South Staffordshire Water PLC

Accounts for the Year Ended 31 March 2012
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.

- £26.3m of planned capital investment successfully completed.

- 61.5km of mains replaced.

- Third lowest domestic charges in England and Wales at an average of £130 per annum in 2011-12, 25% below the national average.

- Continued high water quality performance.

- Water resource position remains healthy.

- Challenging and demanding targets for leakage met.

	2012	2011
Turnover	£91.1m	£87.8m
Operating Profit*	£22.2m	£20.5m

* 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 specialist 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

Despite being one of the smaller companies, South Staffs Water is recognised as being a leading company Drivers for the water industry are demands for a constant supply of safe and clean water, excellent value and high customer service and the Company has a proven track record of meeting these demands

The Long Term Strategic Direction Statement, which guides Company policy and decision making, continues to be based upon

- Providing excellent service to customers,
- Maximising Company efficiency through controlling costs, and
- Reducing the carbon footprint by further enhancing energy efficiency

The challenge to square these key drivers is increasingly being put to the test, especially as the carbon agenda continues to increase in significance Nevertheless, South Staffs Water's household customers continue to pay the third lowest water bills in England and Wales, with the average of £130 in 2011-12 being 25% below 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) and the business is committed to maintain this position While 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, new and increased government charges, bad debts, a volatile inflation rate and unpredictable weather conditions

Historically water companies' service performance has been assessed using the Overall Performance Assessment (OPA) and, for more than ten consecutive years, the Company has been represented in the top five in the industry, an achievement of which the Company is incredibly proud In the spirit of continually incentivising performance of companies, Ofwat has introduced the Service Incentive Mechanism (SIM), essentially to replace the OPA

The SIM measure is dominated by assessing the levels of customer satisfaction and has a very different emphasis to the OPA It became fully effective in 2011-12 and there has been much work done in the year to review and improve processes and systems in order to enhance the experience and satisfaction of our customers when they have contact with the Company on billing or operational matters Over the year the establishment of the Customer Voice team has been pivotal to these improvements and ensuring that all employees understand the vital role they play in delivering good customer service The Company has significantly improved performance in the year and comparison to the rest of the industry will be available in mid-2012

In recent years, severe winter weather saw significant peaks in burst main and leakage levels This past winter has been exceptionally mild but extreme variability in weather conditions makes it even more important to plan effectively and have flexibility in managing resources Despite the Company entering the spring of 2011 in a healthy water resource position, the lack of rainfall over the last summer, autumn and winter has highlighted the vulnerability of water resources to unusual weather patterns

Following two very dry winters, areas of the country were officially declared in drought by the Environment Agency As a consequence a number of water companies imposed water use restrictions on their customers, although the situation has been helped by an unusually wet spring and start to the summer As a result of moving significant volumes of water around its supply area to meet customer needs and to protect reservoir levels, the Company's resource position remains healthy and there are no water use restrictions foreseen

The management of resources is also impacted upon by leakage levels and the mild winter and continued investment has helped in achieving the leakage target for the year with a low number of prolonged supply interruptions

During the year, the Company complied with 99 97% of all tests carried out on drinking water supplies The result continues the trend of high compliance rates achieved over a number of years

With increasing energy prices, the drive to improve efficiency in the production of water and electricity procurement continues to be important A full review of production costs has been undertaken to ensure that efficient use of energy continues and is further enhanced Such activities are becoming increasingly important as 2012-13 sees the introduction of the Carbon Reduction Commitment (CRC) The Company will continue to work very hard to maintain its recognised position as one of the most energy efficient companies in the sector

Much work has been undertaken on further improvements to procurement, contracting and AMP5 capital investment delivery strategies By using these strategies, 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 ensure good quality, reliable supplies to customers

Good progress has been made in replacing mains that are susceptible to bursts and leakage with the renewal of 61 5km of mains and associated services in the year With an enhanced programme of meter installations approved as part of the 2009 Periodic Review, good progress is being made which will continue to increase the Company's level of meter penetration

A comprehensive review of current and future IT capabilities was undertaken in recent years 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 determined a significant further investment in systems and IT over a number of years to

- Allow customers to have improved response times after contacting us,
- Gain better information for customers regarding operational job activities,
- Improve the Company's capabilities to schedule jobs for customers directly,
- Improve response times to operational activities, and
- Sustain high operational efficiency

The first phase of the improvements with the replacement of systems used in the area of water production for the management of operational activities and the introduction of devices for staff out in the field to communicate more effectively with Head Office and customers, is well established The implementation is now being undertaken in the areas of customer operations and network management activities and will continue over the current year

Whilst the third year of the current AMP period has just started, preparations are already in progress for the 2014 Periodic Review This will require even greater customer support for the Business Plan and the Company is in the process of implementing an enhanced Customer Engagement strategy to ensure key stakeholders endorsement of our future plans

With the publication of the Water White Paper and Ofwat's Future Price Limits (FPL) consultation, there is a drive to promote competition, significantly enhance customer engagement and reduce the industry's impact on the environment These key documents will have a significant impact on the industry and its regulatory environment Currently the plans are at an early stage and work will progress over the coming months to understand the practicalities of the proposed regime The sentiments of the high level principles are already been factored into the Company's operational activities and future plans

South Staffs Water is proud of its achievements and is determined to remain one of the best performing companies in the industry which 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 ıncreases are also adjusted annually by the change ın the Retaıl Prıce Index (RPI)

The Drınkıng Water Inspectorate ıs responsıble for assessıng the qualıty of drınkıng water ın England and Wales

The Company's ınteractıon wıth the Envıronment Agency ıncludes many aspects of envıronmental regulatıon ıncludıng the grantıng of abstractıon lıcenses that stıpulate how much water can be taken from sources and dıscharge consents

CAPITAL INVESTMENT

The Company has made good progress ın delıverıng ıts capıtal programme, to ensure that ıts assets remaın ın good condıtıon, maıntaın stable asset servıceabılıty and good qualıty, relıable supplıes to customers Capıtal expendıture for the year of £26 3m net of contrıbutıons ıs broadly ın lıne wıth the 2009 Ofwat Fınal Determınatıon before accountıng for a change ın the COPI ındex reported durıng the year

FINANCIAL

Turnover for the Company has ıncreased by 3 8% to £91 1m (2011 £87 8m) prımarıly due to the prıce ıncrease allowed by Ofwat of 4 7% Operatıng profit was £22 2m (2011 £20 5m) wıth hıgher charges allowed by Ofwat, partly offset by hıgher costs representıng the effect of the expected ınflatıonary pressures, addıtıonal power costs requıred to respond to the very dry weather condıtıons ın the year, addıtıonal resources to ensure challengıng servıce targets are achıeved net of further operatıonal efficıencıes that have been generated

Dıvıdends of £4 8m have been paıd ın respect of 2011-12 (2011 £8 5m) In addıtıon, a final dıvıdend of £5 5m (2011 £6 9m) was paıd ın the year reflectıng better than expected cash flows and levels of debt ın 2010-11

Overall, the book value of net debt amounted to £196 3m at 31 March 2012 (2011 £190 7m) Net debt ıncludes ındex-lınked debt, debenture stock, finance leases, bank loans and overdraft less cash Thıs dıffers from the value used for covenant reportıng purposes of £182 8m (2011 £174 6m) whıch excludes unamortısed premıum and costs and uses actual ınflatıon at the relevant dates as opposed to the long-term ınflatıon assumptıon used ın the book value of ındex-lınked debt Thıs represents 72 4% (2011 73 2%) of the Company's Regulated Asset Value (RAV) of £252 5m (2011 £238 5m) beıng the Fınal Determınatıon RAV uplıfted for ınflatıon Thıs ratıo reflects ınflatıon (RPI) at March 2012 of 3 6%, whıch ıs used to ınflate RAV, whereas the majorıty of ındex-lınked debt was ınflated usıng RPI at July

2011 of 5 0% The Company's dividend policy is to pay dividends up 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 and has significant undrawn borrowing facilities available (£19 7m at March 2012) for liquidity

Standard and Poor's 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

Financial Covenants and Key Performance Indicators (KPIs)

There are two financial covenants relating to the Company's borrowings 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 2012	Actual Ratio 31 March 2011
Historic net cashflow less current cost depreciation & infrastructure renewals / Historic cost debt service	>1 0 1	2 8 1	2 9 1
Net Debt / Regulated Asset Value	<0 90	0 72	0 73

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

Ofwat has introduced a number of financial and non-financial KPIs which replace the annual 'June Return' submission These KPIs are available on the Company's website

ENVIRONMENT

Climate change is recognised as the greatest environmental challenge facing the world today The Company recognises the commitment of the UK government to tackle climate change and reduce carbon emissions by 80% from 1990 levels by the year 2050

The Company's strategy is to reduce carbon emissions in three main areas firstly, continuing with a successful energy management programme and maintaining pumps to the highest efficiency levels in the water industry, secondly, reducing the volumes of water treated and pumped on a daily basis by further managing leakage and encouraging water efficiency, and thirdly, continuing to assess opportunities for renewable energy schemes according to current subsidy regimes

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 during the year by the Company and its employees exceeded £20,000

Education-based initiatives continued to benefit the community Emphasis was placed on partnerships with local schools to deliver water efficiency assemblies, delivery of outreach key stage 2 and 3 learning programmes and support for engineering roadshows organised by Enterprise Business Partnerships

RELATIONSHIPS

Employees

South Staffs Water's success depends upon the skill and enthusiasm of our employees The Company is concerned about its 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 runs many campaigns promoting personal health and well-being as well as screening progammes and full Occupational Health support Much importance is placed on promoting personal health, a healthy workplace and working environment

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

The Company's commitment to development and training continues, resulting in a strengthening of the trainer team, helping drive excellence in customer service Furthermore, an implementation project was launched with the aim of introducing employee KPIs for all roles in April 2012

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 2012

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 2012 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

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
Colin Wayper	Network Management Director – Appointed 4 November 2011
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
Jeremy Pelczer	Independent Non-Executive Director
Sir James Perowne	Independent Non-Executive Director

Financial Results

The Company's financial results are shown in the profit and loss account on page 18 and in pages 5 to 7 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 2012 represent 29 days (2011 32 days) of purchases in the year

Corporate Social Responsibility

South Staffordshire Water PLC regards compliance with relevant environmental laws and the adoption of responsible social and ethical standards as integral to the Company A summary of the Company's practices is provided on pages 7 to 9

Corporate Governance and Internal Control

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, fraud 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

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 Independent 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 Reporters (Monson Engineering) and the audit work performed by 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

The Company's Regulatory Accounts are set out on pages 45 to 68

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 2012-13, the current three-year plan to March 2015 and the investment programme, together with the committed borrowing facilities available to the Company and its access to Capital Markets 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 5 to 7 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
12 July 2012
Registered Office Green Lane, Walsall, West Midlands WS2 7PD
Registered in England and Wales, Number 2662742

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 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 with such information and explanations as the auditor thinks necessary for the performance of his duties

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 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 2012 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 2012 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
13 July 2012

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Turnover	2	**91,060**	87,843
Operatıng costs (net)	3	**(68,885)**	(67,377)
Operatıng profit		**22,175**	20,466
Exceptıonal profıt on sale of tangible fıxed assets	6	**-**	1,465
Fınance charges (net)	7	**(9,553)**	(8,998)
Profit on ordinary activities before taxation		**12,622**	12,933
Taxatıon on profıt on ordınary actıvıtıes	8	**(3,178)**	(1,413)
Profit on ordinary activities after taxation	21, 22	**9,444**	11,520
Earnings per share			
Basıc	10	**444 8p**	542 6p
Dıluted	10	**444.8p**	542 6p

The results above are derıved from contınuıng operatıons

A statement of movements ın reserves ıs gıven ın note 21 to the fınancıal statements

The accompanyıng notes are an ıntegral part of these fınancıal statements

BALANCE SHEET

As at 31 March 2012

	Note	2012	2011
		£'000	£'000
Fixed Assets			
Tangible assets	11	**199,447**	194,348
Current Assets			
Stocks	14	**1,574**	1,785
Debtors - amounts recoverable within one year	15	**13,972**	13,899
Debtors - amounts recoverable in more than one year	15	**44,320**	44,564
Cash at bank and in hand		**2,221**	1,640
		62,087	61,888
Creditors - amounts falling due within one year	16	**(34,745)**	(35,905)
Net current assets		**27,342**	25,983
Total assets less current liabilities		**226,789**	220,331
Creditors - amounts falling due after more than one year	17	**(203,538)**	(197,998)
Accruals and deferred income	13	**(7,315)**	(6,653)
Provisions for liabilities	19	**(12,087)**	(10,839)
Net Assets		**3,849**	4,841
Capital and Reserves			
Called-up share capital	20	**2,123**	2,123
Share premium account	21	**495**	495
Hedging reserve	21	**(5,215)**	(5,079)
Capital redemption reserve	21	**4,450**	4,450
Profit and loss account	21	**1,996**	2,852
Shareholders' Funds	22	**3,849**	4,841

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 12 July 2012

M J Lewis

M. J. Lewis

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2012

	Note	2012	2011
		£'000	£'000
Profit on ordinary activities after taxation		**9,444**	11,520
Movement in hedging reserve (net of deferred tax)	21	**(136)**	145
Total recognised gains and losses relating to the year		**9,308**	11,665

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 pages 12 and 13 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 2012, 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 shareholders 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)

	2012 £'000	2011 £'000
Operating costs (net) were as follows		
Other operating income (see note 6)	**(574)**	(670)
Raw materials and consumables	**4,148**	4,200
Staff costs (see note 4)	**17,578**	17,130
Own Work Capitalised	**(6,241)**	(5,857)
Depreciation non-infrastructure assets	**11,460**	10,853
Depreciation infrastructure assets	**9,596**	9,555
Amortisation of Capital Contributions	**(533)**	(507)
Other operating costs	**33,451**	32,673
	68,885	67,377

Auditor remuneration is analysed as follows:

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**40**	38
Other services pursuant to legislation	**4**	18
	44	56

4. Staff Costs

	2012 £'000	2011 £'000
Wages and salaries	**13,172**	12,951
Social security costs	**1,141**	1,038
Pension costs (see note 23)	**3,265**	3,141
	17,578	17,130

	2012 Number	2011 Number
Average number of employees	**406**	398

NOTES TO THE FINANCIAL STATEMENTS

5. Directors' Remuneration

	2012 £'000	2011 £'000
Emoluments	**729**	768

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 £377,000 (2011 £407,000) No contributions were paid by the immediate parent undertaking to a money purchase pension scheme in respect of these Directors in either year 5 Directors (2011 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 £213,000 (2011 £202,000) and was a member of a defined benefit pension scheme which provided for an accrued pension of £57,000 and an accrued lump sum of £172,000 at March 2012 The highest paid director for the year ending March 2011 was not a member of the defined benefit scheme

6. Other Operating Income

	2012 £'000	2011 £'000
Profit on disposal of fixed assets	**172**	220
Rental income	**402**	450
	574	670

During the year ended 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 was reported as an exceptional item after operating profit

7. Finance Charges (Net)

	2012	2011
	£'000	£'000
Interest payable and similar charges		
Index-linked debt (Cash)	**6,316**	6,002
Index-linked debt (Non-cash)	**5,337**	5,172
Bank overdraft and other interest	**280**	12
Finance charges in respect of finance leases	**150**	118
Debenture interest	**67**	67
	12,150	11,371
Interest receivable		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(250)**	(24)
	9,355	8,802
Other finance charges (net)		
Amounts recycled from hedging reserve	**198**	196
	9,553	8,998

8. Taxation on Profit on Ordinary Activities

	2012 £'000	2011 £'000
Current tax		
Current year	**3,369**	3,004
Adjustment in respect of prior years	**(1,106)**	(145)
Total current tax charge	**2,263**	2,859
Deferred tax		
Origination and reversal of timing differences	**(744)**	(160)
Decrease in discount	**2,757**	565
Adjustment in respect of prior years	**550**	(361)
Impact of change in future tax rates (before discount)	**(1,648)**	(1,490)
Total deferred tax charge / (credit)	**915**	(1,446)
Total tax on profit on ordinary activities	**3,178**	1,413

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

	2012	2011
Standard rate of corporation tax	**26.0%**	28 0%
Timing differences in respect of finance charges	**5.6%**	5 5%
Capital allowances in excess of depreciation (net)	**0.6%**	(4 2%)
Adjustments in respect of prior years	**(8.8%)**	(1 1%)
Other timing differences	**0.2%**	0 0%
Other permanent differences	**(5.7%)**	(6 1%)
Current corporation tax rate for the year	**17.9%**	22 1%

9. Dividends Paid

	2012 £'000	2011 £'000
Equity interests		
Ordinary dividends paid of 485 1p (2011 725 4p) per share	**10,300**	15,402

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

	2012 £'000	2011 £'000
Profit on ordinary activities after taxation and profit for earnings per share	**9,444**	11,520

	2012 Number of Shares	2011 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 2011	118,117	18,771	171,994	105,769	414,651
Additions	5,184	7	14,381	11,511	31,083
Capital Contributions	-	-	(3,633)	-	(3,633)
Disposals	-	(1)	(1,174)	(5,503)	(6,678)
At 31 March 2012	**123,301**	**18,777**	**181,568**	**111,777**	**435,423**
Depreciation					
At 1 April 2011	48,468	4,562	116,085	51,188	220,303
Charge for the year	4,311	278	9,596	6,871	21,056
Disposals	-	-	(1,174)	(4,209)	(5,383)
At 31 March 2012	**52,779**	**4,840**	**124,507**	**53,850**	**235,976**
Net Book Value					
At 31 March 2012					
Owned	68,980	13,937	52,834	55,953	191,704
Leased	1,542	-	4,227	1,974	7,743
	70,522	**13,937**	**57,061**	**57,927**	**199,447**
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

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £13,604,000 (2011 £13,389,000) less accumulated depreciation of £5,861,000 (2011 £5,710,000) Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £626,000 (2011 £534,000) Tangible fixed assets include freehold land of £1,984,000 (2011 £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 2012 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 £7,512,000 at 31 March 2012 (2011 £12,395,000)

12. Commitments

Capital commitments outstanding at 31 March 2012 were £1,696,000 (2011 £454,000).

13. Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 2011	**85,232**	6,653
Capital contributions received	**3,633**	1,195
Disposals	**(582)**	-
Amortised in year	**-**	(533)
Balance at 31 March 2012	**88,283**	7,315

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

14. Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	**1,574**	1,785

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

15. Debtors

	2012 £'000	2011 £'000
Amounts recoverable within one year		
Trade debtors	**7,427**	8,125
Other debtors	**462**	236
Amounts due from Other Group undertakings	**11**	1
Amounts due from Parent undertakings	**364**	364
Prepayments and accrued income	**5,708**	5,173
	13,972	13,899
Amounts recoverable in more than one year		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**4,264**	4,490
Other debtors	**56**	74
	44,320	44,564
	58,292	58,463

16. Creditors – amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans and overdraft (unsecured)	**6,030**	5,334
Obligations under finance leases	**681**	766
Payments received in advance	**9,976**	9,572
Trade creditors	**7,977**	8,857
Other creditors	**4,647**	4,655
Amounts owed to other Group undertakings	**3,874**	3,820
Corporation tax payable	**1,119**	2,494
Other taxation and social security	**441**	407
	34,745	35,905

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

	2012 £'000	2011 £'000
Irredeemable debenture stock (unsecured) (note 18)	**1,633**	1,633
Obligations under finance leases		
payable between one and two years	**794**	398
payable between two and five years	**484**	608
Other Creditors	**11,727**	11,796
Retail Price Index-linked debt (unsecured)	**188,900**	183,563
	203,538	197,998

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

18. Irredeemable Debenture Stock

	2012 £'000	2011 £'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

	2012 £'000	2011 £'000
Deferred Tax		
Deferred tax is provided as follows		
Accelerated capital allowances	**16,935**	17,756
Timing differences in respect of finance charges	**2,357**	3,262
Timing differences in respect of hedging reserve	**(1,646)**	(1,834)
Other timing differences	**(259)**	(288)
Undiscounted provision for deferred tax	**17,387**	18,896
Discount	**(5,300)**	(8,057)
Discounted provision for deferred tax	**12,087**	10,839

	£000
Balance at 1 April 2011	**10,839**
Profit and loss account charge	**915**
Charge to Statement of Total Recognised Gains and Losses	**333**
Balance at 31 March 2012	**12,087**

Reductions to the future corporation tax rate of 24% were substantively enacted during the year ending 31 March 2012 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 22% by 1 April 2014 These further reductions had not been substantively enacted at the balance sheet date and therefore have not been reflected in the financial statements

The decrease in the discount of £2,757,000 represents the charge to profit and loss for the year and includes the impact of the change in future tax rates to 24% as explained above There is an unprovided deferred tax liability of £1,463,000 (2011 £1,668,000) 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

The charge of £333,000 to the Statement of Total Recognised Gains and Losses is a result of the change in tax rates

20. Share Capital

	2012 £'000	2011 £'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 2011	495	4,450	2,852	(5,079)
Profit for the financial year	-	-	9,444	-
Dividends paid (note 9)	-	-	(10,300)	-
Adjustment in respect of changes in tax rate	-	-	-	(286)
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	150
Balance at 31 March 2012	**495**	**4,450**	**1,996**	**(5,215)**

22. Reconciliation of Movements in Shareholders' Funds

	2012 £'000	2011 £'000
Profit for the financial year	**9,444**	11,520
Dividends paid (note 9)	**(10,300)**	(15,402)
Movement on hedging reserve (net of deferred tax)	**(136)**	145
Net reduction to shareholders' funds	**(992)**	(3,737)
Opening shareholders' funds	**4,841**	8,578
Closing shareholders' funds	**3,849**	4,841

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 2012 was £3,096,000 (2011 £3,006,000) representing an employer's contribution rate of 23 0% and a fixed contribution of £1,715,000 (2011 23 0% and a fixed contribution of £1,640,000) The employee contribution rate during the year was 9 5% (2011 9 5%) Contributions rates for the year ending 31 March 2013 remain at 9.5% for the employee with the employer rate increasing to 26 2% and a fixed contribution of £1,629,000 The amount charged to the profit and loss account for the defined contribution scheme for the year ended 31 March 2011 was £169,000 (2011 £135,000) There were 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 South Staffordshire Water section of the scheme as at 31 March 2012, prepared for the purposes of the consolidated financial statements of the parent company, shows a surplus before deferred tax of £12,154,000 (2011 surplus of £15,885,000) The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme at the balance sheet date were

	2012 Valuation £'000	2011 Valuation £'000	2010 Valuation £'000
Equities	**72,434**	79,005	84,407
Bonds / gilts	**84,238**	68,917	70,430
Diversified growth funds	**17,916**	16,895	-
Cash	**123**	174	53
Market value of assets	**174,711**	164,991	154,890
Present value of scheme liabilities	**(162,557)**	(146,365)	(160,450)
Surplus / (deficit) in the scheme	**12,154**	18,626	(5,560)
Amount not recognised due to asset limit	**-**	(2,741)	-
Surplus / (deficit) before deferred tax	**12,154**	15,885	(5,560)
Related deferred tax (liability) / asset	**(2,917)**	(4,130)	1,557
Surplus / (deficit) after deferred tax	**9,237**	11,755	(4,003)

Further details required by FRS 17 in respect of the Group's schemes 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 borrowings 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 2012 was as follows

	Total Book Value	Fixed rate financial liabilities	Floating rate financial liabilities	Retail Price Index-Linked debt
	£'000	£'000	£'000	£'000
31 March 2012	**198,522**	**3,592**	**6,030**	**188,900**
31 March 2011	192,302	3,405	5,334	183,563

The floating rate financial liabilities as at 31 March 2012 and 31 March 2011 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 or the Bank of England base rate 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 (2011 £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2012 of £149,688,000 (2011 £145,619,000), and a fair value of £179,321,000 (2011 £170,497,000) and the £35,000,000 (2011 £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2012 of £39,212,000 (2011 £37,944,000) and a fair value of £36,120,000 (2011 £30,251,000)

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2012	**6.2**	**1 7**
31 March 2011	6 3	1 7

Borrowing Facilities

The Company has various borrowing facilities available to it The undrawn committed facilities available at 31 March 2012 in respect of which all conditions precedent have been met were as follows

	2012 £'000	2011 £'000
Expiring in one year or less	**10,000**	-
Expiring in more than one year but not more than two years	**9,700**	10,000
Expiring in more than two years but not more than five years	-	5,000
	19,700	15,000

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 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 at least matched with cash inflows and availability of adequate banking facilities including sufficient headroom The table above details the undrawn committed borrowing facilities available to the Company to manage 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 2012 There is no impact on reserves other than the impact on the profit and loss account after tax

	2012	2011
	£'000	£'000
RPI +0 25%	**(435)**	(417)
RPI -0 25%	**435**	417
LIBOR +1 00%	**78**	13
LIBOR -1 00%	**(78)**	(13)

The impact on the pre-tax profit and loss account for 2012 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2011 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 2010

Maturity of Financial Assets and Liabilities

The maturity profile of the Company's financial liabilities at current repayment value at 31 March 2012 was as follows

Borrowings

	2012 £'000	2011 £'000
In one year or less or on demand	**6,711**	6,100
In more than one year, but not more than two years	**794**	398
In more than two years, but not more than five years	**484**	608
In more than twenty years	**177,040**	169,106
	185,029	176,212

Other Financial Liabilities

	2012 £'000	2011 £'000
In one year or less or on demand	**28,034**	29,805
In more than one year, but not more than two years	**347**	329
In more than two years, but not more than five years	**1,160**	1,100
In more than five years, but not more than twenty years	**9,634**	9,132
In more than twenty years	**586**	1,235
	224,790	217,813

The table above excludes future interest payments and future indexation on financial liabilities Index-linked borrowings of £175,407,000 (2011 £167,473,000) 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 (2011 £399,467,000) and at redemption in 2051 is £139,996,000 (2011 £139,996,000)

Debtors recoverable in more than one year of £44,320,000 (2011 £44,564,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2011 £40,000,000) with £15,000,000 (2011 £15,000,000) due to be repaid within five to twenty years and £25,000,000 having no fixed repayment date (2011 £25,000,000)

Trade Debtors

Before acceptıng orders from new customers and offerıng credıt terms, the Company undertakes appropriate credıt assessments and uses this ınformatıon to determıne ıf the order ıs accepted and the credıt terms that wıll be offered Provısıon ıs made wıthın the trade debtor values detaıled below, based on judgement by senıor management for amounts consıdered to be unrecoverable due eıther to theır nature or age The total amount charged to the profit and loss account ın the year to March 2012 ın respect of such provısıons was £2,557,000 (2011 £2,976,000) Total trade debtors as at 31 March 2012 were £7,427,000 (2011 £8,125,000) The total amount of the provısıon included ın the above, as at 31 March 2012 was £15,766,000 (2011 £13,119,000) The Company does not hold collateral over ıts trade debtors

The Dırectors consıder that debtors that are neıther past due nor ımpaıred are of a hıgh qualıty and were consıdered, at the balance sheet date to be fully recoverable at theır net book value The largest balance outstandıng from any sıngle customer at 31 March 2012 was £179,000 (2011 £24,000), representıng only 2 4% of the Company total (2011 0 3%)

An ageıng analysıs of trade debtors that are ınvoıced but not ımpaıred ıs provıded 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
2012	**4,759**	**1,675**	**1,208**	**602**	**74**	**-**	**8,318**
2011	4,527	1,506	1,007	339	41	-	7,420

Non-Regulated	<1 month	1-2 months	>2months	Total
2012	**260**	**19**	**17**	**296**
2011	322	69	24	415

Non-regulated debtors that are consıdered to be ımpaıred of £5,000 (2011 £5,000) were all more than two months past due

An ageıng analysıs of regulated debtors that are consıdered to be ımpaıred ıs provıded 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
2012	2,668	2,552	2,241	2,127	2,046	4,127	15,761
2011	2,469	2,396	2,023	1,931	1,682	2,613	13,114

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 2012, 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 2012 was £4,628,000 (2011 £4,746,000) 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 2012

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 business are shown in the current cost profit and loss account on page 51 Turnover for the year has ıncreased by 3 8% to £87 7m (2011 £84 5m) reflectıng the ıncrease ın charges allowed by Ofwat of 4 7% Current cost operatıng profit before exceptıonal ıtems was £16 9m (2011 £15 8m) reflectıng the allowed ıncrease ın charges partly offset by hıgher costs representıng the effect of the expected ınflatıonary pressures, addıtıonal power costs requıred to respond to the very dry weather condıtıons ın the year, addıtıonal resources to ensure challengıng servıce targets are achıeved net of operatıonal effıcıencıes that have been generated

Current Cost Depreciation

The Current Cost Depreciatıon charge (CCD) for the year net of amortısatıon was £15 0m (2011 £14 2m), a year on year ıncrease of £0 8m Thıs reflects the CCD on non ınfrastructure asset addıtıons ın the year of £15 5m (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 (2011 £9 6m) and reflects the level of maıns replacement to arrest rısıng trends ın burst levels and to assıst wıth leakage control actıvıtıes 61 5km 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 2012, 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

Customer Service (Based upon the SIM Performance 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 12% of salary

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The followıng performance agaınst target was achıeved durıng the year

Standard of performance	Target	Actual	Average % of salary awarded
Customer Servıce	Sıgnıficant ımprovement ın SIM performance	Improved score achıeved	7%
Operatıng Profitıbılty	Budget	Target achıeved	7%
Operatıng costs	Below Budget	Target achıeved	4%
Cash Generatıon	Budget	Target exceeded	5%

The followıng bonuses ın respect of the above performance and ındıvıdual targets were paıd to Dırectors employed dırectly by the Company ın respect of the year ended 31 March 2012

	£'000
E A Swarbrıck	54
K H Marshall	16
M J Lewıs	16
R E Barber	14
C Wayper	4*

The above annual bonus ıs payable followıng the year end

The Dırector of the Company who ıs an Executıve Dırector of South Staffordshıre Plc ıs remunerated based upon the performance of the Group as a whole to reflect hıs Group wıde roles and therefore only part of hıs remuneratıon was dırectly or ındırectly lınked to the performance standards of the Company

*Relates to the perıod from 4 November 2011 to 31 March 2012

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2012

	Note	2012 Appointed Business	2012 Non-Appointed Business	2012 Total	2011 Appointed Business	2011 Non-Appointed Business	2011 Total
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover	3	87,673	3,387	91,060	84,494	3,349	87,843
Operating costs		(55,791)	(2,758)	(58,549)	(54,821)	(2,881)	(57,702)
Historic cost depreciation		(10,883)	(27)	(10,910)	(10,318)	(28)	(10,346)
Other operating income		4	168	172	3	218	221
Operating Profit		21,003	770	21,773	19,358	658	20,016
Other income		-	402	402	1,465	450	1,915
Net interest		(9,564)	11	(9,553)	(9,007)	9	(8,998)
Profit on Ordinary Activities before Taxation		11,439	1,183	12,622	11,816	1,117	12,933
Taxation - Current		(1,982)	(281)	(2,263)	(2,612)	(252)	(2,864)
Taxation - Deferred		(915)	-	(915)	1,451	-	1,451
Profit on Ordinary Activities after Taxation		8,542	902	9,444	10,655	865	11,520
Dividends		(9,398)	(902)	(10,300)	(14,537)	(865)	(15,402)
Retained profit for the Year		(856)	-	(856)	(3,882)	-	(3,882)

The accompanying notes are an integral part of these financial statements

HISTORICAL COST BALANCE SHEET

As at 31 March 2012	2012 Appointed Business	2012 Non-Appointed Business	2012 Total	2011 Appointed Business	2011 Non-Appointed Business	2011 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets						
Tangible assets	198,868	1,150	200,018	193,617	1,198	194,815
Investments						
- loan to group companies	40,000	-	40,000	40,000	-	40,000
Total fixed assets	238,868	1,150	240,018	233,617	1,198	234,815
Current Assets						
Stocks	1,527	47	1,574	1,573	212	1,785
Debtors	17,663	1,753	19,416	17,691	1,815	19,506
Cash	1,013	1,208	2,221	1,395	245	1,640
Total current assets	20,203	3,008	23,211	20,659	2,272	22,931
Creditors - amounts falling due within one year						
Overdrafts	(6,030)	-	(6,030)	(5,334)	-	(5,334)
Infrastructure renewals accrual	(571)	-	(571)	(467)	-	(467)
Creditors	(24,170)	(3,869)	(28,039)	(25,144)	(3,210)	(28,354)
Borrowings	(681)	-	(681)	(766)	-	(766)
Corporation tax payable	(838)	(281)	(1,119)	(2,242)	(252)	(2,494)
Total creditors	(32,290)	(4,150)	(36,440)	(33,953)	(3,462)	(37,415)
Net current liabilities	(12,087)	(1,142)	(13,229)	(13,294)	(1,190)	(14,484)
Total Assets less Current Liabilities	226,781	8	226,789	220,323	8	220,331
Creditors - amounts falling due after more than one year						
Borrowings	(191,811)	-	(191,811)	(186,202)	-	(186,202)
Other creditors	(11,727)	-	(11,727)	(11,796)	-	(11,796)
Provisions for Liabilities & Charges						
Deferred tax provision	(12,087)	-	(12,087)	(10,839)	-	(10,839)
Deferred income - grants and contributions	(7,307)	(8)	(7,315)	(6,645)	(8)	(6,653)
Net Assets	3,849	-	3,849	4,841	-	4,841
Capital and Reserves						
Share capital	2,123	-	2,123	2,123	-	2,123
Share premium account	495	-	495	495	-	495
Profit and loss account	1,996	-	1,996	2,852	-	2,852
Other reserves	(765)	-	(765)	(629)	-	(629)
	3,849	-	3,849	4,841	-	4,841

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	22,175	21,773	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	12,622	12,622	
Balance Sheet			
Tangible fixed assets (net book value)	199,447	200,018	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 £571k is therefore excluded from the fixed asset net book value and is recorded as a current liability
Infrastructure renewals accrual	n/a	(571)	
Debtors	58,292	19,416	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)	(34,745)	(35,869)	In the statutory accounts, an additional £1,124k 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 2012

	Note	2012 £'000	2011 £'000
Turnover	3	**87,673**	84,494
Current cost operating costs	4	**(70,829)**	(68,991)
Other operating income	3	**(293)**	1,438
Working capital adjustment	3	**363**	354
Current Cost Operating Profit		**16,914**	17,295
Net interest		**(9,564)**	(9,007)
Financing adjustment		**(805)**	(2,880)
Current Cost Profit on Ordinary Activities before Taxation		**6,545**	5,408
Taxation - Current		**(1,982)**	(2,612)
Taxation - Deferred		**(915)**	1,451
Current Cost Profit on Ordinary Activities after Taxation		**3,648**	4,247
Dividends		**(9,398)**	(14,537)
Retained Current Cost Loss	9	**(5,750)**	(10,290)

The accompanying notes are an integral part of these financial statements

CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS

As at 31 March 2012

	Note	2012 £'000	2011 £'000
Fixed Assets			
Tangible assets	5	**1,847,304**	1,780,175
Third party contributions since 1989-90	6	**(126,193)**	(118,488)
Working capital	7	**(8,608)**	(10,096)
Cash		**1,013**	1,395
Overdrafts		**(6,030)**	(5,334)
Infrastructure renewals accrual		**(571)**	(467)
Net Operating Assets		**1,706,915**	1,647,185
Non operating assets and liabilities			
Borrowings		**(681)**	(766)
Non-trade debtors		**4,264**	5,216
Non-trade creditors due within one year		**(636)**	(1,000)
Investment - loan to group companies		**40,000**	40,000
Corporation tax payable		**(838)**	(2,242)
Total non operating assets and liabilities		**42,109**	41,208
Creditors: amounts falling due after more than one year			
Borrowings		**(191,811)**	(186,202)
Other creditors		**(11,727)**	(11,796)
Total creditors falling due after more than one year		**(203,538)**	(197,998)
Provisions for liabilities and charges			
Deferred tax provision		**(12,087)**	(10,839)
Total provisions		**(12,087)**	(10,839)
Net Assets Employed		**1,533,399**	1,479,556
Capital and Reserves			
Called up share capital		**2,123**	2,123
Share premium		**495**	495
Profit and loss account	9	**(63,567)**	(57,817)
Current cost reserve	8	**1,595,113**	1,535,384
Other reserves		**(765)**	(629)
Shareholders' Funds		**1,533,399**	1,479,556

The accompanying notes are an integral part of these financial statements

CURRENT COST CASH FLOW STATEMENT

For the year ended 31 March 2012

	Note	2012 £'000 Appointed Business	2012 £'000 Non-Appointed Business	2012 £'000 Total	2011 £'000 Appointed Business	2011 £'000 Non-Appointed Business	2011 £'000 Total
Net cash inflow from Operating Activities	10	**40,636**	**1,917**	**42,553**	41,564	667	42,231
Returns on Investments and Servicing of Finance							
Interest received		**2,795**	**11**	**2,806**	2,604	9	2,613
Interest paid		**(6,884)**	**-**	**(6,884)**	(6,367)	-	(6,367)
Interest in finance lease rentals		**(150)**	**-**	**(150)**	(118)	-	(118)
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(4,239)**	**11**	**(4,228)**	(3,881)	9	(3,872)
Taxation paid		**(3,387)**	**(252)**	**(3,639)**	(2,151)	(270)	(2,421)
Investing Activities.							
Gross cost of purchase of fixed assets		**(20,546)**	**-**	**(20,546)**	(20,162)	(7)	(20,169)
Receipt of grants and contributions		**4,034**	**-**	**4,034**	3,327	-	3,327
Infrastructure renewals expenditure		**(9,492)**	**-**	**(9,492)**	(9,089)	-	(9,089)
Disposal of fixed assets		**1,684**	**189**	**1,873**	801	217	1,018
Movement on long term loans to group companies		**-**	**-**	**-**	-	-	-
Net cash (outflow)/inflow from investing activities		**(24,320)**	**189**	**(24,131)**	(25,123)	210	(24,913)
Equity Dividends Paid		**(9,398)**	**(902)**	**(10,300)**	(14,537)	(865)	(15,402)
Net cashflow before financing		**(708)**	**963**	**255**	(4,128)	(249)	(4,377)
Financing							
Capital element of finance lease rental payments		**(370)**	**-**	**(370)**	(287)	-	(287)
New bank loans		**-**	**-**	**-**	-	-	-
Net cash outflow from financing		**(370)**	**-**	**(370)**	(287)	-	(287)
(Decrease) / Increase in net cash		**(1,078)**	**963**	**(115)**	(4,415)	(249)	(4,664)

The accompanying notes are an integral part of these financial statements

NOTES TO THE REGULATORY ACCOUNTS

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 2012 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 Company uses land registry searches and void inspector visits to ascertain the identity of any occupier

The Company does not bill void properties speculatively to 'the occupier' Properties are visited by void inspectors to confirm that a property is unoccupied

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

The Company operates an 'income maximisation' project that is used to identify properties not held on the Company's billing system Any properties billed under this project are not recognised as turnover until the running costs of the project have been covered

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.

	2012 £'000	2011 £'000
Turnover		
Unmeasured	**51,458**	50,255
Measured	**31,198**	28,894
Large User Revenues	**3,696**	3,642
Rechargeable Works	**500**	607
Bulk Supplies	**465**	732
Other Sources	**356**	364
Total turnover	**87,673**	84,494
Other operating (expense) / income		
Current cost (loss) / profit on disposal of fixed assets	**(293)**	1,438
Total other operating (expense) / income	**(293)**	1,438
Working capital adjustment	**363**	354

4. Activity Costing Analysis – Water Service 2011/12

DESCRIPTION	Water resources	Raw water distribution	Water treatment	Treated water distribution	Water Service Total
SERVICE ANALYSIS - WATER	£m's	£m's	£m's	£m's	£m's
Direct costs					
Employment costs	0 581	0 003	1 139	2 814	4 537
Power	1 082	0 037	4 491	1 267	6 877
Hired and contracted services	0 125	0 001	0 159	0 566	0 851
Associated companies	0 074	0 003	0 436	2 098	2 611
Materials and consumables	0 045	0 000	1 405	0 656	2 105
Service charges	2 748	0 000	0 000	0 000	2 748
Bulk supply imports	0 000	0 000	0 009	0 000	0 009
Other direct costs	0 155	0 000	0 092	0 983	1 231
Total direct costs	**4 810**	**0 044**	**7 731**	**8 384**	**20 969**
Operating expenditure					
General and support expenditure	0 926	0 027	0 987	5 003	6 943
Scientific services	0 000	0 000	0 363	0 075	0 438
Other business activities	0 203	0 038	0 038	0 368	0 647
Total business activities	0 203	0 038	0 401	0 443	1 085
Local Authority rates	0 311	0 103	0 149	3 405	3 968
Exceptional items	0 000	0 000	0 000	0 000	0 000
Total opex less third party services	**6 250**	**0.211**	**9 268**	**17 235**	**32 964**
Third party services - opex	0 027	0 000	0 375	0 467	0 869
Total operating expenditure	**6 277**	**0.211**	**9 644**	**17 702**	**33 833**
Reactive and planned maintenance					
Reactive and planned maintenance infrastructure	0 000	0 000	0 000	4 329	4 329
Reactive and planned maintenance non-infrastructure	0 416	0 005	0 763	0 434	1 617
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	0 000	0 000	0 000	9 596	9 596
Current cost depreciation	0 998	0 004	4 276	5 948	11 226
Amortisation of deferred credits	0 000	0 000	(0 595)	0 000	(0 595)
Amortisation of intangible assets	0 000	0 000	0 000	0 000	0 000
Business activities current cost depreciation	0 000	0 000	0 000	0 000	0 000
Capital maintenance excluding third party services	0 998	0 004	3 681	15 544	20 227
Third party services - current cost depreciation	0 000	0 000	0 000	0 000	0 000
Third party services - infrastructure renewals charge	0 000	0 000	0 000	0 000	0 000
Total capital maintenance	**0 998**	**0 004**	**3 681**	**15 544**	**20 227**
Total operating costs	**7 275**	**0 215**	**13 325**	**33 245**	**54 060**

Activity Costing Analysis – Retail Services 2011/12

DESCRIPTION	Retail household	Retail household general & support	Retail non-household	Retail non-household general & support	Retail Services Total
SERVICE ANALYSIS - RETAIL	£m's	£m's	£m's	£m's	£m's
Direct costs					
Billing	0 648	0 292	0 037	0 040	0 685
Payment handling, remittance and cash handling	1 028	0 323	0 059	0 033	1 087
Debt management	1 007	0 176	0 162	0 018	1 169
Doubtful debts	2 201	0 000	0 355	0 000	2 556
Charitable trust donations	0 000	0 000			0 000
Vulnerable customer schemes	0 000	0 000			0 000
Non network customer enquiries and complaints	1 443	0 613	0 083	0 081	1 526
Meter reading	0 630	0 687	0 136	0 126	0 766
Meter maintenance/installation non capex	0 000	0 000	0 000	0 000	0 000
Network customer enquiries and complaints	0 292	0 255	0 017	0 042	0 309
Disconnections	0 000	0 000	0 066	0 002	0 066
Demand side water efficiency initiatives	0 000	0 000	0 000	0 000	0 000
Services to developers			0 023	0 024	0 023
Support for trade effluent compliance			0 000	0 000	0 000
Customer side leaks	0 307	0 135	0 258	0 025	0 565
Other direct costs	0 061	0 046	0 003	0 008	0 064
Total direct costs	**7 617**	**2 527**	**1 199**	**0 399**	**8 816**
Operating expenditure					
General and support expenditure	2 527		0 400		2 927
Scientific services	0 271		0 016		0 287
Other business activities	0 192		0 011		0 203
Total business activities	0 463		0 027		0 490
Local Authority rates	0 121		0 007		0 128
Exceptional items	0 000		0 000		0 000
Total opex less third party services	**10 727**		**1 634**		**12 361**
Third party services	0 001		0 000		0 001
Total operating expenditure	**10 728**		**1 634**		**12 362**
Capital maintenance					
Infrastructure renewals charge	0 000		0 000		0 000
Current cost depreciation	2 904		1 503		4 407
Amortisation of deferred credits	0 000		0 000		0 000
Amortisation of intangible assets	0 000		0 000		0 000
Total capital maintenance	2 904		1 503		4 407
Total operating costs	**13 632**		**3 137**		**16 769**

5. Analysis of Water Fixed Assets

DESCRIPTION	WATER RESOURCES				RAW WATER DISTRIBUTION			
	Infrastructure assets	Operational assets	Other tangible assets	Subtotal	Infrastructure assets	Operational assets	Other tangible assets	Subtotal
	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Gross replacement cost								
Gross replacement cost at 1 April	69 840	32 334	5 626	107 800	49 167	0 270	1 142	50 579
AMP adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
Reclassification adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
RPI adjustment	2 493	1 154	0 201	3 848	1 755	0 010	0 041	1 806
Disposals	0 000	0 000	(0 211)	(0 211)	0 000	(0 001)	(0 001)	(0 001)
Additions	0 004	1 829	0 277	2 110	0 000	0 000	0 000	0 000
Gross replacement cost at 31 March	72 337	35 317	5 893	113 547	50 922	0 279	1 182	52 384
Depreciation								
Depreciation at 1 April		13 857	2 557	16 414		0 051	0 545	0 596
AMP adjustment		0 000	0 000	0 000		0 000	0 000	0 000
AMP adjustment - gross MEA revaluation		0 000	0 000	0 000		0 000	0 000	0 000
AMP adjmt - amendment to remaining useful econ lives		0 000	0 000	0 000		0 000	0 000	0 000
Reclassification adjustment		0 000	0 000	0 000		0 000	0 000	0 000
RPI adjustment		0 495	0 091	0 586		0 002	0 019	0 021
Disposals		0 000	(0 182)	(0 182)		0 000	0 000	0 000
Charge for year		0 725	0 273	0 998		0 004	0 000	0 005
Depreciation at 31 March		15 077	2 739	17 816		0 057	0 565	0 622
Net book amount at 31 March	72 337	20 240	3 154	95 731	50 922	0 222	0 617	51 762
Net book amount at 1 April	69 840	18 477	3 069	91 386	49 167	0 219	0 597	49 983

DESCRIPTION	WATER TREATMENT				TREATED WATER DISTRIBUTION				Total
	Infrastructure assets	Operational assets	Other tangible assets	Subtotal	Infrastructure assets	Operational assets	Other tangible assets	Subtotal	
Gross replacement cost									
Gross replacement cost at 1 April	0 000	128 667	9 486	138 153	1,403 364	142 403	71 447	1,617 214	1,913 746
AMP adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
Reclassification adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
RPI adjustment	0 000	4 594	0 339	4 932	50 102	5 084	2 551	57 737	68 323
Disposals	0 000	0 000	(3 528)	(3 528)	0 000	0 000	(1 984)	(1 984)	(5 724)
Additions	0 000	1 776	0 259	2 035	4 063	2 886	5 386	12 336	16 480
Gross replacement cost at 31 March	0 000	135 037	6 556	141 592	1,457 529	150 373	77 399	1,685 302	1,992 825
Depreciation									
Depreciation at 1 April		68 433	4 920	73 353		43 379	32 351	75 730	166 093
AMP adjustment		0 000	0 000	0 000		0 000	0 000	0 000	0 000
AMP adjustment - gross MEA revaluation		0 000	0 000	0 000		0 000	0 000	0 000	0 000
AMP adjmt - amendment to remaining useful econ lives		0 000	0 000	0 000		0 000	0 000	0 000	0 000
Reclassification adjustment		0 000	0 000	0 000		0 000	0 000	0 000	0 000
RPI adjustment		2 443	0 176	2 619		1 549	1 155	2 704	5 930
Disposals		0 000	(2 449)	(2 449)		0 000	(1 670)	(1 670)	(4 301)
Charge for year		4 025	0 251	4 276		2 465	3 483	5 948	11 226
Depreciation at 31 March		74 901	2 898	77 799		47 393	35 319	82 712	178 948
Net book amount at 31 March	0 000	60 136	3 658	63 794	1,457 529	102 981	42 080	1,602 590	1,813 877
Net book amount at 1 April	0 000	60 234	4 566	64 800	1,403 364	99 024	39 096	1,541 484	1,747 653

Analysis of Retail Fixed Assets

DESCRIPTION	RETAIL HOUSEHOLD				RETAIL NON-HOUSEHOLD				Total
	Infrastructure assets	Operational assets	Other tangible assets	Subtotal	Infrastructure assets	Operational assets	Other tangible assets	Subtotal	
	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Gross replacement cost									
Gross replacement cost at 1 April	0 000	0 000	38 732	38 732	0 000	0 000	16 110	16 110	54 842
AMP adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
Reclassification adjustment	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000	0 000
RPI adjustment	0 000	0 000	1 383	1 383	0 000	0 000	0 575	0 575	1 958
Disposals	0 000	0 000	(1 509)	(1 509)	0 000	0 000	(0 354)	(0 354)	(1 863)
Additions	0 000	0 000	4 043	4 043	0 000	0 000	0 273	0 273	4 316
Gross replacement cost at 31 March	0 000	0 000	42 649	42 649	0 000	0 000	16 604	16 604	59 253
Depreciation									
Depreciation at 1 April		0 000	15 549	15 549		0 000	6 771	6 771	22 320
AMP adjustment		0 000	0 000	0 000		0 000	0 000	0 000	0 000
AMP adjustment - gross MEA revaluation		0 000	0 000	0 000		0 000	0 000	0 000	0 000
AMP adjmt - amendment to remaining useful econ lives		0 000	0 000	0 000		0 000	0 000	0 000	0 000
Reclassification adjustment		0 000	0 000	0 000		0 000	0 000	0 000	0 000
RPI adjustment		0 000	0 555	0 555		0 000	0 242	0 242	0 797
Disposals		0 000	(1 375)	(1 375)		0 000	(0 322)	(0 322)	(1 697)
Charge for year		0 000	2 904	2 904		0 000	1 503	1 503	4 407
Depreciation at 31 March		0 000	17 633	17 633		0 000	8 194	8 194	25 827
Net book amount at 31 March	0 000	0 000	25 016	25 016	0 000	0 000	8 410	8 410	33 426
Net book amount at 1 April	0 000	0 000	23 183	23 183	0 000	0 000	9 339	9 339	32 522

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 2011	110,032	14,354	124,386
RPI adjustment	3,961	517	4,478
Additions	2,839	1,195	4,034
At 31 March 2012	116,832	16,066	132,898
Amortisation			
At 1 April 2011	-	5,898	5,898
RPI adjustment	-	212	212
Amortised in year	-	595	595
At 31 March 2012	-	6,705	6,705
Net Book Value			
At 31 March 2012	**116,832**	**9,361**	**126,193**
Net Book Value			
At 31 March 2011	110,032	8,456	118,488

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

	2012 £'000	2011 £'000
Stocks	**1,527**	1,573
Trade debtors		
-measured household	**1,695**	1,647
-unmeasured household	**3,914**	4,445
-measured non-household	**906**	1,024
- unmeasured non-household	**145**	149
-other	**593**	78
Measured income accrual	**5,398**	4,909
Prepayments and other debtors	**748**	224
Trade Creditors	**(6,478)**	(6,630)
Deferred income - customer advance receipts	**(9,186)**	(8,423)
Capital creditors	**(1,353)**	(1,999)
Accruals and other creditors	**(6,517)**	(7,093)
Total working capital	**(8,608)**	(10,096)

8. Movement on Current Cost Reserve

	2012 £'000	2011 £'000
Balance at 1 April	**1,535,384**	1,449,450
AMP adjustment	**-**	-
RPI adjustments		
Fixed assets	**63,553**	89,232
Capital contributions	**(4,266)**	(5,824)
Working capital	**(363)**	(354)
Financing	**805**	2,880
Balance at 31 March	**1,595,113**	1,535,384

9. Movement on Current Cost Profit and Loss Account

	2012	2011
	£'000	£'000
Balance at 1 April	**(57,817)**	(47,527)
Retained current cost loss	**(5,750)**	(10,290)
Balance at 31 March	**(63,567)**	(57,817)

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

	2012	2011
	£'000	£'000
Current cost operating profit	**16,914**	17,295
Working capital adjustment	**(363)**	(354)
Movement in working capital	**(842)**	2,337
Current cost depreciation and amortisation of deferred credits	**15,038**	14,169
Current cost gain on disposal of assets	**293**	(1,438)
Infrastructure renewals charge	**9,596**	9,555
Net Cash Inflow from Appointed Operating Activities	**40,636**	41,564

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	681	6,030	-	6,711
Between one and two years	794	-	-	794
Between two and five years	484	-	-	484
In more than twenty years	1,633	-	188,901	190,534
Borrowings	3,592	6,030	188,901	198,523
Less Cash				(1,013)
Net Debt				197,510

Overall, the book value of net debt for the Company excluding the non regulated business amounted to £197 5m at 31 March 2012, however this differs from the value used for covenant reporting purposes of £184 0m 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 72 9% of the Company's Regulated Asset Value of £252 5m included in the 2009 Final Determination

12. Regulatory Capital Values

	2012 £'000
Opening RCV for the year	246,979
Capital Expenditure	24,636
Infrastructure Renewals Expenditure	10,666
Grants and Contributions	(2,193)
Depreciation	(16,125)
Infrastructure Renewals Charge	(10,448)
Outperformance of Regulatory Assumptions	(1,042)
Closing RCV carried forward	252,473
Average RCV	246,140

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 2012.

	2012 £'000	2011 £'000
Profit for the year	**8,542**	10,655
Other gains and losses	**(137)**	145
Total recognised gains for the year	**8,405**	10,800

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 2012 in respect of which all conditions precedent have been met were £19 7m

(b) Dividends

During the year, South Staffordshire Water PLC paid dividends in respect of the Appointed Business of £9 4 million (2011 £14 5 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 up to 77% At 31 March 2011 this ratio was 72 9% and reflects inflation at March 2012 of 3 6%, which is used to inflate RAV, whereas the majority of index-linked debt was inflated using inflation at July 2011 of 5 0%

(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 2012, was as follows

	£m
Integrated Water Services Limited	39 3
Echo Managed Services Limited	20 2

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
Integrated Water Services Limited	39 3	Mainlaying and repair of water mains	4 8	Competitive tendering
		Mains Rehabilitation	4 5	Competitive tendering
		Minor Civils	1 1	Competitive tendering
		Metering	2 2	Competitive tendering
		Water Treatment	0 4	Cost
		Pump Refurbishment	0 4	Cost
		Minor Capital Works	3 4	Competitive tendering
Echo Managed Services Limited	20 2	Customer Services	5 0	Cost
		Billing Software	0 5	Cost
South Staffordshire Plc	nil	Management services	1 1	Cost
		Parent company services	1 4	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 2012

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 2012-13, 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
12 July 2012

REPORT OF THE AUDITOR

Independent auditors' report to the Water Services Regulation Authority ("WSRA") and South Staffordshire Water plc ("the Company").

We have audited the Regulatory Accounts of South Staffordshire Water plc for the year ended 31 March 2012 on pages 45 to 68 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 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 and sewerage 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 auditors

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 presented with 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)

As permitted in IN 12/01 the Company has elected to replace certain tables set out in Regulatory Accounting Guideline 3 06 with the Accounting Separation Tables The Company is under an obligation to present the Accounting Separation Tables in accordance with its Accounting Separation Methodology Statement provided by the Company to WSRA on 13 July 2012, (the "Methodology Statement") We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland)

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA, in respect of the Accounting Separation Tables the Methodology Statement, and the accounting policies set out on pages 54 to 57, the state of the Company's affairs at 31 March 2012 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, the accounting policies and the Methodology statement

Emphasis of matter - Basis of preparation

Without modifying our opinion on the Regulatory Accounts, 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

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 2012 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
17 July 2012