South Staffordshire Water PLC

Accounts for the Year Ended 31 March 2014

Together with the Strategic, the Directors'

And

The Independent Auditor's Reports

(Company Registration No: 2662742)

Highlights

- Successful merger of South Staffs and Cambridge regions into one single entity.
- Levels of service continue at the highest levels in the UK Water Industry.
- £32.5m of planned capital investment successfully completed.
- 66km of mains replaced.
- Second lowest domestic charges in England and Wales at a combined average of £141, 24% below the national average.
- Water resource position remains healthy.
- Challenging and demanding targets for leakage met.

	2014	2013 as reported	2013 pro forma*
Turnover	£122.5m	£94.7m	£117.3m
Operating Profit	£34.0m	£24.6m	£32.1m

* Including the business and trade of Cambridge Water PLC that was transferred to South Staffordshire Water on 1 April 2013 as if it had been included in the results of the Company for the whole of the year ended 31 March 2013.

STRATEGIC REPORT

COMPANY OVERVIEW

South Staffordshire Water PLC ("the Company") is part of the South Staffordshire Plc group of companies, a privately owned integrated services Group concentrating on regulated water supply and complimentary specialist service businesses.

The South Staffs region was formed in 1853 to provide water to the inhabitants of the Black Country, the region supplies a population of nearly 1.3 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 region 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.

On 1 April 2013 the business, trade, assets and liabilities of Cambridge Water PLC, a fellow subsidiary undertaking of South Staffordshire Plc were transferred to the Company by way of a Transfer Scheme in accordance with Schedule 2 of the Water Industry Act 1991. Both regions now operate under one single water licence.

The Cambridge region was also formed in 1853 and supplies high quality underground water that is pumped from boreholes. 97% comes from chalk and 3% from green sand aquifers. The region supplies a population of approximately 315,000 in an area of 1,173 square kilometres that covers the area of South Cambridgeshire and the City of Cambridge.

South Staffs Water (incorporating the transfer from Cambridge Water PLC) 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 and Anglian Water Services Limited.

MANAGING DIRECTOR'S REVIEW

As the UK water industry's landscape changes, South Staffs Water remains committed to driving the delivery of exceptional customer service, high quality water and affordable bills.

ONE Company……ONE VISION

As above, in April 2013, South Staffs Water successfully merged the South Staffs and Cambridge regions into one single entity, creating a business covering a population of 1.61 million customers (651,000 households and over 40,000 non-household organisations). Our motivation to merge was built on shared values and outcomes that support all of our customers. We have looked at what is good in both regions and redefined service delivery to take advantage of shared resources. As integration continues, the benefits, such as shared resources, learning from experts and economies of scale begin to be realised. Both regions place customers at the very heart of the business; the long-term strategic focus continues to be based on delivering exceptional customer service, maximising business efficiency through controlling costs and reducing our carbon footprint by further enhancing energy efficiency and promoting water efficiency among all customers.

We continue to set ourselves high standards in everything we do and the continuous improvements that we have made, especially around the integration of the two regions, owes much to the hard work and dedication of the teams that deliver water supplies and services.

Shaping the future

As the water industry prepares for the next price review in 2014 (PR14), the Company is aware that there will be important differences from the current system, including separate controls for the wholesale part of the Company – the networks and treatment plants – and the retail element, which manages customer relationships. Customer insight will be critical with greater emphasis on achieving objectives that are set in consultation with our customers. The Customer Challenge Group (CCG), with strong customer and stakeholder representation, plays a valuable role in informing the Company's strategic direction and has been extremely useful in guiding proposed outcomes for PR14.

Affordability

The Company aims to operate in an efficient and sustainable way, which helps to keep customer bills low by keeping our costs low. Recognised by Ofwat and industry peers as one of the most efficient companies in the sector, we are committed to maintaining this position in the future.

We continue to prioritise the balance of achieving excellent customer service in the supply of a resource which is imperative to life and wellbeing as well as to the supply chain for business customers, with keeping bills low and offering help for those in need. Our customers, on average, paid the second lowest water bills in England and Wales, with an average 2013/2014 bill of £144 for the South Staffs region and £130 for the Cambridge region, which were 23% and 30% lower than the industry average respectively. We recognise that there are some customers who may find it difficult to pay their water bill. We have worked with organisations such as Citizens Advice Bureaux (CAB) and local charities to support customers accordingly. Similarly, we have adapted new approaches to collecting money owed.

Open Water

The landscape within the UK water industry is changing and the Company supports the move to opening up the market to competition within the non-household sector. Open competition will ensure a focus on delivering the best customer service at lowest cost, and create more choice for non-household customers.

The Company has been active in the debate about the future of water both from a wholesale and retail perspective. This proactive involvement has enabled us to prepare for these changes, through a strategy that creates opportunities to leverage core skills.

As the market architecture plan for competition within the non-household sector unfolds, the Company is preparing systems, processes and organisational structures to accommodate this shifting landscape. We are fully understanding of the proposed direction for regulation and of the Water Bill in general. We welcome the prospects for water trading and the opportunities it brings for greater resilience and keeping customers' bills down.

The Company recognises the need to work more collaboratively with industry partners to ensure we maintain the supply of high quality water, especially to those regions that may experience greater water stress. Trading and collaborative supply are high on our agenda as we seek to address the increasing global demand for water.

Competition will drive greater customer service but will also encourage innovation and technological advancement at a time when customer choice, value and environmental efficiency will be paramount.

Customer satisfaction

Customer engagement and the service we deliver to customers is measured through the Service Incentive Mechanism (SIM) score and has become a major part of our business. We stand firm in our commitment to rank within the upper quartile of the SIM tables. Our customers' journey with us remains at the forefront of what we deliver with customer insight providing a key indicator of satisfaction.

Enhanced digital service delivery

As customers opt for more digital modes of communication through tablet devices and mobile apps, we have investment planned over the next 12 months to enhance our digital customer service delivery. Customers will have a choice on how to engage and interact with us through enhanced channels, including Intelligent Voice Recognition, social media and more streamlined and personalised online account facilities.

By investing in our people and technology, we plan to reduce the number of calls to the contact centre by enhancing our self-serve facilities. Using text messages, a new website that is set for launch towards the end of 2014, as well as other technologies will help to keep customers informed about what we are doing. We are also looking at introducing live updated maps on the website and are making use of Twitter as a way to communicate and engage with our customers.

A continuous supply of safe, clean drinking water

Although experiencing one of the wettest winters for over 100 years in 2013/14, the threat to water supplies remains prevalent in certain areas of the UK. The company is pleased that our resource position remains healthy across both regions due to effective management of resources.

Since the extreme weather experienced in previous years, which increased leakage levels and the number of mains bursts, we have experienced relatively benign winter weather in 2013/14. Additional leakage reduction works have also been carried out in support of drought management activities. As a result of this, the average level of leakage over the year was the lowest on record, while the number of burst mains also reduced to the lowest level in over 18 years in the South Staffs region.

We have a healthy resource position for the 25-year planning horizon with no new resource development required.

As is expected of us, we continued to supply safe, clean, drinking water to our customers. During the year to 31 December 2013, Cambridge region complied with 100% of all tests carried out on drinking water supplies, with South Staffs region achieving compliance of 99.95%.

The year ahead

The Company remains focused on achieving sustainable growth, by concentrating on customers, people, processes and costs. We aim to deliver the benefits of our investment programmes and to continuously improve the way we work, to raise standards and drive further efficiency. Giving our customers an even better service is an important part of this.

CAPITAL INVESTMENT

The Company has made good progress in delivering its capital programme, to ensure that its assets remain in good condition, maintain stable asset serviceability and good quality, reliable supplies to customers. Capital expenditure for the year of £32.5m net of contributions is broadly in line with the 2009 Ofwat Final Determination before accounting for a change in the Construction Output price Index (COPI) reported during the year.

FINANCIAL

Turnover for the Company has increased by 4.4% (adjusting for the inclusion of Cambridge Water as if it had been included in the results of the Company for the whole of the year ended 31 March 2013) to £122.5m (2013: £94.7m as reported, £117.3m pro forma) largely due to the price increase allowed by Ofwat which principally represented an increase in the Retail Price Index of 3.0%. Operating profit was £34.0m (2013: £24.6m as reported, £32.1m pro forma) with higher charges allowed by Ofwat, further operating costs efficiencies achieved in addition to those achieved in 2012/13, partly offset by the unavoidable impact of inflation, some specific cost increases and higher depreciation on the Company's growing capital base as it continues to invest significant amounts in maintaining and improving its assets.

The current tax charge in respect of the year to March 2014 amounted to £5.0m, representing 21.9% of profit before tax. The Company's current tax charge reflects the ongoing capital investment programme which gives rise to capital allowance tax deductions earlier than the corresponding accounting charges. The Company's borrowings (as noted below) give rise to finance charges with third parties which give rise to tax deductions. The total tax charge of £1.5m incorporates a £3.3m non-cash deferred tax credit resulting from the 3% reduction in enacted future corporation tax rates to 20% for 2014/15.

Dividends of £14.2m were paid during the year (2012-13: £13.0m). The dividends include a final dividend of £2.7m paid in the year in respect of 2012-13 and £11.5m dividends paid in respect of 2013-14.

Overall, the book value of net debt amounted to £234.1m at 31 March 2014 (2013: £205.8m) inclusive of net debt of £22.3m in respect to the Cambridge region. Net debt includes index-linked debt, debenture stock, finance leases, bank loans and overdraft less cash. This differs from the value used for covenant reporting purposes of £220.6m (2013: £192.4m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt. This represents 64.4% (2013: 73.0%) of the combined Regulated Asset Value (RAV) of the

Company (including the Cambridge region for 2014) of £342.5m (2013: £263.4m) representing the AMP 5 Final Determination RAV uplifted for inflation. This ratio reflects inflation (RPI) at March 2014 of 2.5% (March 2013: 3.3%), which is used to inflate RAV, whereas the majority of index-linked debt was inflated using RPI at July 2013 of 3.1% (2013: 3.2%). While the dividend policy for the Company is to pay dividends up to 77% of net debt/RAV, the intention is to maintain net debt at the current proportion of RAV following the transfer of the Cambridge Water business. The Company has maintained and continues to forecast to maintain significant headroom in respect of all its borrowing covenants as detailed below.

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 and previous 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.

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.

Risk Management

There is an established risk management and internal control framework in place within the Company. The Directors believe that the most significant business risks faced by the Company are, in summary, health and safety, business continuity and disaster recovery, market reform and regulatory price setting, and water quality, and that these 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 26 to the accounts.

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 2014	Actual Ratio 31 March 2013
Historic net cashflow less current cost depreciation & infrastructure renewals / Historic cost debt service	>1.0:1	3.3	2.7:1
Net Debt / Regulated Asset Value	<0.90	0.64	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
- Free cashflow
- Net capital expenditure
- EBITDA
- Trade debtors and associated collection rates

The Company also monitors its performance using a number of non-financial KPIs and these are outlined below:

SIM

The Company's overall SIM score for 2013/14 is 88, our best ever score. The overall SIM ranking within the industry for 2013/14 will be known during the summer of 2014 and the Company is hopeful of being ranked by Ofwat as the industry leader for the 3 years to March 2014. Significant focus on customer service continues to deliver excellent results. Initiatives over the past year have been focused on enhancing customer feedback and insight. To measure customers' satisfaction the Company uses several methods to assess the quality of customer service including complaints, compliments and Ofwat's customer experience survey.

Quantitative Measure - The quantitative measure reflects the number of complaints and telephone contacts that the Company receives. It measures the number of complaints at different stages of the process. It also takes account of whether or not the Company resolved the customer's problem the first time.

Qualitative Measure - The qualitative measure reflects how satisfied customers are with the quality of service they receive from South Staffs.
In 2013/14, the South Staffs Region was second out of 18 companies in the qualitative measure of SIM with a score of 4.63. The Cambridge region achieved a score of 4.53 finishing ninth overall.

Drinking Water Quality Measures and Outputs

The primary measure of Water Quality is the Mean Zonal Compliance (MZC) rate, which for 2013 was 100.0% for the Cambridge Region and 99.95% for the South Staffs Region. The result in the South Staffs Region represents an improvement over the previous year's score of 99.91% where, following three water quality events at Seedy Mill Treatment Works, significant capital works have been undertaken and no further events have occurred.

In addition to the above, 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

The Company takes an active role in protecting and enhancing biodiversity at sites across both regions. We manage various public access sites where we work alongside volunteers and in partnership with organisations to ensure the long term biodiversity value of the sites, whilst engaging with customers. We have also worked with Cambridge City Council to develop a pilot study to understand the practicalities of providing grey water for toilet flushing. We are now examining the potential to install similar schemes on a wider scale in Cambridge.

COMMUNITY

The Company's Corporate Social Responsibility programme has been and remains focused on giving something back to the communities we serve.

Activities range from providing charitable grants to local good causes, to sponsoring large events to help bring local people together.

Education continues to play a vital role in all our community engagement activity. We spend time talking to local schoolchildren and community groups about the true value of our water supply. We also work with organisations such as the StepChange debt charity, local businesses and environmental organisations to ensure that we are listening to customers and responding to their needs.

RELATIONSHIPS

Employees

Employee safety remains paramount and there has been even greater focus on accident and "near miss" reporting as well as staff absence. Personnel protection has been enhanced with the introduction of a Lone Worker "Buddy" scheme to safeguard those employees who work alone.

Service delivery is dependent on the dedication and support of employees. The Company continues to invest in Apprentices and has an active programme to support training and development at all levels of the organisation. A number of employees have achieved qualifications ranging from National Vocational Qualifications (NVQ) to Masters Degree level.

The Company has a policy of equal opportunities and non–discrimination in all forms of employment. Every reasonable effort is made to provide disabled people with equal opportunities for employment, training and promotion, having regard to their particular aptitudes and abilities. Team briefings are held in order to maintain a high level of communication with all employees. Newsletters and special publications are also used to communicate both within the Company and between fellow Group undertakings.

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.

The Strategic Report on pages 1 to 9 is approved on behalf of the Board of Directors.

P Newland
Managing Director
10 July 2014

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and accounts for the year ended 31 March 2014. The Directors confirm that they consider the report and accounts to be fair, balanced and understandable, providing the information necessary for shareholders and other stakeholders to assess the Company's performance for the year ended 31 March 2014, its business model and its strategy.

Directors

The Directors who held office during the year and subsequently along with the number of Board meetings attended by each Director while holding office during the year are as follows:

Director	Director Type	Date Appointed	Date Resigned	Attendance at Meetings
Adrian Page	Chairman	01/07/1998		9/9
Phillip Newland	Executive Director - Managing Director	01/04/2014		0/0
Jesús Olmos	Non-Executive Director	30/07/2013		5/5
Ram Kumar	Non-Executive Director	30/07/2013		5/5
Sir James Perowne	Senior Independent Non-Executive Director	01/01/2011		9/9
Michael Hughes	Independent Non-Executive Director	21/12/2004		5/9
Stephen Kay	Independent Non-Executive Director	01/04/2013		8/9
Alexander Black	Non-Executive Director	26/03/2010	30/07/2013	3/4
Simon Riggall	Non-Executive Director	26/11/2007	30/07/2013	3/4
Dominic Murphy	Non-Executive Director	30/07/2013	31/12/2013	2/3
Keith Marshall	Executive Director - Managing Director	25/09/2006	31/03/2014	8/9

Elizabeth Swarbrick	Executive Director	14/07/1997	31/12/2013	0/7*
Matthew Lewis	Executive Director	01/05/2009	31/12/2013	7/7
Rachel Barber	Executive Director	23/10/2009	31/12/2013	7/7
Stephen Morley	Executive Director	01/04/2013	31/12/2013	6/7
Colin Wayper	Executive Director	04/11/2011	31/12/2013	6/7
Timothy Orange	Executive Director	01/04/2013	31/12/2013	6/7

*Absent from the business

In accordance with the Company's Governance Code and Ofwat's principles a number of executive and investor appointed Directors resigned on 31 December 2013 in order to ensure that the Independent Non-Executive Directors are the single largest group on the Board.

No Director had any interests in the shares of the Company or any material interest in any contract of significance with the Company.

Financial Results

The Company's financial results are shown in the profit and loss account on page 30 and in pages 5 and 6 of the Strategic Report.

Dividends of £14.2m were paid during the year (2012-13: £13.0m). The dividends include a final dividend of £2.7m paid in the year in respect of 2012-13 and £11.5m dividends paid in respect of 2013-14.

Payment of Creditors and Commercial Arrangements

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 2014 represent 36 days (2013: 32 days) of purchases in the year. The Company is not reliant on any single commercial arrangement.

Corporate Social Responsibility

South Staffordshire Water PLC regards compliance with relevant environmental laws and the adoption of responsible social and ethical standards and the health, safety and well-being of its employees, including disabled persons, as integral to the Company. A summary of the Company's practices is provided on pages 8 and 9.

DIRECTORS' REPORT

Corporate Governance

A detailed report on Corporate Governance is set out on pages 13 to 25.

Company Ownership

On 30 July 2013, the Company's previous owner, Alinda Capital Partners, sold South Staffordshire Plc (the Company's immediate parent) together with its subsidiaries (including South Staffordshire Water PLC) and certain holding companies to the Global Infrastructure Fund of Kohlberg Kravis Roberts & Co.L.P together with certain of its co-investors. Further details of the group structure are provided in the Corporate Governance Report.

Independent 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 independent auditor will be put to the Annual General Meeting.

By Order of the Board

J. R. Goodwin

Company Secretary

10 July 2014

Registered Office: Green Lane, Walsall, West Midlands WS2 7PD

Registered in England and Wales, Number 2662742

CORPORATE GOVERNANCE REPORT

The Board of Directors of South Staffordshire Water PLC has always placed good governance at the core of the business, is aware of its obligations to ensure effective leadership and ensure appropriate governance arrangements are in place within the Company. In January 2014, Ofwat published its principles on board leadership, transparency and governance and, following this, the Company has developed its own Corporate Governance Code ("the SSW Code") which seeks to meet and exceed these principles. A copy of the SSW Code can be found on the Company's website (www.south-staffs-water.co.uk). Although the Company is not a public listed company, its Board of Directors recognises that they should act, where applicable, as if it were and therefore the SSW Code has specifically drawn on Ofwat's principles and certain principles of the UK Corporate Governance Code ("the UK Code") where considered applicable and appropriate to a privately owned Company and believes that this approach allows the required effective leadership and appropriate governance arrangements. Details of how the Company follows the principals of the SSW Code are provided below. The Company also applies the Walker Guidelines on transparency and disclosure. The Company regularly monitors corporate governance best practice and the applicability of any developments to the Company. Any changes to the Company's governance arrangements considered appropriate are implemented within agreed timescales. Details of how the Company preserves value over the long term and how it delivers its strategy are provided in the Strategic Report.

With the exception of the above, there have been no material changes to the Company's Corporate Governance arrangements during the year.

Group Structure

The Company is owned by the Global Infrastructure Fund of the investment business Kohlberg Kravis Roberts & Co. L.P. (KKR), which is quoted on the New York Stock Exchange, which holds a majority stake in the Company, together with infrastructure funds of certain co-investors of KKR. The KKR infrastructure funds are controlled and managed by KKR Infrastructure Limited, a company registered in the Cayman Islands (the "Holding Company").

South Staffordshire Plc, the immediate parent company of South Staffordshire Water PLC, ensures through its detailed knowledge of all of its subsidiaries and the water sector that it understands the duties and obligations of a regulated company including Condition P of its licence. Although some Directors sit on both of the Boards of the Company and South Staffordshire Plc, South Staffordshire Water PLC acts, where applicable, with the support of

South Staffordshire Plc, as if it were a separate listed company. South Staffordshire Plc has processes in place to provide South Staffordshire Water PLC with information that it requires about the wider group. South Staffordshire Plc provides management and administrative support services to South Staffordshire Water PLC on a cost basis. There is no direct interaction between South Staffordshire Water PLC and the Holding Company.

– Relations with Shareholders and the Immediate Holding Company

There are a number of UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydriades IV Limited, the ultimate holding company registered in the UK. There are also intermediate holding companies above Hydriades IV Limited which are registered in Jersey but which are resident in the UK for tax purposes. In line with other KKR investments in Europe, the parent of the Jersey resident companies is a company registered in Luxembourg (Selena Luxco S.a.r.l), which is the company in which the long-term infrastructure funds of KKR and their co-investors invest. All KKR funds investing in this company are controlled and managed by the Holding Company.

Two of these companies have loans payable to the Company, both of which bear interest which is paid in full each year. Any UK tax losses surrendered to South Staffordshire Water PLC from these UK tax resident companies are paid for at face value.

Details of the borrowings of South Staffordshire Water PLC are provided in these Accounts. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own Annual Report. During the year to 31 March 2014 there were Eurobonds in place, issued by the highest UK holding company to a Cayman based parent company. However, following the acquisition by KKR the Cayman based company was liquidated and the Eurobonds were converted to equity. UK corporation tax relief available in respect of the interest on these Eurobonds that were considered to be issued at arm's length was the subject of Advanced Thin Capitalisation Agreements between the issuing holding company and HMRC.

The Holding Company and the immediate parent company is represented on the Board of Directors and there is a regular dialogue between all members of the Board and the representatives of the shareholders to ensure that their objectives and priorities are carefully considered.

The Board of Directors

The Board is collectively responsible for the long term success of the business. The Board now comprises of the Chairman, one Executive Director (being the Managing Director) and five Non-Executive Directors, three of which are considered to be independent and which include a Senior Independent Non-Executive Director. The largest single group of Directors on the Board is that of Independent Non-Executive Directors.

Directors may be appointed by the Company by Ordinary Resolution or by the Board. As set out in the Company's Articles of Association, a Director appointed by the Board will hold office until the next Annual General Meeting (AGM), when he or she will be subject to election. At each AGM one third of the Directors will retire by rotation and will submit themselves for re-election at least once every three years.

Indemnities have been given to all of the Directors to the extent permitted by the Companies Act 2006. All Directors and Senior Management are covered by Directors' & Officers' insurance against any actions taken against them as Officers of the Company.

Senior Executives of KKR who held positions on the Board of the Company at 31 March 2014 were Jesús Olmos and Ram Kumar, both of whom are also Directors of the Company's immediate parent, South Staffordshire Plc, and of certain holding companies above South Staffordshire Plc in the Group structure. Adrian Page is also an Executive Director of the immediate parent and all its UK subsidiaries and holding companies.

The Executive Chairman was not considered to be independent on appointment, under the provisions of the UK Corporate Governance Code ("the Code"), as he is also an Executive Director of the immediate parent company. However the Board and the Company's shareholder believe that he has the appropriate objectivity and, as a long-term Executive of the Group, has the necessary industry knowledge, skills and experience to perform the role of Chairman. In accordance with the Company's Governance Code, Ofwat was consulted regarding the appointment of Mr Page prior to his appointment. There is an agreed and clear division of responsibilities between the Executive Chairman and the Managing Director, and a Senior Independent Non-Executive Director has been appointed, with whom all appropriate regulatory interactions would also take place. Jesús Olmos and Ram Kumar, both Non-Executive Directors are also Board members of the immediate parent company.

Mr Stephen Kay is considered by the Board to be independent in both character and judgement. While Mr Kay is a former Managing Director of Cambridge Water PLC, he has never served as an Executive Director of South Staffordshire Water PLC. It is considered that Mr Kay brings to the Board valuable industry knowledge, engineering skills and experience and extensive links and knowledge of the Cambridge supply region, all of which are important attributes to the balance of the Board's composition. In addition, the appointment of Mr Kay is consistent with the commitment given to the Competition Commission and in the licence unification process to have a Non-Executive Director on the Board with links to the Cambridge region.

The Board is aware that, from 21 December 2013, Mr Michael Hughes had served over 9-years as an Independent Non-Executive Director. While the Board believes Mr Hughes remains independent in character and judgement and did so for the year under review, as he has now served over nine years on the Board of Directors, the Nomination Committee is seeking a suitable replacement Independent Non-Executive to recommend to the Board and expects to make such a recommendation in the current financial year following the completion of the 2014 Price Review.

Functions of the Board

Under the SSW Code, the Company should have an effective Board, with its primary focus being to develop, implement and fulfil the strategy to deliver the service and performance to meet the needs of customers, the environment, the business, employees, shareholders and other stakeholders. The Board should also be in a position to make well-informed and high-quality sustainable decisions that are based on a thorough understanding of the business, and to make decisions that are in the best interests of the Company, and are consistent with its statutory and regulatory duties. The Company held 9 Board meetings during the year ended 31 March 2014.

The Board sets high standards of conduct to promote the success of the Company, provides leadership, and reviews the Company's internal controls, risk management policies and ensures an effective and high quality governance structure. It approves major financial and investment decisions over senior management thresholds and evaluates the performance of the Company as a whole by monitoring reports from Senior Management and also from Directors. The Non–Executive Directors, headed by the Senior Independent Non-Executive Director, have a duty to oversee this work, and to scrutinise management performance. They constructively challenge and help develop proposals on strategy.

In addition to the Audit Committee and guidance from the Turnbull recommendations, the Board is also responsible for the systems of internal control, evaluating and managing significant risks to the Company.

On joining the Board, Directors receive induction material appropriate to their needs and responsibilities. This may include, but is not limited to, information on the regulatory framework of the Company, operational activities, strategic and financial plans and the wider Group structure. The Board and senior management carry out site visits to maintain familiarity with the Company's operations and to refresh their skills and knowledge. The Board also keeps up to date with legal and regulatory changes and developments by receiving written and verbal updates from both internal and external advisers and regulators.

In compliance with the SSW Code, all Board members are provided with sufficient information prior to any Board meeting to allow preparation time to ensure that they can properly discharge their duties.

The Directors are supported by an executive team and by other senior managers who have responsibility for assisting them in the development and achievement of the Company's strategy and reviewing the financial and operational performance of the Company. Senior management is responsible, along with the Board, for monitoring policies and procedures and other matters that are not reserved for the Board. There are written procedures containing a regime of authorisation levels for key decision-making.

During the year, the Board carried out an informal evaluation of its own performance, the performance of individual Directors and various Committees. In the current year, a more formal evaluation of Board performance will be carried out as required by the SSW Code. The evaluation of the Chairman's performance is undertaken by Non-Executive Directors.

All Directors are aware of the procedure for those wishing to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary.

Matters Reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on the Institute of Chartered Secretaries and Administrators (ICSA) best practice. The terms include, but are not limited to:

- Ensuring observance of all matters required by the Company's Instrument of Appointment;
- Approval of Directors' statements to Ofwat concerning the annual viability of the business;
- Material submissions to Ofwat, the Competition Commission and similar agencies or bodies
- Reviewing and approving of capital and operating budgets;
- Reviewing and approving the Company's strategy and performance;
- Reviewing and approving any significant changes to the Company's capital structure and borrowings;
- Reviewing and approving financial reports;
- Contracts that are material, either strategically or by reason of size, according to specified limits
- Appointment and removal of any director
- Prosecution, defence or settlement of litigation above £1 million or being otherwise material
- Material changes to the Company's pension arrangements
- Ensuring maintenance of a sound system of internal control and risk management;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Powers to delegate authority.

The Board maintains a flexible approach to Board matters with the delegation of power to a Committee, with precise terms of reference, being used for specific routine purposes. Both the terms of reference and composition of the Committees are regularly reviewed to ensure their ongoing effectiveness.

Whilst South Staffordshire Water PLC acts, where applicable, as though it were a separate public listed company, a limited number of matters also need the approval of the Board of South Staffordshire Plc as its immediate parent company. These include:

- Material submissions to Ofwat and the Competition Commission
- Appointment and removal of any Director
- Prosecution, defence or settlement of litigation above £1 million

• Material changes to the Company's pension arrangements where operated on a Group basis

Remuneration

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors and senior executives. The Remuneration Committee has overall responsibility for determining the Executive Directors' remuneration packages and those of the executive team. The total remuneration packages of the Executive Directors and executive team includes basic salary, benefits and annual and deferred bonuses that are linked to individual business targets and performance related incentives. Performance related incentives are designed to encourage and reward continuing improvement in the Company's performance over the longer term. Annual salary, benefits and annual bonus awards are normally pensionable whereas deferred bonuses are not normally pensionable.

Board Committees

– Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy of the Board, executive team and other senior management and meets at least once a year. No Director is involved in determining his or her own remuneration. From the year ending 31 March 2015, a separate committee specific to the Company has been established and therefore it did not meet during the year ended 31 March 2014. The Committee comprises Sir James Perowne (Committee Chairman), Stephen Kay, Michael Hughes, Adrian Page and Ram Kumar. The majority of the Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive.

The key terms of reference for the Committee are to:

• Agree remuneration that will ensure that the Executive Directors and the executive team are provided with appropriate incentives to achieve high standards of performance and reward them for their individual contributions to the success of the Company;

• Determine such packages and arrangements with regard to any relevant legal requirements and associated guidance and to obtain reliable, up-to-date information about remuneration in other companies;

• Ensure that contractual terms on termination are fair and that failure is not rewarded; and

• Oversee any material changes in employee benefits structures throughout the Company.

– Audit Committee

The Audit Committee meets twice each financial year. The Audit Committee currently comprises Independent Non-Executive Directors, Michael Hughes (Committee Chairman), Stephen Kay, Sir James Perowne and also Ram Kumar. The majority of the Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive. Deloitte LLP, the Company's external independent auditor, the Company Chairman, the Finance Director, the Company Secretary, the Group Financial Controller and the Group Internal Audit manager are also invited to the meetings. During the year ended 31 March 2014, the committee met twice and all Independent Non-Executive Directors attended both meetings.

The Committee is responsible for reviewing and monitoring the Company's internal controls and systems for mitigating the risk of financial and non-financial loss. This includes assessing the integrity of financial statements, including changes to accounting policies, reviewing financial reporting procedures and risk management systems.

The Committee is responsible for recommending to the Board the appointment, re-appointment and if necessary the removal of the external auditor and monitoring the auditor's independence, performance and effectiveness and approving the nature and scope of external audits and approving the auditor's remuneration. The current external audit firm, Deloitte LLP, has been the Company's auditor since 2002, with the audit Partner being rotated every 5 years. There is no set policy on when the external audit is subject to tender with this being at the discretion of the Audit Committee based on their evaluation of the auditor's performance, independence and value provided.

The key terms of reference for the Committee are to:

• Review and appraise the work of the external auditor by meeting with the auditor twice a year, reviewing the results of its work, by discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the nature of non-audit services provided and reviewing the auditor's own assessment of its independence;

• Monitor, review and challenge when necessary the integrity of the financial statements of the Company, including its Annual Accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain; and

• Keep under review the effectiveness of the Company's internal audit arrangements, internal controls and risk management policies and practices; and

- Report to the Board of Directors on how it has discharged its responsibilities.

– Nomination Committee

The Nomination Committee currently comprises Independent Non-Executive Directors, Sir James Perowne (Committee Chairman), Stephen Kay and Michael Hughes and also Adrian Page and Jesús Olmos. The majority of the Nomination Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive. Considerable attention is given by the Nomination Committee to the composition of the Board of Directors including reviewing the balance of skills, knowledge, gender and the level of non-executive and independent challenge. External search advisors are appointed to assist the Nomination Committee where considered appropriate but are not considered necessary in all appointments including appointments made internally and for appointments made from within the Group. During the year ended 31 March 2014, the committee met once with all members at the time attending the meeting.

The key terms of reference of the Nomination Committee include:

• Preparing an appropriate specification for the relevant Board position;

• Ensuring any appointment to the Board of Directors carefully considers the balance of the Board composition;

• Ensuring successful candidates have the necessary skills, experience and knowledge to fulfil their duties;

Accountability and Audit

– Financial Reporting and Forecasting

The Board of Directors recognises the need to present a balanced, transparent and clearly defined assessment of the Company's operational and financial performance and position including its future prospects. This is provided by a review of the Company's performance as set out in the Strategic Report of each year's Annual Accounts.

Business plans, annual budgets and investment proposals for the Company have been formally prepared, reviewed and approved by the Board. These include profit and loss and cash flow forecasts. Actual financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board monthly with variances being identified and used to initiate any action deemed appropriate.

Forecasts of the Company's compliance with its borrowing covenants are also prepared on a regular basis, as is the Company's level of its undrawn and available borrowing facilities and cash balances for liquidity purposes.

– Internal Control

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

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 the significant risks faced by the Company.

- Internal Audit

There is a Group Internal Audit function operated by the Company's parent, which is dedicated to ensuring internal control activities remain a priority within the Group. This function provides valuable support to South Staffordshire Water PLC in maintaining good systems of internal control and appropriate Corporate Governance.

A formal annual Internal Audit Plan for South Staffordshire Water PLC is presented to and approved by the Audit Committee. The Plan combines the need for regulatory assurance, financial reporting assurance and risk management and control with the desire to provide independent resource to improve the Company's operations. Progress against the Plan is monitored by the Audit Committee. Findings and recommendations arising from the work performed is reported to the Audit Committee at the appropriate time.

The internal audit arrangements in operation are considered to be appropriate to the size and complexity of the Company but the Board and the Audit Committee will continue to review these arrangements on a regular basis.

– Organisational Structure

A defined organisation structure for the Company exists with clear lines of responsibility, accountability and appropriate division of duties.

The Board sets overall policy and has delegated the necessary authority to departments in order to fulfil that policy. This is communicated to employees by way of published policies and procedures and regular management briefings. The Company's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Executive Team, the Board or by the Board collectively. In addition, formal treasury policies are in place. Where appropriate, commercial and financial responsibility is clearly delegated to senior management and supported by the Board.

– Risk Management

The Company's approach to risk reflects its status as a regulated and licensed water undertaking providing an essential public services and balances the need to effectively manage exposure to risk whilst at the same time aiming to deliver high standards of operational and financial performance. A strong risk management and control framework is therefore in place to understand and manage identified risks. Risk management and the effectiveness of the Company's risk management and internal controls systems is discussed and reviewed by the Board on a regular basis. The Company's senior management are required to monitor risk and its management with any significant changes in business risk and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit Committee.

– External Independent Auditor

As detailed above, the Board, assisted by the Audit Committee, reviews each year the external independent auditor's performance, effectiveness, independence and fees including the level of non-audit services and related non-audit fees.

In evaluating the external auditor, the Audit Committee assesses the calibre of the external audit firm, the audit scope and plan which is agreed in advance with the Audit Committee and the level and nature of audit communications, including the reporting to the Audit Committee of any significant issues.

The responsibilities of the external independent auditor in the area of financial reporting are set out in their report in each year's Accounts.

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 an independent engineering assessor (Monson Engineering) and the audit work and certain agreed upon procedures in respect of the extraction of specific information performed by the external independent auditor (Deloitte LLP). Where considered appropriate, the Group's internal audit function will also review processes and data in this area.

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 57 to 93.

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 the year ending 31 March 2015, and the investment programme, together with cash balances, the committed borrowing facilities available to the Company, actual and forecast compliance with their covenants 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 Strategic Report on pages 1 to 9. The financial position of the Company, its liquidity position and available borrowing facilities are set out on pages 5 to 6 of the Strategic Report, the balance sheet on page 31 and in note 26 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 cash balances and has significant headroom in respect of all of its borrowing covenants, both on a historic and forward looking basis.

DIRECTORS' RESPONSIBILITIES STATEMENT

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, set out on pages 28 and 29, 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 33 to 36) 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 its duties.

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 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 28. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 Strategic Report and 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
15 July 2014

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2014

	Note	**2014**	2013
		£'000	£'000
Turnover			
Existing Operations		98,990	94,732
Business Transfer		23,514	-
	2	**122,504**	94,732
Operating costs (net)	3	**(88,459)**	(70,134)
Operating profit			
Existing Operations		25,153	24,598
Business Transfer		8,892	-
		34,045	24,598
Finance charges (net)	7	**(11,262)**	(9,928)
Profit on ordinary activities before taxation		**22,783**	14,670
Taxation on profit on ordinary activities	8	**(1,468)**	(2,610)
Profit on ordinary activities after taxation	22	**21,315**	12,060
Earnings per share			
Basic	10	**1,003.9p**	568.0p
Diluted	10	**1,003.9p**	568.0p

The results above are derived from continuing operations with the comparative results for the year ended 31 March 2013 not including the trade of Cambridge Water PLC which was transferred to the Company on 1 April 2013.

A statement of movements in reserves is given in note 22 to the financial statements.

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

As at 31 March 2014

	Note	2014	2013
		£'000	£'000
Fixed Assets			
Tangible assets	11	**276,428**	209,659
Current Assets			
Stocks	14	**1,855**	1,488
Debtors - amounts recoverable within one year	15	**22,727**	15,704
Debtors - amounts recoverable in more than one year	15	**44,065**	44,193
Investments	16	**2**	-
Cash at bank and in hand		**1,318**	1,499
		69,967	62,884
Creditors - amounts falling due within one year	17	**(47,830)**	(41,887)
Net current assets		**22,137**	20,997
Total assets less current liabilities		**298,565**	230,656
Creditors - amounts falling due after more than one year	18	**(267,437)**	(208,272)
Accruals and deferred income	13	**(8,854)**	(7,732)
Provisions for liabilities	20	**(11,808)**	(11,661)
Net Assets		**10,466**	2,991
Capital and Reserves			
Called-up share capital	21	**2,123**	2,123
Share premium account	22	**495**	495
Hedging reserve	22	**(4,739)**	(5,133)
Capital redemption reserve	22	**4,450**	4,450
Profit and loss account	22	**8,137**	1,056
Shareholders' Funds	23	**10,466**	2,991

The comparative figures as at 31 March 2013 exclude the assets and liabilities of Cambridge Water PLC which were transferred to the Company on 1 April 2013.

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 10 July 2014.

P. Newland **A. P. Page**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2014

	Note	2014	2013
		£'000	£'000
Profit on ordinary activities after taxation		**21,315**	12,060
Movement in hedging reserve (net of deferred tax)	22	**394**	82
Total recognised gains and losses relating to the year		**21,709**	12,142

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 Corporate Governance Report on page 24 and 25. 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. Business transfers have been accounted for under the acquisition method (note 24) and no fair value adjustments to the book value of assets and liabilities are recorded in respect of business transfers from fellow Group undertakings.

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 or asset 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. 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. 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. 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 2014, 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)

	2014 £'000	2013 £'000
Operating costs (net) were as follows:		
Other operating income (see note 6)	**(980)**	(747)
Raw materials and consumables	**6,177**	3,560
Staff costs (see note 4)	**21,577**	17,770
Own work capitalised	**(7,459)**	(6,151)
Depreciation : non-infrastructure assets	**15,568**	12,288
Depreciation : infrastructure assets	**10,917**	9,685
Amortisation of capital contributions	**(692)**	(588)
Other operating costs	**43,351**	34,317
	88,459	70,134

Auditor remuneration is analysed as follows:

	2014 £'000	2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**78**	41
Other services pursuant to legislation	**12**	4
	90	45

4. Staff Costs

	2014 £'000	2013 £'000
Wages and salaries	**16,335**	13,281
Social security costs	**1,552**	1,150
Pension costs (see note 25)	**3,690**	3,339
	21,577	17,770

	2014 Number	2013 Number
Average number of employees	**511**	397

5. Directors' Remuneration

	2014 £'000	2013 £'000
Emoluments	**839**	**819**

Contributions made by the Company to money purchase pension schemes in respect of the Directors was £17,000 (2013:£Nil).

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 £621,000 (2013: £435,000). No contributions were paid by the immediate parent undertaking to a money purchase pension scheme in respect of these Directors in either year. No Directors (2013: 5) 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 £189,000 (2013: £221,000) and was not a member of a defined benefit pension scheme and did not have any contributions paid by the Company in respect of defined contribution pension schemes during the year.

6. Other Operating Income

	2014	2013
	£'000	£'000
Profit on disposal of fixed assets	**87**	180
Rental income	**893**	567
	980	747

7. Finance Charges (Net)

	2014	2013
	£'000	£'000
Interest payable and similar charges:		
Index-linked debt (Cash)	**6,734**	6,537
Index-linked debt (Non-cash)	**5,691**	5,512
Bank overdraft and other interest	**1,237**	359
Finance charges in respect of finance leases	**83**	133
Debenture interest	**72**	67
	13,817	12,608
Interest receivable:		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(200)**	(328)
	11,072	9,735
Other finance charges:		
Amounts recycled from hedging reserve	**190**	193
	11,262	9,928

8. Taxation on Profit on Ordinary Activities

	2014	2013
	£'000	£'000
Current tax:		
Current year	**4,984**	3,611
Adjustment in respect of prior years	**(258)**	(463)
Total current tax charge	**4,726**	3,148
Deferred tax:		
Origination and reversal of timing differences	**(207)**	(541)
Decrease in discount (excluding business transfers)	**403**	266
Adjustment in respect of prior years	**(115)**	553
Impact of change in future tax rates (before discount)	**(3,339)**	(816)
Total deferred tax credit	**(3,258)**	(538)
Total tax on profit on ordinary activities	**1,468**	2,610

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:

	2014	2013
Standard rate of corporation tax	**23.0%**	24.0%
Timing differences in respect of finance charges	**2.8%**	4.5%
Capital allowances in excess of depreciation (net)	**(1.0%)**	(0.7%)
Adjustments in respect of prior years	**(1.1%)**	(3.2%)
Other timing differences	**(1.2%)**	0.1%
Other permanent differences	**(1.8%)**	(3.2%)
Current corporation tax rate for the year	**20.7%**	21.5%

9. Dividends Paid

	2014	2013
	£'000	£'000
Equity interests:		
Ordinary dividends paid of 670.4p (2013: 612.3p) per share	**14,234**	13,000

The dividends paid in 2013-14 include a final dividend of £2.7m paid in the year in respect of 2012-13 and £11.5m interim dividends paid in respect of 2013-14.

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:

	2014	2013
	£'000	£'000
Profit on ordinary activities after taxation and profit for earnings per share	**21,315**	12,060

	2014	2013
	Number of Shares	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	Non Specialised Operational Assets	Infrastructure Assets	Other Tangible Assets	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2013	130,977	18,893	191,999	124,128	465,997
Additions	7,645	57	18,421	12,573	38,696
Assets acquired from business transfer	31,556	4,511	41,590	23,784	101,441
Capital Contributions	-	-	(5,156)	-	(5,156)
Disposals	(216)	(2)	(1,206)	(5,534)	(6,958)
At 31 March 2014	**169,962**	**23,459**	**245,648**	**154,951**	**594,020**
Depreciation					
At 1 April 2013	57,296	5,122	132,984	60,936	256,338
Charge for the year	5,783	310	10,916	9,476	26,485
Assets acquired from business transfer	12,418	584	17,338	10,984	41,324
Disposals	(140)	-	(1,206)	(5,209)	(6,555)
At 31 March 2014	**75,357**	**6,016**	**160,032**	**76,187**	**317,592**
Net Book Value					
At 31 March 2014					
Owned	93,482	17,443	81,389	77,464	269,778
Leased	1,123	-	4,227	1,300	6,650
	94,605	**17,443**	**85,616**	**78,764**	**276,428**
Net Book Value					
At 31 March 2013					
Owned	72,229	13,771	54,788	61,512	202,300
Leased	1,452	-	4,227	1,680	7,359
	73,681	13,771	59,015	63,192	209,659

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £13,011,000 (2013: £13,572,000) less accumulated depreciation of £6,361,000 (2013: £6,213,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £592,000 (2013: £666,000). Tangible fixed assets include freehold land of £2,199,000 (2013: £1,984,000) 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 2014 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 £11,022,000 at 31 March 2014 (2013: £10,309,000).

12. Commitments

Capital commitments outstanding at 31 March 2014 were £2,731,000 (2013: £1,500,000).

13. Capital Contributions

	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 2013	89,998	7,732
Business transfer	41,487	792
Capital contributions received	5,156	1,022
Disposals	(566)	-
Amortised in year	-	(692)
Balance at 31 March 2014	**136,075**	**8,854**

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

14. Stocks

	2014 £'000	2013 £'000
Raw materials and consumables	**1,855**	1,488

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

15. Debtors

	2014 £'000	2013 £'000
Amounts recoverable within one year:		
Trade debtors	**11,495**	8,195
Other debtors	**761**	396
Amounts due from Other Group undertakings	**440**	19
Amounts due from Parent undertakings	**364**	364
Prepayments and accrued income	**9,667**	6,730
	22,727	15,704
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**4,026**	4,145
Other debtors	**39**	48
	44,065	44,193
	66,792	59,897

16. Investments

	2014 £'000	2013 £'000
Investments	**2**	-

The balance represents the cost of investment, transferred from Cambridge Water Plc on 1 April 2013, of £1,596 related to 798 "A" ordinary shares and 8% of unsecured loan stock of WRc PLC, a research-based group, providing consultancy in the water, waste and environment sectors, incorporated in England and Wales.

17. Creditors – amount falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdraft (unsecured)	**5,947**	9,406
Obligations under finance leases	**935**	1,008
Payments received in advance	**16,245**	10,568
Trade creditors	**14,469**	9,119
Other creditors	**3,723**	4,626
Amounts owed to other Group undertakings	**3,567**	4,401
Corporation tax payable	**2,393**	2,314
Other taxation and social security	**551**	445
	47,830	41,887

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

	2014 £'000	2013 £'000
Irredeemable debenture stock (unsecured) (note 19)	**1,633**	1,633
Perpetual debenture stock (unsecured)	**45**	-
Amounts owed to other Group undertakings	**27,191**	-
Obligations under finance leases:		
payable between one and two years	**290**	588
payable between two and five years	**43**	241
Other creditors	**11,070**	11,398
Derivative financial liabilities	**616**	-
Bank loan (unsecured):		
payable between one and two years	**26,446**	-
Retail Price Index-linked debt (unsecured)	**200,103**	194,412
	267,437	208,272

Derivative financial liabilities represent the market value of floating to fixed rate interest rate swaps designated as cash flow hedges.

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

The book value index-linked debt of £200,103,000 (2013: £194,412,000) is stated above at amortised cost in accordance with FRS26. The indexed principal of £186,517,000 (2013: £180,986,000) is used for borrowing covenant reporting purposes. Similarly, the gross bank loan (unsecured) of £26,500,000 (2013: £Nil) is used for covenant reporting purposed but, in accordance with FRS26, is stated above net of unamortised issue costs.

19. Irredeemable Debenture Stock

	2014 £'000	2013 £'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

20. Provisions for Liabilities

	2014 £'000	2013 £'000
Deferred Tax		
Deferred tax is provided as follows:		
Accelerated capital allowances	**21,271**	16,853
Timing differences in respect of finance charges	**873**	1,632
Timing differences in respect of hedging reserve	**(1,419)**	(1,534)
Other timing differences	**(94)**	(256)
Undiscounted provision for deferred tax	**20,631**	16,695
Discount	**(8,823)**	(5,034)
Discounted provision for deferred tax	**11,808**	11,661

	£000
Balance at 1 April 2013	**11,661**
Business Transfer (including discount)	**3,011**
Profit and loss account credit	**(3,258)**
Charge to Statement of Total Recognised Gains and Losses	**394**
Balance at 31 March 2014	**11,808**

Reductions to the future corporation tax rate of 20% were enacted during the year ending 31 March 2014 and as such deferred tax has been provided at this rate. The increase in the discount of £3,789,000 represents the increase from the business transfer (£4,192,000) and the charge (2013: charge) to profit and loss for the year and includes the impact of the change in future tax rates to 20% as explained above. There is an unprovided deferred tax liability of £1,402,000 (2013: £1,434,000) 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.

21. Share Capital

	2014 £'000	2013 £'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

22. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000
Balance at 1 April 2013	495	4,450	1,056	(5,133)
Profit for the financial year	-	-	21,315	-
Dividends paid (note 9)	-	-	(14,234)	-
Changes in value of hedging instruments - cash flow hedges (net of deferred tax)	-	-	-	442
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	(48)
Balance at 31 March 2014	**495**	**4,450**	**8,137**	**(4,739)**

23. Reconciliation of Movements in Shareholders' Funds

	2014 £'000	2013 £'000
Profit for the financial year	**21,315**	12,060
Dividends paid (note 9)	**(14,234)**	(13,000)
Movement on hedging reserve (net of deferred tax)	**394**	82
Net increae / (reduction) to shareholders' funds	**7,475**	(858)
Opening shareholders' funds	**2,991**	3,849
Closing shareholders' funds	**10,466**	2,991

24. Business Transfer

On 1 April 2013 the business, trade, assets and liabilities of Cambridge Water PLC, a fellow subsidiary undertaking of South Staffordshire Plc were transferred to the Company by way of a Transfer Scheme in accordance with Schedule 2 of the Water Industry Act 1991.

The acquisition method of accounting has been adopted.

A summary of the transfer, including the consideration, the assets and liabilities transferred (both based on book values) are set out below:

	£'000
Consideration	27,191
Book value of net assets acquired:	
Tangible fixed assets	60,117
Investments	2
Stocks	185
Debtors	3,656
Cash at bank and in hand (net)	2,633
Accruals and deferred income	(792)
Creditors and provisions	(38,610)
Net assets (book value)	27,191

The consideration has wholly been held on a balance due to Cambridge Water PLC and is expected to be paid before 31 March 2020. As the transfer is from a fellow Group company, in line with Financial Reporting Standard 6 (FRS6), the book values of the assets and liabilities transferred are not required to be adjusted to fair value.

25. 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 two defined contribution Money Purchase Pension Schemes. The assets of which, are held separate from those of the Company, being invested by discretionary fund managers.

The contributions to the defined contribution schemes 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 2014 was £3,152,000 (2013: £3,160,000) representing an employer's contribution rate of 26.2% and a fixed contribution of £1,672,000 (2013: 26.2% and a fixed contribution of £1,629,000). The employee contribution rate during the year was 9.5% (2013: 9.5%). Contributions rates for the year ending 31 March 2015 remain at 9.5% for the employee with the employer rate remaining at 26.2% and a fixed contribution of £1,724,000. The amount charged to the profit and loss account for the defined contribution schemes for the year ended 31 March 2014 was £538,000 (2013: £179,000).

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 2014, prepared for the purposes of the consolidated financial statements of the parent company, shows a surplus before deferred tax of £15,209,000 (2013: surplus of £16,222,000). 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:

	2014 Valuation £'000	2013 Valuation £'000	2012 Valuation £'000
Equities	**70,195**	67,949	72,434
High yield bonds / gilts and debt instruments	**85,050**	84,583	84,238
Diversified growth funds	**25,271**	24,766	17,916
Emerging markets multi-asset funds	**13,007**	14,733	-
Cash / (Overdraft)	**353**	(41)	123
Market value of assets	**193,876**	191,990	174,711
Present value of scheme liabilities	**(175,439)**	(174,050)	(162,557)
Surplus in the scheme	**18,437**	17,940	12,154
Amount not recognised due to asset limit	**(3,228)**	(1,718)	-
Surplus before deferred tax	**15,209**	16,222	12,154
Related deferred tax liability	**(3,042)**	(3,731)	(2,917)
Surplus after deferred tax	**12,167**	12,491	9,237

Further details required by FRS 17 in respect of the Group's schemes are provided in the consolidated accounts of South Staffordshire Plc.

26. 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 and perpetual 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 (stated at book value) of the Company as at 31 March 2014 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 2014	**235,442**	**29,392**	**5,947**	**200,103**
31 March 2013	207,288	3,470	9,406	194,412

The floating rate financial liabilities as at 31 March 2014 and 31 March 2013 comprised bank loans and overdrafts that bear interest at rates based on LIBOR that are not hedged with interest rate swaps. 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 (2013: £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2014 of £158,235,000 (2013:

£153,893,000), and a fair value of £224,750,000 (2013: £220,204,380) and the £35,000,000 (2013: £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2014 of £41,868,000 (2013: £40,519,000) and a fair value of £38,416,000 (2013: £34,695,000).

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2014	**3.7**	**1.7**
31 March 2013	6.2	1.7

Borrowing Facilities

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2014 in respect of which all conditions precedent have been met were as follows:

	2014 £'000	2013 £'000
Expiring in one year or less	**-**	15,000
Expiring in more than one year but not more than two years	**8,200**	-
Expiring in more than two years but not more than five years	**15,000**	898
	23,200	15,898

Financial Risks

The Company's activities result in it being subject to a limited number of financial risks, principally 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 and by entering into floating to fixed rate swap contracts. 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 2014. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2014	2013
	£'000	£'000
RPI +0.25%	**(461)**	(448)
RPI -0.25%	**461**	448
LIBOR +1.00%	**183**	203
LIBOR -1.00%	**(183)**	(203)

The impact on the pre-tax profit and loss account for 2014 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April

2013 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 2012.

Maturity of Financial Assets and Liabilities

The maturity profile of the Company's financial liabilities at current repayment value, not the book value, at 31 March 2014 was as follows:

Borrowings	2014 £'000	2013 £'000
In one year or less or on demand	**6,882**	10,414
In more than one year, but not more than two years	**26,790**	588
In more than two years, but not more than five years	**43**	241
In more than twenty years	**188,195**	182,618
	221,910	193,861
Other Financial Liabilities		
In one year or less or on demand	**40,948**	31,473
In more than one year, but not more than two years	**1,616**	366
In more than two years, but not more than five years	**28,482**	1,224
In more than five years, but not more than twenty years	**8,779**	9,808
	301,735	236,732

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £186,517,000 (2013: £180,985,000) 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 (2013: £399,467,000) and at redemption in 2051 is £139,996,000 (2013: £139,996,000).

Debtors recoverable in more than one year of £44,065,000 (2013: £44,193,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2013: £40,000,000) with £15,000,000 (2013: £15,000,000) due to be repaid within five to twenty years and £25,000,000 having no fixed repayment date (2013: £25,000,000).

Trade Debtors

Before accepting sales for new non-domestic customers and offering credit terms, the Company undertakes appropriate credit assessments and uses this information to determine if the transaction is accepted and the credit terms that will be offered. Provision is made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to March 2014 in respect of such provisions was £3,631,000 (2013: £2,821,000). Total trade debtors as at 31 March 2014 were £11,496,000 (2013: £8,195,000). The total amount of the provision included in the above, as at 31 March 2014 was £23,459,000 (2013: £18,594,000). The Company does not hold collateral over its trade debtors.

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value. The largest balance outstanding from any single customer at 31 March 2014 was £118,000 (2013: £130,000), representing only 1.0% of the Company total (2013: 1.6%).

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

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2014	**7,184**	**1,991**	**1,210**	**788**	**445**	**154**	**11,772**
2013	4,950	1,665	1,167	720	273	-	8,775

Non-Regulated	<1 month	1-2 months	>2months	Total
2014	**413**	**73**	**489**	**975**
2013	181	80	44	305

Non-regulated debtors that are considered to be impaired of £27,000 (2013: £8,000) were all more than two months past due.

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

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2014	**3,635**	**3,230**	**2,935**	**2,766**	**2,623**	**8,261**	**23,450**
2013	2,887	2,685	2,434	2,360	2,246	5,974	18,586

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.

27. Related Party Transactions

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 South Staffordshire Water PLC of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. During the year ended 31 March 2014 the balance in Hydriades I LP was transferred to Selena Bidco Limited, which is a parent undertaking of the Company. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2014 was £4,389,000 (2013: £4,509,000). 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.

On 1 April 2013, South Staffordshire Water PLC entered into an agreement with a fellow Group undertaking, Cambridge Water PLC, in which the business, trade, assets and liabilities of Cambridge Water PLC were transferred to South Staffordshire Water PLC at their book value of £27,191,000. The consideration has wholly been held as a balance due to Cambridge Water PLC and is expected to be paid before 31 March 2020. Further details are provided in note 24.

28. 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 for both these companies can be obtained from the

Company's registered office. The ultimate controlling party is KKR Infrastructure Limited.

South Staffordshire Water PLC

Regulatory Accounts

Year Ended 31 March 2014

CURRENT COST ACCOUNTS REVIEW OF THE APPOINTED BUSINESS

The operating and financial review of South Staffordshire Water PLC is set out in pages 1 to 9 of the statutory accounts.

Financial Results - Current Cost Accounts

The results of the appointed business are shown in the current cost profit and loss account on page 65. Turnover for the year has increased by 3.6% on a like for like basis adjusting for Cambridge Water to £118.0m (2013: £92.3m as reported, £113.9m pro forma), reflecting the increase in charges allowed by Ofwat of 3.0%. Current cost operating profit was £25.0m (2013: £18.9m as reported, £23.9m pro forma) with higher charges allowed by Ofwat, further operating costs efficiencies achieved in addition to those achieved in 2012/13, partly offset by the unavoidable impact of inflation, some specific cost increases and higher depreciation on the Company's growing capital base as it continues to invest significant amounts in maintaining and improving its assets.

Current Cost Depreciation

The Current Cost Depreciation charge (CCD) for the year net of amortisation was £22.2m (2013: £16m as reported, £20.1m pro forma), a year on year increase of £2.1m. This reflects the CCD on non-infrastructure asset additions in the year of £20.4m (net of contributions).

Infrastructure Renewals Charge

The Infrastructure Renewals Charge (IRC) for the year, based upon the Company's long term expectations of mains replacement for the period 2010-11 to 2024-25, was £10.9m (2013: £9.7m as reported, £11.3m pro forma) and reflects the level of mains replacement to arrest rising trends in burst levels and to assist with leakage control activities. 66km of mains were replaced during 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 2014, 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 to 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 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 of which an average 8% has been paid.

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The following performance against target was achieved during the year:

Standard of performance	**Target**	**Actual**	**Average % of salary awarded**
Customer Service	Significant improvement in SIM performance	Improved score achieved	7%
Operating Profitibilty	Budget	Target exceeded	17%
Operating costs	Below Budget	Target exceeded	9%
Cash Generation	Budget	Target exceeded	5%

The following bonuses in respect of the above performance and individual targets were paid to Directors employed directly by the Company in respect of the year ended 31 March 2014, reflecting the strong performance of the business in the year.

	£'000
K H Marshall	15
M J Lewis	9
R E Barber	9
C Wayper	7
T Orange	9

The above annual bonus is payable following the year end.

The Director of the Company who is an Executive Director of South Staffordshire Plc is remunerated by South Staffordshire Plc principally based upon the performance of the Group as a whole to reflect his Group wide role, however his remuneration for the year included a bonus of £10,000 specifically linked to the performance of the Company.

HISTORICAL COST PROFIT AND LOSS ACCOUNT

FOR THE 12 MONTHS ENDED 31 MARCH 2014

	2014									2013		
	South Staffs Region			Cambridge Region			Total Company			South Staffs Region		
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Turnover	95.395	3.595	98.990	22.594	0.004	22.598	117.989	3.599	121.588	92.334	2.398	94.732
Operating costs	(49.830)	(2.644)	(52.474)	(10.985)	(0.099)	(11.084)	(60.815)	(2.743)	(63.558)	(47.400)	(2.095)	(49.495)
Infrastructure renewals charge	(9.450)	-	(9.450)	(1.467)	-	(1.467)	(10.917)	-	(10.917)	(9.685)	-	(9.685)
Historical cost depreciation	(12.660)	(0.026)	(12.686)	(2.277)	-	(2.277)	(14.937)	(0.026)	(14.963)	(11.674)	(0.026)	(11.700)
Operating income	0.026	0.342	0.368	0.032	1.143	1.176	0.058	1.485	1.544	0.030	0.149	0.179
Operating profit	23.481	1.267	24.748	7.897	1.048	8.946	31.378	2.315	33.694	23.605	0.426	24.031
Other income	-	0.400	0.400	(0.049)	-	(0.049)	(0.049)	0.400	0.351	-	0.567	0.567
Net Interest	(10.366)	0.010	(10.356)	(0.906)	(0.081)	(0.987)	(11.272)	(0.071)	(11.343)	(9.935)	0.007	(9.928)
Profit on ordinary activities before taxation	13.115	1.677	14.792	6.942	0.967	7.909	20.057	2.644	22.701	13.670	1.000	14.670
Taxation - current	(3.114)	(0.365)	(3.479)	(1.044)	(0.203)	(1.247)	(4.158)	(0.568)	(4.726)	(2.945)	(0.204)	(3.149)
Taxation - deferred	1.873	-	1.873	1.385	-	1.385	3.258	-	3.258	0.539	-	0.539
Profit on ordinary activities after taxation	11.874	1.312	13.186	7.283	0.764	8.047	19.157	2.076	21.233	11.264	0.796	12.060
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	11.874	1.312	13.186	7.283	0.764	8.047	19.157	2.076	21.233	11.264	0.796	12.060
Dividends	(8.388)	(1.312)	(9.700)	(4.534)	-	(4.534)	(12.922)	(1.312)	(14.234)	(12.204)	(0.796)	(13.000)
Retained profit for year	3.486	-	3.486	2.749	0.764	3.513	6.235	0.764	6.999	(0.940)	-	(0.940)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (HISTORICAL COST ACCOUNTING) FOR THE 12 MONTHS ENDED 31 MARCH 2014 (APPOINTED BUSINESS ONLY)

	2014 South Staffs Region	2014 Cambridge Region	2014 Total Company	2013 South Staffs Region
Profit for the year	11.874	7.284	19.158	11.264
Actuarial gains/(losses) on post employment plans	-	-	-	-
Other gains and losses	0.016	0.378	0.394	0.082
Total recognised gains and (losses) for the year	11.890	7.662	19.552	11.346

HISTORIC COST BALANCE SHEET AS AT 31 MARCH 2014

	2014									2013		
	South Staffs Region			Cambridge Region			Total Company			South Staffs Region		
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Fixed assets												
Tangible assets	214.051	1.109	215.160	62.083	-	62.083	276.134	1.109	277.243	208.642	1.125	209.767
Investments				-								
- loan to group company	40.000	-	40.000	-	-	-	40.000	-	40.000	40.000	-	40.000
- other	-	-		-	-							
Total fixed assets	254.051	1.109	255.160	62.083	-	62.083	316.134	1.109	317.243	248.642	1.125	249.767
Infrastructure renewals prepayment / (accrual)	0.668	-	0.668	(1.482)	-	(1.482)	(0.814)	-	(0.814)	(0.108)	-	(0.108)
Other current assets	21.824	2.010	23.834	8.533	-	8.533	30.357	2.010	32.367	21.741	2.941	24.682
							-	-				
Creditors: amounts falling due within one year												
Borrowings	(0.897)	-	(0.897)	-	-	-	(0.897)	-	(0.897)	(1.008)	-	(1.008)
Other creditors	(37.310)	(3.111)	(40.421)	(15.923)	6.928	(8.995)	(53.233)	3.817	(49.416)	(38.619)	(4.058)	(42.677)
Total creditors: amounts falling due within one year	(38.207)	(3.111)	(41.318)	(15.923)	6.928	(8.995)	(54.130)	3.817	(50.313)	(39.627)	(4.058)	(43.685)
Net current assets	(15.715)	(1.101)	(16.816)	(8.872)	6.928	(1.944)	(24.587)	5.827	(18.760)	(17.994)	(1.117)	(19.111)
Total assets less current liabilities	238.336	0.008	238.344	53.211	6.928	60.139	291.547	6.936	298.483	230.648	0.008	230.656
Creditors: amounts falling due after one year												
Borrowings	(201.947)	-	(201.947)	(26.553)	-	(26.553)	(228.500)	-	(228.500)	(196.874)	-	(196.874)
Other creditors	(11.686)	-	(11.686)	(27.250)	-	(27.250)	(38.936)	-	(38.936)	(11.398)		(11.398)
Total creditors: amounts falling due after one year	(213.633)	-	(213.633)	(53.803)	-	(53.803)	(267.436)	-	(267.436)	(208.272)	-	(208.272)
Provisions for liabilities and charges	(18.325)	(0.008)	(18.333)	(2.330)	-	(2.330)	(20.655)	(0.008)	(20.663)	(19.385)	(0.008)	(19.393)
Preference share capital	-		-			-			-			-
Net assets employed	6.378	-	6.378	(2.923)	6.928	4.005	3.455	6.928	10.383	2.991	-	2.991
Capital & reserves	6.378	-	6.378	(2.923)	6.928	4.005	3.455	6.928	10.383	2.991	-	2.991

The accompanying notes are an integral part of these financial statements.

RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

	Statutory UK GAAP	Regulatory			
		South Staffs Region	Cambridge Region	Total Company	
Profit and loss account					
Operating profit	34.045	24.748	8.946	33.694	In the statutory accounts the Company classifies certain income such as rental income as operating income. Ofwat accounting guidelines state that this should be classified as 'other income' i.e. below the operating profit line. Profit before interest is unaffected by this reclassification
Finance Charges / net interest	(11.262)	(10.356)	(0.987)	(11.343)	In the Regulatory Accounts, notional interest payable on cash held on behalf of another water company of £0.081m is included in the Non-Appointed business.
Balance sheet					
Tangible fixed assets (net book value)	276.428	215.160	62.083	277.243	In the statutory accounts the Company adopts infrastructure accounting as set out in FRS 15. Ofwat requests that, for regulatory accounting purposes, FRS15 is not applied for infrastructure renewals accounting. The infrastructure renewals accrual of £0.814m is therefore excluded from the fixed asset net book value and is recorded as a current liability.
Other Current assets	69.967	23.834	8.533	32.367	In the statutory accounts a long term group debtor of £40.000m is disclosed within debtors due after more than one year. Ofwat accounting guidelines state that this should be classified as an investment. In addition, £2.400m of group debtors have been netted down as outlined below.
Investment - loan to group company		40.000	-	40.000	
Creditors due less than one year (excluding infrastructure renewals accrual)	(47.830)	(41.318)	(8.995)	(50.313)	In the statutory accounts, an additional £2.400m 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. Notional interest payable on cash held on behalf of another water company of £0.081m is included in the regulatory accounts.

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE 12 MONTHS ENDED 31 MARCH 2014 (APPOINTED BUSINESS ONLY)

		2014			2013
		South Staffs Region	Cambridge Region	Total Company	South Staffs Region
Turnover					
Unmeasured	- household	52.914	6.126	59.040	52.729
	- non-household	0.893	0.526	1.419	0.940
Measured	- household	22.293	9.495	31.788	20.172
	- non-household	17.827	6.308	24.135	17.110
Trade effluent		-	-	-	
Bulk supplies/inter company payments		0.416	0.040	0.456	0.474
Other third party services (incl non-potable water)		0.618	0.099	0.717	0.546
Other sources		0.434	-	0.434	0.363
Total turnover		95.395	22.594	117.989	92.334
Current cost operating costs - wholesale		(62.613)	(13.376)	(75.989)	(58.468)
Current cost operating costs - retail		(14.641)	(2.720)	(17.361)	(15.206)
Operating income		(0.018)	(0.202)	(0.220)	0.001
Working capital adjustment		0.248	0.171	0.419	0.284
Current cost operating profit		18.371	6.467	24.838	18.945
Other income		-	0.032	0.032	-
Net Interest		(10.366)	(0.906)	(11.272)	(9.935)
Financing adjustment		(0.452)	1.278	0.826	(0.722)
Current cost profit before taxation		7.553	6.871	14.423	8.288
Net revenue movement out of tariff basket		(0.093)	-	(0.093)	(0.043)
Back-billing amount identified		0.423	0.016	0.439	0.174

The accompanying notes are an integral part of these financial statements.

CURRENT COST CASH FLOW STATEMENT FOR THE 12 MONTHS ENDED 31 MARCH 2014 (APPOINTED BUSINESS ONLY)

	2014 South Staffs Region	2014 Cambridge Region	2014 Total Company	2013 South Staffs Region
Current cost operating profit	18.371	6.723	25.094	18.944
Working capital adjustment	(0.248)	(0.171)	(0.419)	(0.284)
Movement in working capital	(0.824)	(0.069)	(0.893)	1.424
Receipts from other income	-	0.032	0.032	-
Current cost depreciation	17.974	3.502	21.476	16.590
Current cost profit on sale of fixed assets	0.018	0.049	0.067	(0.001)
Infrastructure renewals charge	9.450	1.467	10.917	9.685
Movement in provisions	-	(0.407)	(0.407)	-
Net cash flow from operating activities	44.741	11.126	55.868	46.358
Returns on investments & servicing of finance	(4.910)	(0.987)	(5.897)	(4.550)
Taxation paid	(3.607)	(1.358)	(4.965)	(1.560)
Capital expenditure and financial investment				
Gross cost of purchase of fixed assets	(22.365)	(4.636)	(27.001)	(23.945)
Receipt of grants and contributions	3.770	2.120	5.890	3.095
Infrastructure renewals expenditure	(10.226)	(1.417)	(11.643)	(10.148)
Disposal of fixed assets	0.024	0.035	0.059	0.033
Movements on long term group loans to group companies	-	-	-	
Net cash outflow from investing activities	(28.797)	(3.898)	(32.695)	(30.965)
Acquisitions and disposals			-	
Equity dividends paid	(8.388)	(4.534)	(12.922)	(12.204)
Net cash flow from management of liquid resources			-	
Net cash flow before financing	(0.961)	0.349	(0.612)	(2.921)
Net cash inflow from financing	(0.390)	1.310	0.920	(0.414)
Increase/(decrease) in cash	(1.351)	1.659	0.308	(3.335)

The accompanying notes are an integral part of these financial statements.

1 Statement of Accounting Policies

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

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

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

Business transfers have been accounted for under the acquisition method (note 24 of the statutory accounts) and no fair value adjustments to the book value of assets and liabilities are recorded in respect of business transfers from fellow Group undertakings.

(a) Historic Cost Regulatory Accounts

The accounting policies used are the same as those adopted in the statutory historic cost accounts on pages 33 to 36, 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 RAG2, “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 FRS 15 “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 2014 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 unmetered void properties speculatively to ‘the occupier’. Properties are visited by void inspectors to confirm that a property is unoccupied.

For void metered properties, where consumption has been measured and the identity of the customer is not known following a void inspection, the property will be billed for the full charges in the name of ‘the occupier’. Charges raised are realised as revenue in the same way as other metered income.

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.

Comparison of revenue assumed at the last Price Determination to those recognised during the year.

Total appointed turnover in the year of £118.0m was £1.8m behind the 2009 Final Determination expectation, expressed in 2013-14 prices. This principally reflects lower consumption from metered customers in the year and a lower level of new connections.

Description of any significant differences between a retrospective review of the previous years measured income accrual and the amounts actually billed in the yea

Income recognised during the year is based on the value of bills raised. For metered consumption not yet billed, an accrual is estimated based on historical average daily consumption for each customer. The measured income accrual at March 2014 was £9.3m.

The measured income accrual at March 2013 was £5.5m. Following comparison to the income actually billed for these customers in the year, there are no significant differences to report.

(g) Bad Debt

Before passing an account for write-off, all debts will be pursued through every available recovery method and will usually include attempts by the Sheriff Officers or Debt Collection Agencies. Only where it is impossible, impractical or inefficient to collect debt, will a recommendation for a write-off be made.

There will be a variety of circumstances when it will be necessary to write off irrecoverable debts and these can be summarised below:

Absconded

- Where returned mail is received on accounts, no forwarding details are available and a final account is created, and where all recovery options have been exhausted.

- Where a debt has been passed to a Trace and Collect Agency and the agency is unable to trace the customer and therefore is unable to collect the debt outstanding.
- Where the total debt is less than £50, it is uneconomic to pass for Trace and Collection and therefore the debt outstanding is unable to be collected.
- Where a customer has debt greater than 6 years and no billing activity or correspondence has been received in this period. (Statute Barred)

Bankruptcy

- A domestic customer where official and final notification has been received from the courts or a check has been made with the online Insolvency website service.

Deceased

- Where the balance outstanding is less than £25 the amount is written off immediately.
- Where the balance outstanding is greater than £25, the estate is approached. Where written confirmation has been received in writing that the estate has insufficient funds, the balance is written off.
- In circumstances where a joint tenancy liability exists the remaining party is pursued for the whole amount of the arrears.
- Where attempts to contact the Executors (or next of kin) have failed to produce a response, balances under £100 are written off after a period of 6 months.

Liquidation

- A commercial customer where final notification has been received from an Official Receiver, Insolvency Practitioner or Liquidators that the company has been liquidated.
- Debts where a company has ceased to trade leaving no assets.

Uneconomic to Collect

- Final debt over 4 years will be written off where evidence exists that it has become non-collectable. A minimum of three attempts to contact a customer by telephone and / or letter in the prior 12 months has proved to be ineffective and there has been no payment or contact in the preceding 12 months.
- The debtor's age, health or other social factors make it inappropriate to pursue the debt.
- Sums of less than £25 will be written-off as they are deemed to be uneconomical to collect.

(h) Capitalisation Policy

Capital expenditure is expenditure which results in the acquisition of an asset for continuing use within a business with a view to earning income or making profits from its use, either directly or indirectly.

Operating expenditure is expenditure incurred either for the purpose of the day to day running of the business or to maintain the existing capacity of fixed assets.

Costs are allocated between operating and capital expenditure in accordance with the Company's accounting policies and applicable accounting standards. The deminimis for capitalisation is £1,000 for minor assets and £5,000 for buildings.

(i) Accounting Separation policy

The Regulatory accounts have been drawn up in accordance with the separately published accounting separation methodology statement available on the Company's website.

Data for accounting separation is predominately taken from the Company's financial system, through downloads into excel. The financial information is captured at a location and activity level. Subjective codes are used to classify the expenditure within the relevant lines. Cost and assets are then attributed directly to business units in line with Regulatory Accounting Guidelines.

For general and support expenditure, a number of cost drivers have been identified for allocation of costs into the relevant business units. These include headcount, number of vehicles, floor space and asset values.

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. Operating cost analysis for the 12 months ended 31 March 2014 (wholesale business only)

	South Staffs Region				
	Resources	Raw water distribution	Treatment	Treated distribution	Water sub-total
Operating expenditure					
Power	1.088	0.076	4.966	1.705	7.835
Income treated as negative expenditure	-	-	-	-	-
Service charges	2.559	-	0.014	0.001	2.573
Bulk supply imports	0.000	-	-	-	0.000
Other operating expenditure	1.684	0.354	5.260	13.594	20.893
Local authority rates	0.155	0.226	0.210	3.770	4.361
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	5.486	0.656	10.450	19.070	35.662
Capital maintenance					
Infrastructure renewals charge	-	-	-	9.450	9.450
Current cost depreciation	1.330	0.008	4.926	11.092	17.357
Recharges to other business units	-	-	-	(0.058)	(0.058)
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	(0.715)	-	(0.715)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	1.330	0.008	4.211	20.484	26.033
Third party services					
Operating expenditure	0.021	0.000	0.479	0.418	0.918
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	6.837	0.664	15.141	39.972	62.613

	Cambridge Region				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	0.527	-	0.059	0.494	1.080
Income treated as negative expenditure	-	-	-	-	-
Service charges	0.791	-	-	-	0.791
Bulk supply imports	-	-	0.011	-	0.011
Other operating expenditure	1.029	0.135	1.357	3.146	5.667
Local authority rates	0.041	0.002	0.036	0.921	1.000
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	2.388	0.137	1.463	4.561	8.549
Capital maintenance					
Infrastructure renewals charge	-	0.005	-	1.417	1.422
Current cost depreciation	0.267	-	0.586	2.545	3.398
Recharges to other business units	-	-	-	-	-
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	-	(0.021)	(0.021)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	0.267	0.005	0.586	3.941	4.799
Third party services					
Operating expenditure	-	-	-	0.033	0.033
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	2.655	0.142	2.049	8.535	13.381

	Total Company				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	1.615	0.076	5.025	2.200	8.915
Income treated as negative expenditure	-	-	-	-	-
Service charges	3.350	-	0.014	0.001	3.364
Bulk supply imports	0.000	-	0.011	-	0.011
Other operating expenditure	2.714	0.489	6.617	16.740	26.560
Local authority rates	0.196	0.228	0.246	4.691	5.361
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	7.874	0.793	11.913	23.631	44.211
Capital maintenance					
Infrastructure renewals charge	-	0.005	-	10.867	10.872
Current cost depreciation	1.597	0.008	5.512	13.637	20.755
Recharges to other business units	-	-	-	(0.058)	(0.058)
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	(0.715)	(0.021)	(0.736)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	1.597	0.013	4.797	24.425	30.832
Third party services					
Operating expenditure	0.021	0.000	0.479	0.451	0.951
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	9.492	0.806	17.190	48.506	75.995

4. Operating cost analysis for the 12 months ended 31 March 2014 (retail business only)

South Staffs Region	Household	Non-household	Total
Operating expenditure			
Customer services	3.523	0.303	3.826
Debt management	0.991	0.127	1.119
Doubtful debts	2.841	0.387	3.228
Meter reading	0.639	0.135	0.774
Services to developers	-	0.006	0.006
Other operating expenditure	3.268	0.931	4.199
Local authority rates	0.087	0.005	0.092
Exceptional items	-	-	-
Total operating expenditure excluding third party services	11.350	1.895	13.245
Third party services operating expenditure	-	0.006	0.006
Total operating expenditure	11.350	1.900	13.251
Capital maintenance			
Current cost depreciation	1.142	0.190	1.332
Recharges to other business units	-	-	-
Recharges from other business units	0.047	0.011	0.058
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.190	0.201	1.390
Total operating costs	12.540	2.101	14.641
Debt written off	0.155	0.023	0.178

Cambridge Region	Household	Non-household	Total
Operating expenditure			
Customer services	1.279	0.103	1.382
Debt management	0.185	0.073	0.258
Doubtful debts	0.230	0.090	0.320
Meter reading	0.132	0.015	0.147
Services to developers	-	(0.005)	(0.005)
Other operating expenditure	0.411	0.034	0.445
Local authority rates	0.045	0.004	0.049
Exceptional items	-	-	-
Total operating expenditure excluding third party services	2.282	0.314	2.596
Third party services operating expenditure	-	-	-
Total operating expenditure	2.282	0.314	2.596
Capital maintenance			
Current cost depreciation	0.174	0.015	0.189
Recharges to other business units	-	-	-
Recharges from other business units	-	-	-
Amortisation of deferred credits	(0.061)	(0.005)	(0.066)
Amortisation of intangible assets	-	-	-
Total capital maintenance	0.113	0.010	0.123
Total operating costs	2.395	0.324	2.719
Debt written off	0.070	0.027	0.097

Total Company	Household	Non-household	Total
Operating expenditure			
Customer services	4.802	0.406	5.208
Debt management	1.176	0.200	1.377
Doubtful debts	3.071	0.477	3.548
Meter reading	0.771	0.150	0.921
Services to developers	-	0.001	0.001
Other operating expenditure	3.679	0.965	4.644
Local authority rates	0.132	0.009	0.141
Exceptional items	-	-	-
Total operating expenditure excluding third party services	13.632	2.208	15.841
Third party services operating expenditure	-	0.006	0.006
Total operating expenditure	13.632	2.214	15.846
Capital maintenance	-	-	
Current cost depreciation	1.316	0.205	1.521
Recharges to other business units	-	-	-
Recharges from other business units	0.047	0.011	0.058
Amortisation of deferred credits	(0.061)	(0.005)	(0.066)
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.303	0.211	1.513
Total operating costs	14.935	2.425	17.360
Debt written off	0.225	0.050	0.275

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

South Staffs Region	Water				
	Resources	Raw water distribution	Treatment	Treated distribution	Water sub-total
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2013	45.802	1.489	150.870	280.612	478.774
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	1.145	0.037	3.772	7.015	11.969
Disposals	(0.262)	(0.001)	(0.704)	(4.023)	(4.990)
Additions	2.766	0.001	3.091	9.637	15.496
At 31 March 2014	49.451	1.526	157.030	293.241	501.249
Depreciation					
At 1 April 2013	19.429	0.623	84.846	106.770	211.669
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.486	0.016	2.121	2.669	5.292
Disposals	(0.249)	(0.001)	(0.670)	(3.757)	(4.678)
Charge for year	1.330	0.008	4.926	11.092	17.357
At 31 March 2014	20.996	0.646	91.223	116.774	229.639
Net book amount at 31 March 2014	28.455	0.881	65.807	176.467	271.610
Net book amount at 1 April 2013	26.373	0.866	66.024	173.842	267.105
Infrastructure assets					
Gross replacement cost					
At 1 April 2013	17.985	109.341	-	1,509.149	1,636.476
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.450	2.734	-	37.729	40.912
Disposals	-	-	-	-	-
Additions	-	-	-	4.823	4.823
At 31 March 2014	18.435	112.075	-	1,551.701	1,682.211

Cambridge Region	Water				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2013	12.912	-	19.354	109.127	141.393
AMP adjustment	-	-	-	-	-
Reclassification adjustment	0.499	(0.000)	(1.219)	0.720	(0.000)
RPI adjustment	0.329	0.000	0.444	2.694	3.468
Disposals	(0.047)	-	(0.163)	(0.227)	(0.437)
Additions	0.499	-	1.316	1.123	2.939
At 31 March 2014	14.192	(0.000)	19.733	113.437	147.362
Depreciation					
At 1 April 2013	7.106	-	9.272	68.923	85.301
AMP adjustment	-	-	-	-	-
Reclassification adjustment	0.309	(0.000)	(0.756)	0.447	0.000
RPI adjustment	0.182	0.000	0.209	1.701	2.092
Disposals	(0.029)	-	(0.128)	(0.184)	(0.341)
Charge for year	0.267	0.000	0.586	2.545	3.399
At 31 March 2014	7.836	(0.000)	9.183	73.433	90.452
Net book amount at 31 March 2014	6.356	(0.000)	10.550	40.004	56.910
Net book amount at 1 April 2013	5.806	-	10.082	40.204	56.092
Infrastructure assets					
Gross replacement cost					
At 1 April 2013	-	3.165	-	521.650	524.815
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	(1.582)	-	1.582	(0.000)
RPI adjustment	-	0.039	-	12.834	12.872
Disposals	-	-	-	-	-
Additions	-	0.005	-	1.489	1.493
At 31 March 2014	-	1.626	-	537.555	539.181

Total Company	Water				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2013	58.714	1.489	170.224	389.739	620.167
AMP adjustment	-	-	-	-	-
Reclassification adjustment	0.499	(0.000)	(1.218)	0.720	(0.000)
RPI adjustment	1.474	0.037	4.216	9.710	15.437
Disposals	(0.309)	(0.001)	(0.866)	(4.250)	(5.427)
Additions	3.265	0.001	4.408	10.761	18.435
At 31 March 2014	63.643	1.526	176.764	406.679	648.611
Depreciation					
At 1 April 2013	26.535	0.623	94.118	175.693	296.970
AMP adjustment	-	-	-	-	-
Reclassification adjustment	0.309	(0.000)	(0.756)	0.447	0.000
RPI adjustment	0.668	0.016	2.330	4.371	7.384
Disposals	(0.278)	(0.001)	(0.799)	(3.941)	(5.018)
Charge for year	1.598	0.008	5.513	13.638	20.756
At 31 March 2014	28.832	0.646	100.406	190.207	320.091
Net book amount at 31 March 2014	34.811	0.880	76.357	216.472	328.520
Net book amount at 1 April 2013	32.179	0.866	76.106	214.046	323.197
Infrastructure assets					
Gross replacement cost					
At 1 April 2013	17.985	112.506	-	2,030.799	2,161.291
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	(1.582)	-	1.582	(0.000)
RPI adjustment	0.450	2.772	-	50.562	53.784
Disposals	-	-	-	-	-
Additions	-	0.005	-	6.312	6.317
At 31 March 2014	18.435	113.701	-	2,089.256	2,221.392

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

South Staffs Region	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2013	23.235	4.956	28.191
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.581	0.124	0.705
Disposals	(1.337)	(0.314)	(1.650)
Additions	1.436	0.337	1.772
At 31 March 2014	23.915	5.103	29.018
Depreciation			
At 1 April 2013	14.137	2.519	16.656
AMP adjustment	-	-	-
Reclassification adjustment	-	(0.000)	(0.000)
RPI adjustment	0.353	0.063	0.416
Disposals	(1.299)	(0.305)	(1.603)
Charge for year	1.142	0.190	1.332
At 31 March 2014	14.334	2.466	16.801
Net book amount at 31 March 2014	9.581	2.637	12.218
Net book amount at 1 April 2013	9.098	2.437	11.535

Cambridge Region	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2013	2.629	0.239	2.868
AMP adjustment	-	-	-
Reclassification adjustment	0.001	(0.001)	0.000
RPI adjustment	0.064	0.006	0.070
Disposals	(0.026)	(0.002)	(0.028)
Additions	0.196	0.008	0.204
At 31 March 2014	2.864	0.250	3.114
Depreciation			
At 1 April 2013	0.838	0.074	0.912
AMP adjustment	-	-	-
Reclassification adjustment	0.000	(0.000)	0.000
RPI adjustment	0.021	0.002	0.022
Disposals	(0.016)	(0.001)	(0.017)
Charge for year	0.174	0.015	0.189
At 31 March 2014	1.017	0.089	1.106
Net book amount at 31 March 2014	1.847	0.161	2.008
Net book amount at 1 April 2013	1.791	0.165	1.956

Total Company	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2013	25.864	5.195	31.059
AMP adjustment	-	-	-
Reclassification adjustment	0.001	(0.001)	0.000
RPI adjustment	0.645	0.130	0.775
Disposals	(1.363)	(0.316)	(1.679)
Additions	1.631	0.345	1.976
At 31 March 2014	26.778	5.353	32.131
Depreciation			
At 1 April 2013	14.975	2.593	17.568
AMP adjustment	-	-	-
Reclassification adjustment	0.000	(0.001)	(0.000)
RPI adjustment	0.374	0.065	0.439
Disposals	(1.314)	(0.306)	(1.620)
Charge for year	1.317	0.205	1.521
At 31 March 2014	15.351	2.556	17.907
Net book amount at 31 March 2014	11.227	2.797	14.224
Net book amount at 1 April 2013	10.889	2.602	13.491

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.

7. Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2014

	Current year									Prior year		
	South Staffs Region			Cambridge Region			Total			South Staffs Region		
	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net
Capital expenditure - water												
Base												
Infrastructure Renewals Expenditure (IRE)	10.513	0.287	10.226	1.447	0.078	1.369	11.960	0.365	11.595	10.360	0.212	10.148
Maintenance non-infrastructure (MNI)	14.147	0.671	13.476	2.095	(0.008)	2.102	16.242	0.663	15.579	17.633	1.005	16.628
Enhancements												
Infrastructure enhancements	4.823	3.100	1.723	1.512	1.689	(0.177)	6.335	4.789	1.546	3.530	2.090	1.440
Non-infrastructure enhancements	3.121	-	3.121	1.022	0.362	0.660	4.142	0.362	3.781	3.120		3.120
Total capital expenditure - water	**32.604**	**4.058**	**28.546**	**6.075**	**2.121**	**3.955**	**38.680**	**6.179**	**32.501**	**34.643**	**3.307**	**31.336**
Grants and contributions - water												
Developer contributions (i.e. Enhancement requisitions, grants and contributions)		2.289			1.305			3.595			2.508	
Infrastructure charge receipts - new connections		0.811			0.568			1.379			0.617	
Other Contributions		0.958			0.247			1.205			0.182	
Total grants and contributions - water		**4.058**			**2.121**			**6.179**			**3.307**	
Total capital expenditure - water and sewerage	**32.604**	**4.058**	**28.546**	**6.075**	**2.121**	**3.955**	**38.680**	**6.179**	**32.501**	**34.643**	**3.307**	**31.336**
Land sales - Proceeds from disposals of protected land			-			-			-			-

8. Analysis of working capital

		2014 South Staffs Region	2014 Cambridge Region	2014 Total Company	2013 South Staffs Region
Stocks		1.586	0.185	1.771	1.464
Trade debtors	- measured household	1.912	1.281	3.194	1.816
	- unmeasured household	4.162	1.211	5.373	4.680
	- measured non-household	0.824	0.516	1.341	0.847
	- unmeasured non-household	0.142	0.018	0.160	0.161
	- other	0.493	0.606	1.099	0.472
Measured income accrual		6.061	3.281	9.342	5.488
Prepayments and other debtors		0.565	0.147	0.712	1.577
Trade creditors		(6.833)	(4.551)	(11.384)	(7.746)
Deferred income – customer advance receipts		(10.043)	(4.416)	(14.459)	(9.423)
Capital creditors		(0.957)	(1.931)	(2.888)	(1.249)
Accruals and other creditors		(6.725)	(0.102)	(6.827)	(8.015)
Total working capital		(8.812)	(3.755)	(12.567)	(9.928)
Total revenue outstanding	- household	26.524	3.482	30.006	23.667
	- non-household	3.614	1.229	4.843	3.400

9. Analysis of net debt, gearing and interest costs

	Fixed rate	Floating rate	Index linked	Total
Borrowings (excluding preference shares)	29.445	5.947	186.517	221.909
Preference share capital	-	-	-	-
Total Borrowings	29.445	5.947	186.517	221.909
Cash		1.318		1.318
Short term deposits				-
Net Debt	29.445	4.629	186.517	220.591
Regulatory capital value				342.496
Gearing				64.4%
Full year equivalent nominal interest cost	0.979	0.083	12.485	13.547
Full year equivalent cash interest payment	0.979	0.083	6.221	7.283
Indicative interest rates				
Indicative weighted average nominal interest rate	3.3%	1.4%	6.7%	
Indicative weighted average cash interest rate	3.3%	1.4%	3.3%	
Weighted average years to maturity	7	7	37	

10. Regulatory Capital Value

	2014 South Staffs Region	Cambridge Region	Total Company
Opening RCV for the year	269.838	73.983	343.821
Capital Expenditure	20.669	7.168	27.837
Infrastructure Renewals Expenditure	11.731	1.660	13.391
Grants and Contributions	(3.462)	(1.722)	(5.184)
Depreciation	(18.805)	(2.617)	(21.422)
Infrastructure Renewals Charge	(11.213)	(3.515)	(14.728)
Outperformance of Regulatory Assumptions	(1.103)	(0.117)	(1.220)
Closing RCV carried forward	267.655	74.841	342.496
Average RCV	265.477	73.516	338.993

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.

11. Non-financial information for the 12 months ended 31 March 2014

	2014			2013
	South Staffs Region	Cambridge Region	Total Company	South Staffs Region
Number of properties ('000s)				
Households billed	526.209	122.108	648.317	522.692
Non-households billed	29.464	10.119	39.583	29.983
Household voids	14.229	1.841	16.070	13.363
Non-household voids	4.726	0.258	4.984	4.517
Properties served by new appointee in supply area as at 1 April 2009	-	-	-	-
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	137.9	146.1		132.1
Measured household	114.6	124.5		116.2

	2014			2013
Volume (Ml/d)				
Bulk supply export	33.70	0.12	33.82	36.16
Bulk supply import	0.05	0.04	0.09	0.04
Distribution input	291.38	73.99	365.37	284.03

12. 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 2014 in respect of which all conditions precedent have been met were £23.2m.

(b) Dividends

Dividends of £12.9m were paid during the year for the appointed business (2012-13: £12.2m). The dividends include a final dividend of £2.7m paid in the year in respect of 2012-13 and £10.2m dividends paid in respect of 2013-14.

At 31 March 2014 the Company's ratio of net debt/RAV was 64.4%. This ratio reflects inflation (RPI) at March 2014 of 2.5% (March 2013: 3.3%), which is used to inflate RAV, whereas the majority of index-linked debt was inflated using RPI at July 2013 of 3.1% (2013: 3.2%). While the dividend policy for the Company is to pay dividends up to 77% of net debt/RAV, the intention is to maintain net debt at the current proportion of RAV following the transfer of the Cambridge Water business.

(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 following transactions with associated companies have occurred during the year:

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Integrated Water Services Limited	41.5	Mainlaying and repair of water mains	5.4	Competitive tendering
		Mains rehabilitation	4.1	Competitive tendering
		Minor civils	1.1	Competitive tendering
		Metering	1.7	Competitive tendering
		Water treatment	0.5	Cost
		M&E maintenance and repair	0.4	Cost
		M&E capital works	3.7	Competitive tendering
Echo Managed Services Limited	22.8	Customer services	5.7	Cost
		Billing software	0.6	Cost
South Staffordshire Plc	nil	Management services	0.8	Cost
		Parent company services	1.8	Cost

13. 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 2014.

14. 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 2014-15 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.

P. Newland
10 July 2014

REPORT OF THE AUDITOR

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

Independent auditors' report to the Water Services Regulation Authority ("WSRA") and Directors of South Staffordshire Water PLC

We have audited the Regulatory Accounts of South Staffordshire Water PLC for the year ended 31 March 2014 on pages 57 to 93 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 related notes to the historical cost accounting statements including the statement of accounting policies; 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 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 26, 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).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 1 to the accounts and its Accounting Separation Methodology Statement published on the Company's website on 15 July, (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 67 to 74, the state of the Company's affairs at 31 March 2014 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;
- 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 61 to 63 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 64.

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 2014 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
15 July 2014