(859)	(9,000)
Retained profit for the Year		(3,882)	-	(3,882)	1,173	-	1,173

The accompanying notes are an integral part of these financial statements

HISTORICAL COST BALANCE SHEET

As at 31 March 2011	2011 Appointed Business	2011 Non-Appointed Business	2011 Total	2010 Appointed Business	2010 Non-Appointed Business	2010 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets						
Tangible assets	193,617	1,198	194,815	185,326	1,217	186,543
Investments						
- loan to group companies	40,000	-	40,000	40,000	-	40,000
Total fixed assets	233,617	1,198	234,815	225,326	1,217	226,543
Current Assets						
Stocks	1,573	212	1,785	1,364	128	1,492
Debtors	17,691	1,815	19,506	16,762	7,090	23,852
Cash	1,395	245	1,640	1,604	494	2,098
Total current assets	20,659	2,272	22,931	19,730	7,712	27,442
Creditors - amounts falling due within one year						
Overdrafts	(5,334)	-	(5,334)	(1,128)	-	(1,128)
Infrastructure renewals accrual	(467)	-	(467)	-	-	-
Creditors	(25,144)	(3,210)	(28,354)	(20,943)	(8,651)	(29,594)
Borrowings	(766)	-	(766)	(559)	-	(559)
Corporation tax payable	(2,242)	(252)	(2,494)	(1,838)	(270)	(2,108)
Total creditors	(33,953)	(3,462)	(37,415)	(24,468)	(8,921)	(33,389)
Net current liabilities	(13,294)	(1,190)	(14,484)	(4,738)	(1,209)	(5,947)
Total Assets less Current Liabilities	220,323	8	220,331	220,588	8	220,596
Creditors - amounts falling due after more than one year						
Borrowings	(186,202)	-	(186,202)	(180,631)	-	(180,631)
Other creditors	(11,796)	-	(11,796)	(12,362)	-	(12,362)
Provisions for Liabilities & Charges						
Deferred tax provision	(10,839)	-	(10,839)	(12,234)	-	(12,234)
Deferred income - grants and contributions	(6,645)	(8)	(6,653)	(6,783)	(8)	(6,791)
Net Assets	4,841	-	4,841	8,578	-	8,578
Capital and Reserves						
Share capital	2,123	-	2,123	2,123	-	2,123
Share premium account	495	-	495	495	-	495
Profit and loss account	2,852	-	2,852	6,734	-	6,734
Other reserves	(629)	-	(629)	(774)	-	(774)
	4,841	-	4,841	8,578	-	8,578

The accompanying notes are an integral part of these financial statements

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS

£000's	Statutory UK GAAP	Regulatory	
Profit and loss account			
Operating profit	20,466	20,016	In the statutory accounts the Company classifies rental income of £450k as operating income Ofwat accounting guidelines state that this should be classified as 'other income' i e below the operating profit line Profit before tax is unaffected by this reclassification
Profit before tax	12,933	12,933	
Balance Sheet			
Tangible fixed assets (net book value)	194,348	194,815	In the statutory accounts the Company adopts infrastructure accounting as set out in FRS 15 Ofwat requests that, for regulatory accounting purposes, FRS 15 is not applied for infrastructure renewals accounting The infrastructure renewals accrual of £467k is therefore excluded from the fixed asset net book value and is recorded as a current liability
Infrastructure renewals accrual	n/a	(467)	
Debtors	58,463	19,506	In the statutory accounts a long term group debtor of £40,000k is disclosed within debtors due after more than one year Ofwat accounting guidelines state that this should be classified as an investment In addition, £1,043k of group debtors have been netted down as outlined below
Investment - loan to group company	n/a	40,000	
Creditors due less than one year (excluding infrastructure renewals accrual)	(35,905)	(36,948)	In the statutory accounts, an additional £1,043k of group debtors / creditors have been netted down Due to the Ofwat requirement to present appointed and non-appointed separately, this netting does not occur in the regulatory accounts

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS

For the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover	3	**84,494**	82,272
Current cost operating costs	4	**(68,991)**	(65,407)
Other operating income	3	**1,438**	1
Working capital adjustment	3	**354**	444
Current Cost Operating Profit		**17,295**	17,310
Net interest		**(9,007)**	(8,667)
Financing adjustment		**(2,880)**	(1,268)
Current Cost Profit on Ordinary Activities before Taxation		**5,408**	7,375
Taxation - Current		**(2,612)**	(3,186)
Taxation - Deferred		**1,451**	622
Current Cost Profit on Ordinary Activities after Taxation		**4,247**	4,811
Dividends		**(14,537)**	(8,141)
Retained Current Cost Loss	9	**(10,290)**	(3,330)

The accompanying notes are an integral part of these financial statements

CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS

As at 31 March 2011

	Note	2011 £'000	2010 £'000
Fixed Assets			
Tangible assets	5	**1,780,175**	1,683,628
Third party contributions since 1989-90	6	**(118,488)**	(109,896)
Working capital	7	**(10,096)**	(6,676)
Cash		**1,395**	1,604
Overdrafts		**(5,334)**	(1,128)
Infrastructure renewals accrual		**(467)**	-
Net Operating Assets		**1,647,185**	1,567,532
Non operating assets and liabilities			
Borrowings		**(766)**	(559)
Non-trade debtors		**5,216**	4,859
Non-trade creditors due within one year		**(1,000)**	(1,000)
Investment - loan to group companies		**40,000**	40,000
Corporation tax payable		**(2,242)**	(1,838)
Total non operating assets and liabilities		**41,208**	41,462
Creditors: amounts falling due after more than one year			
Borrowings		**(186,202)**	(180,631)
Other creditors		**(11,796)**	(12,362)
Total creditors falling due after more than one year		**(197,998)**	(192,993)
Provisions for liabilities and charges			
Deferred tax provision		**(10,839)**	(12,234)
Total provisions		**(10,839)**	(12,234)
Net Assets Employed		**1,479,556**	1,403,767
Capital and Reserves			
Called up share capital		**2,123**	2,123
Share premium		**495**	495
Profit and loss account	9	**(57,817)**	(47,527)
Current cost reserve	8	**1,535,384**	1,449,450
Other reserves		**(629)**	(774)
Shareholders' Funds		**1,479,556**	1,403,767

The accompanying notes are an integral part of these financial statements

CURRENT COST CASH FLOW STATEMENT

For the year ended 31 March 2011

	Note	2011 £'000 Appointed Business	2011 £'000 Non-Appointed Business	2011 £'000 Total	2010 £'000 Appointed Business	2010 £'000 Non-Appointed Business	2010 £'000 Total
Net cash inflow from Operating Activities	10	**41,564**	**667**	**42,231**	37,249	1,440	38,689
Returns on Investments and Servicing of Finance:							
Interest received		**2,604**	**9**	**2,613**	2,815	9	2,824
Interest paid		**(6,367)**	**-**	**(6,367)**	(6,985)	-	(6,985)
Interest in finance lease rentals		**(118)**	**-**	**(118)**	(103)	-	(103)
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(3,881)**	**9**	**(3,872)**	(4,273)	9	(4,264)
Taxation paid		**(2,151)**	**(270)**	**(2,421)**	(3,308)	(385)	(3,693)
Investing Activities							
Gross cost of purchase of fixed assets		**(20,162)**	**(7)**	**(20,169)**	(16,569)	(3)	(16,572)
Receipt of grants and contributions		**3,327**	**-**	**3,327**	2,268	-	2,268
Infrastructure renewals expenditure		**(9,089)**	**-**	**(9,089)**	(6,651)	-	(6,651)
Disposal of fixed assets		**801**	**217**	**1,018**	70	175	245
Movement on long term loans to group companies		**-**	**-**	**-**	-	-	-
Net cash (outflow)/inflow from investing activities		**(25,123)**	**210**	**(24,913)**	(20,882)	172	(20,710)
Equity Dividends Paid		**(14,537)**	**(865)**	**(15,402)**	(8,141)	(859)	(9,000)
Net cashflow before financing		**(4,128)**	**(249)**	**(4,377)**	645	377	1,022
Financing							
Capital element of finance lease rental payments		**(287)**	**-**	**(287)**	(237)	-	(237)
New bank loans		**-**	**-**	**-**	-	-	-
Net cash outflow from financing		**(287)**	**-**	**(287)**	(237)	-	(237)
(Decrease) / Increase in net cash		**(4,415)**	**(249)**	**(4,664)**	408	377	785

The accompanying notes are an integral part of these financial statements

1 Statement of Accounting Policies

In accordance with condition F of the Instrument of Appointment, these financial statements have been prepared to show separately in respect of each of

- i the appointed business
- ii the non-appointed business
- iii on an aggregated basis, the appointed and non-appointed businesses,

a profit and loss account, a balance sheet and a cash flow statement

(a) Historic Cost Regulatory Accounts

The accounting policies used are the same as those adopted in the statutory historic cost accounts on pages 21 to 24, with the exception of infrastructure renewals which, following the instructions of the Water Services Regulation Authority set out in the letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1999/00 Reporting Requirements – RAG3 04", has been accounted for in accordance with RAG 2, "Classification of Infrastructure Expenditure" RAG2 is not in accordance with Financial Reporting Standard No 12 (FRS 12), Provisions, Contingent Liabilities and Contingent Assets or FRS 15 Tangible Fixed Assets

(b) Basis of Current Cost Accounting

The Current Cost financial statements have been prepared for the Appointed Business of the Company in accordance with guidance issued by the Water Services Regulation Authority for modified real 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 that are valued at their current cost value to the business

(c) Tangible Fixed Assets

Assets 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 value to the business principle Also, no provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business Redundant assets are valued at their recoverable amount

Modern Equivalent Asset (MEA) valuation

A review of the MEA valuation and asset stock is undertaken as part of the Periodic Review The revised values arising from this review provide the basis for calculating the MEA in the current cost financial statements Between Periodic Reviews, an asset valuation using RPI is carried out on an annual basis The current cost depreciation figures included in the current cost operating costs are based upon the revised MEA values

Infrastructure Assets

Infrastructure assets are valued at replacement cost, determined principally on the basis of data provided by the Assets Management Plan (AMP) at 31 March 2008

A process of continuing refinement of asset records is expected to produce adjustments to existing values when Periodic Reviews of the AMP take place In intervening years, values are restated to take account of changes in the general level of inflation, using the RPI

In accordance with instructions from the Director General of the Office of Water Services set out in his letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1999/00 Reporting Requirements – RAG 3 04", the Company has not applied FRS 12, "Provisions, Contingent Liabilities and Contingent Assets" and FRS15 "Tangible Fixed Assets" in respect of infrastructure renewals accounting and has continued to charge infrastructure renewal costs (calculated in accordance with their Asset Management Plan) to prepayments or provisions Expenditure during the years is applied against the prepayment or provision

Under FRS 12, it is not permitted to recognise a provision for the costs of renewal expenditure Adoption of FRS 12, taken together with FRS 15 would require

I restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewal expenditure, depreciation and retirement of assets since the year ended 31 March 1989, when renewals accounting was first adopted Accordingly, the infrastructure renewals accrual at 31 March 2011 would have been included within infrastructure fixed assets

ii the depreciation of infrastructure assets and the inclusion of the infrastructure renewal charge as a component of the depreciation charge for the year

Other Tangible Assets

All other tangible assets are valued periodically at depreciated replacement cost Between periodic reviews, values are restated for inflation as measured by changes in the RPI

Third Party Contributions

Infrastructure charges and other third party contributions received 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 over the year

(d) Real Financial Capital Maintenance Adjustments

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms

- Working Capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors
- 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

(e) Index-Linked Debt

The statutory and regulatory accounting policies for index-linked debt are consistent Index-linked debt is carried in the balance sheet at amortised cost The premium / discount and costs of issue are amortised over the life of the instrument with the amortisation being included in the effective interest rate of the instrument which is included in net interest in the profit and loss account

(f) Revenue Recognition

The statutory and regulatory accounting policies for revenue recognition are consistent

Income is based on the value of bills raised in the year For metered consumption not yet billed, an accrual is estimated

Where a property is unoccupied and fully furnished charges are still applicable Charges are also applicable where a property is renovated

Charges may be waived in special circumstances, for example hospitalisation, probate and incarceration

A property which is believed to be occupied, but the occupier details are not known, the income is not recognised until the occupants details are obtained

The first bill for a new connection is based on an actual meter reading Where a customer has been connected during the year but has not had a meter reading, an estimate of the income is accrued based on the average household consumption

Charges on income include charging orders and attachment of earnings Cash received is applied against the outstanding debt The income is recognised from the billing date

2. Non-Appointed Business Activities

In general, non-appointed activities are those which involve the optional use of an asset owned by the appointed business

3. Analysis of turnover and other operating costs for the appointed business.

	2011 £'000	2010 £'000
Turnover		
Unmeasured	**50,255**	49,753
Measured	**28,894**	27,109
Large User Revenues	**3,642**	3,970
Rechargeable Works	**607**	628
Bulk Supplies	**732**	425
Other Sources	**364**	387
Total turnover	**84,494**	82,272
Other operating income		
Current cost profit on disposal of fixed assets	**1,438**	1
Total other operating income	**1,438**	1
Working capital adjustment	**354**	444

4. Current Cost Activity Cost Analysis – 2010/2011

	Service Analysis			Business Analysis		
	Resources & Treatment £'000	Distribution £'000	Subtotal £'000	Customer Services £'000	Scientific Services £'000	Cost of Regulation £'000
Direct Costs						
Employment Costs	1,616	4,842	6,458			
Power	4,248	2,533	6,781			
Hired & Contracted Services	112	816	928			
Associated Companies	532	2,643	3,175			
Materials and Consumables	1,351	1,363	2,714			
Service Charges EA	2,668	-	2,668			
Bulk Supply Imports	-	10	10			
Other Direct Costs	185	1,466	1,651			
Total Direct Costs	10,712	13,673	24,385	6,023	757	989
General & support expenditure	2,024	2,584	4,608	-	-	-
Functional Expenditure	12,736	16,257	28,993	6,025	758	987
Total business activities			36,763	(6,025)	(758)	(987)
Rates			3,959			
Doubtful debts			2,976			
Total operating costs less third party services			43,698			
Third party services			1,569			
Total Operating Expenditure			**45,267**			
Capital Costs						
Infrastructure renewal expenditure	-	9,088	9,088			
Movement in infrastructure renewal accrual	-	467	467			
Current cost depreciation	6,927	7,801	14,728			
Amortisation of deferred credits			(559)			
Total Capital Maintenance			**23,724**			
Total Operating Costs			**68,991**			
CCA (MEA) Values						
Service Activities	301,814	1,662,645	1,964,459			
Business Activities			4,134			
Water Supply Total			1,968,593			

Current Cost Activity Cost Analysis – 2009/2010

	Service Analysis			Business Analysis		
	Resources & Treatment £'000	**Distribution £'000**	**Subtotal £'000**	**Customer Services £'000**	**Scientific Services £'000**	**Cost of Regulation £'000**
Direct Costs						
Employment Costs	1,623	4,401	6,024			
Power	3,226	2,817	6,043			
Hired & Contracted Services	102	743	845			
Associated Companies	462	2,359	2,821			
Materials and Consumables	1,478	1,146	2,624			
Service Charges EA	2,515	-	2,515			
Bulk Supply Imports	-	9	9			
Other Direct Costs	197	1,517	1,714			
Total Direct Costs	9,603	12,992	22,595	6,107	791	1,041
General & support expenditure	2,178	2,946	5,124	-	-	-
Functional Expenditure	11,781	15,938	27,719	6,107	791	1,041
Total business activities			35,658	(6,107)	(791)	(1,041)
Rates			3,712			
Doubtful debts			2,010			
Total operating costs less third party services			41,380			
Third party services			1,429			
Total Operating Expenditure			**42,809**			
Capital Costs						
Infrastructure renewal expenditure	-	6,651	6,651			
Movement in infrastructure renewal prepayment	-	2,688	2,688			
Current cost depreciation	6,617	7,167	13,784			
Amortisation of deferred credits			(525)			
Total Capital Maintenance			**22,598**			
Total Operating Costs			**65,407**			
CCA (MEA) Values						
Service Activities	281,008	1,564,229	1,845,237			
Business Activities			3,883			
Water Supply Total			1,849,120			

The activity cost analysis tables have been prepared in accordance with Regulatory Accounting Guideline 4 03 Where possible, costs are charged directly to the activity they relate to

5. Current Cost Analysis of Fixed Assets by Asset Type (100% Water Supply)

	Specialised Operational Assets £'000	Non-specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Gross Replacement Cost					
At 1 April 2010	279,187	34,354	1,442,186	93,393	1,849,120
AMP adjustment	-	-	-	-	-
RPI adjustment	14,797	1,821	76,435	4,950	98,003
Additions	5,572	7	3,756	12,920	22,255
Disposals	-	-	-	(785)	(785)
At 31 March 2011	299,556	36,182	1,522,377	110,478	1,968,593
Depreciation					
At 1 April 2010	112,967	2,738	-	49,787	165,492
AMP adjustment	-	-	-	-	-
RPI adjustment	5,987	145	-	2,639	8,771
Charge for year	6,767	341	-	7,620	14,728
Disposals	-	-	-	(573)	(573)
At 31 March 2011	125,721	3,224	-	59,473	188,418
Net Book Value					
At 31 March 2011	**173,835**	**32,958**	**1,522,377**	**51,005**	**1,780,175**
Net Book Value					
At 31 March 2010	166,220	31,616	1,442,186	43,606	1,683,628

For the purpose of the regulatory accounts, an asset revaluation using RPI is carried out on an annual basis Revaluations arising from specific price changes are carried out once every five years to coincide with the production of the Asset Management Plan (AMP) and are based on estimated replacement values following a condition and performance assessment undertaken by the Company The Directors believe that the policy adopted is the most appropriate methodology for the Company

6. Current Cost Analysis of Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Capital Contributions			
At 1 April 2010	101,684	13,282	114,966
RPI adjustment	5,389	704	6,093
Additions	2,959	368	3,327
At 31 March 2011	110,032	14,354	124,386
Amortisation			
At 1 April 2010	-	5,070	5,070
RPI adjustment	-	269	269
Amortised in year	-	559	559
At 31 March 2011	-	5,898	5,898
Net Book Value			
At 31 March 2011	**110,032**	**8,456**	**118,488**
Net Book Value			
At 31 March 2010	101,684	8,212	109,896

The gross replacement cost of infrastructure assets includes RPI adjustments with effect from 1 April 1995 in accordance with the guidelines issued by the Director General of Water Services

7. Current Cost Working Capital

	2011 £'000	2010 £'000
Stocks	**1,573**	1,364
Trade debtors		
-measured household	**1,647**	1,795
-unmeasured household	**4,445**	3,307
-measured non-household	**1,024**	1,437
- unmeasured non-household	**149**	168
-other	**78**	317
Measured income accrual	**4,909**	4,615
Prepayments and other debtors	**224**	264
Trade Creditors	**(6,630)**	(5,863)
Deferred income - customer advance receipts	**(8,423)**	(7,875)
Capital creditors	**(1,999)**	(916)
Accruals and other creditors	**(7,093)**	(5,289)
Total working capital	**(10,096)**	(6,676)

8. Movement on Current Cost Reserve

	2011 £'000	2010 £'000
Balance at 1 April	**1,449,450**	1,337,960
AMP adjustment	**-**	44,346
RPI adjustments		
Fixed assets	**89,232**	70,877
Capital contributions	**(5,824)**	(4,557)
Working capital	**(354)**	(444)
Financing	**2,880**	1,268
Balance at 31 March	**1,535,384**	1,449,450

9. Movement on Current Cost Profit and Loss Account

	2011 £'000	2010 £'000
Balance at 1 April	**(47,527)**	(44,197)
Retained current cost loss	**(10,290)**	(3,330)
Balance at 31 March	**(57,817)**	(47,527)

10. Reconciliation of Current Cost Operating Profit to Net Cash Inflow from Appointed Operating Activities

	2011 £'000	2010 £'000
Current cost operating profit	**17,295**	17,310
Working capital adjustment	**(354)**	(444)
Movement in working capital	**2,337**	(2,214)
Current cost depreciation and amortisation of deferred credits	**14,169**	13,259
Current cost gain on disposal of assets	**(1,438)**	(1)
Infrastructure renewals charge	**9,555**	9,339
Net Cash Inflow from Appointed Operating Activities	**41,564**	37,249

11. Net Debt Analysis for the Appointed Business

		Interest rate risk profile		
Maturity profile	Fixed Rate	Floating Rate	Index Linked	Total
Less than one year	766	5,334	-	6,100
Between one and two years	398	-	-	398
Between two and five years	608	-	-	608
In more than twenty years	1,633	-	183,563	185,196
Borrowings	3,405	5,334	183,563	192,302
Less Cash				(1,395)
Net Debt				190,907

Overall, the book value of net debt for the Company excluding the non regulated business amounted to £190 9m at 31 March 2011, however this differs from the value used for covenant reporting purposes of £174 8m which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long term inflation used in the book value The covenanted net debt was therefore 73 3% of the Company's Regulated Asset Value of £238 5m included in the 2009 Final Determination

12. Regulatory Capital Values

	2011 **£'000**
Opening RCV for the year	231,114
Capital Expenditure	24,363
Infrastructure Renewals Expenditure	10,294
Grants and Contributions	(1,878)
Depreciation	(14,469)
Infrastructure Renewals Charge	(9,950)
Outperformance of Regulatory Assumptions	(1,007)
Closing RCV carried forward	238,467
Average RCV	228,731

The table shows the RCV used in setting price limits for the period (2010-11 to 2014-15), the differences from the actual capital expenditure and depreciation etc will not affect price limits in the 2010-15 period Capital efficiencies will be taken into account in the calculation for the next periodic review

13. Statement of total recognised gains and losses (historical cost accounting) for the appointed business year ended 31 March 2011.

	2011 £'000	2010 £'000
Profit for the year	**10,655**	9,314
Other gains and losses	**145**	153
Total recognised gains for the year	**10,800**	9,467

14. Condition F

Under the provisions of Condition F, the following information is provided

(a) Borrowing

The Company has various borrowing facilities available to it The undrawn committed facilities available at 31 March 2011 in respect of which all conditions precedent have been met were £15m

(b) Dividends

During the year, South Staffordshire Water PLC paid dividends in respect of the Appointed Business of £14 5 million (2010 £8 1 million) on its ordinary shares

The Company's policy is to pay dividends that maintain the level of debt to Regulated Asset Value (RAV) at 77% At 31 March 2011 this ratio was 73 3% and was impacted by the cashflow outperformance in the year and a higher than expected year end RPI of 5 3%

(c) Other Transactions

The aggregate value of other transactions under the provisions of Condition F is not material to the Appointed Business as a whole

(d) Associated Companies

The turnover of the associated companies which traded with the Company, in the year ended 31 March 2011, was as follows

	£m
Underground Pipeline Services Limited	15 0
Integrated Water Services Limited	19 7
Echo Managed Services Limited	15 4
Hydrosave Limited	7 5

Transactions are only considered to be material if they are in excess of £290,000, which is in accordance with guidance from the Director General The following material transactions have occurred during the year

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Underground Pipeline Services Limited	15 0	Mainlaying and repair of water mains	5 4	Competitive tendering
		Mains Rehabilitation	5 0	Competitive tendering
		Minor Civils	1 1	Competitive tendering
		Metering	0 4	Competitive tendering
South Staffordshire Plc	nil	Management services	1 3	Cost
		Parent company services	1 4	Cost
Integrated Water Services Limited	19 7	Water Treatment	0 6	Cost
		Pump Refurbishment	0 4	Cost
		Minor Capital Works	1 7	Competitive tendering
Echo Managed Services Limited	15 4	Customer Services	4 5	Cost
		Billing Software	0 5	Cost

15. Condition K

In the opinion of the Directors, the Company was in compliance with paragraph 3 1 of its Instrument of Appointment as at 31 March 2011

16. Auditor

The Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

F6A CERTIFICATE OF THE DIRECTORS

The Directors declare that in their opinion

a) The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated activities (including the investment programme) necessary to fulfil the Company's obligations under its Instrument of Appointment

b) The Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its activities and fulfil its obligations

c) All contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker

d) The Company will, for at least the next 12 months, have available for it systems of internal control which are sufficient to enable it to carry out its functions

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

a) The Company's budget for 2011-12, the three year plan and the investment programme,
b) The investment grade credit rating in the 'BBB+' band,
c) The committed borrowing facilities available to the Company,
d) The depth of the management team and the succession planning in place,
e) The contracts in place with Associated Companies,
f) The Company's internal control process which identifies evaluates and manages risks faced by the Company

M. J. Lewis
Finance and Regulation Director
14 July 2011

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY ("THE WSRA") AND SOUTH STAFFORDSHIRE WATER PLC ("THE COMPANY")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2011 on pages 45 to 67 which comprise

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts, and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes numbered 1 to 16 to the current cost financial statements including the statement of accounting policies

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991 Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed

Respective responsibilities of the WSRA, the directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland)

REPORT OF THE AUDITORS

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 54 to 57, the state of the Company's affairs at 31 March 2011 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

Emphasis of matter - 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 of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006 Furthermore, the regulatory historical cost accounting statements on pages 48 and 49 have been drawn up in accordance with Regulatory Accounting Guideline 3 06, 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 50

REPORT OF THE AUDITOR

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 2011 on which we report, which are prepared for a different purpose Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

15 July 2011