South Staffs Water

incorporating

CAMBRIDGE WATER COMPANY

South Staffs Water

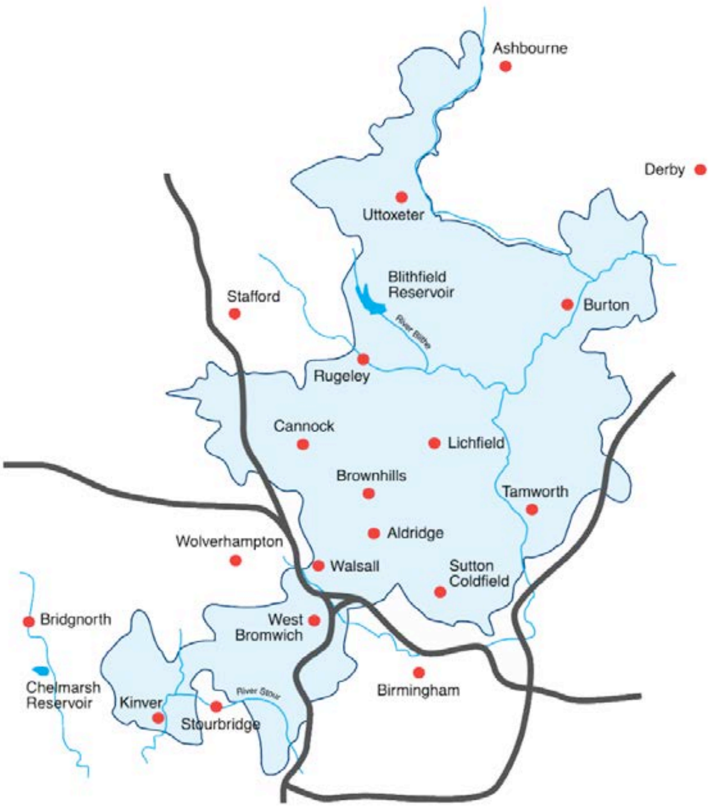
Unaudited Interim Results

for the 6 months ended
30 September 2017

Areas of Supply

Cambridge

South Staffs



Contents

Chairman's Welcome

Sir James Perowne

It is my pleasure to present our interim results for the six month period to 30 September 2017.

I am now six months into my role as Independent Chairman of the business and confident that as a company we fully understand our priorities and what is required of us to deliver high levels of service whilst ensuring our prices remain amongst the lowest in the sector.

As I stated in my message within the Annual Report for 2016/17, my role is to be a source of constant challenge across the whole of the business, questioning the Executive Team on their plans to address areas of under-performance and pressing for continuous improvement.

My challenge in the first half of the year has focused primarily around how the business gets ready for PR19 without losing any of the drive for day to day delivery for our customers while continuously striving to improve, even in areas where we are industry leading; there is no doubt that this will continue into the second half of the year.

South Staffs has a strong history of being a locally focused, privately owned, water only company and of looking after its customers with great service and low prices. The recent Ofwat methodology for PR19 sets out four key pillars that align closely with this history but which also set some real challenges for the industry.

Truly great customer service goes well beyond the current Service Incentive Mechanism (SIM) and proposed future measures, building on the insights we are now getting from our customer engagement activities. Our website shows the story of our engagement and what we are learning; it's well worth a look. Our challenge ultimately is to produce a plan that reflects these priorities.

Affordable bills have long been an underlying theme for South Staffs because of our high proportion of customers from deprived areas. We have the second lowest bill in the country and are in a strong position to build upon our experiences and innovate in this area. It is particularly encouraging to see the take up of our Social Tariff and other support measures improving after extensive engagement with communities and partner organisations.

The opportunity to innovate is really exciting; South Staffs has plenty of ideas and has already put some into operation such as the in-year Customer Dashboard which has been welcomed by our stakeholders. I look forward to seeing some of the other ideas develop from all areas of our business.

Finally, resilience is the other key theme, and we have been working very hard as a Board and as a Company to put together a plan to ensure that South Staffs is able to deliver exceptional quality water and service to our customers over the long term without increasing charges. A sophisticated approach to evaluating options and detailed Board engagement has been really thought provoking in this area.

On the whole our performance in the first half of the year provides a good platform for another successful year as a high performing and efficient company. I am delighted to see the improvements coming through in terms of complaints reduction. We are also seeing further improvements in the reduction in the number of customers

Chairman's Welcome

contacting us with concerns about the quality of our water. We are striving to work harder and smarter on leakage and we are investing more in this area.

The signs remain very encouraging. Our dedicated team continues to work hard to give the very best service to our customers and to be amongst the highest performers in the sector.

Managing Director's Half Year Review

Phil Newland - Introduction

Thank you for taking the time to read our interim performance report for the first half of this financial year. I hope you find this document useful and that it gives a clear view of how we are performing.

We strive to be transparent with our customers and stakeholders on all issues; business performance is a key part of this. Over the next few pages we will give a brief overview of how we are doing so far this year against both financial and non-financial targets as well as updating on what is important to us as we move towards PR19.

We have made some great progress in a number of areas in the last six months, but have also identified some areas where we need to continue improving and where more work is needed. I'd like to start by recognising the encouraging complaint performance improvements that we have seen in both regions. In our Cambridge area we are heading towards a significant reduction against last year whereas in our South Staffs region our current performance suggests we may be amongst the very best in the sector.

We are on track to meet our leakage commitments but have increased our resource levels as we head into the winter period in order to protect service. We recognise how important this measure is to our customers and we are also committed to making step changes in this essential area and to investing further as needed.

We are delighted with our continued progress on reducing the number of customers who contact us with concerns about their experience of the water we supply. As I write, we are on track to deliver our third year of double digit percentage improvement in this important area of customer trust.

Great progress has been made in delivering capital schemes quickly, efficiently and safely, the latest being a new potable water storage reservoir at Outwoods. This replaces an old unserviceable asset and provides a more reliable supply to the people and businesses of Burton. We also protected some key newt habitats whilst constructing this asset.

We continue to deliver financial performance in line with our plans with our results discussed on page 6. Third party analysis of our operating efficiency indicates we are an industry leader.

As you would expect, while we continue to deliver high quality drinking water and great service to our customers, we are necessarily also focused on the upcoming PR19 price review. We are making good progress in this area with notable investment and success in engaging with our customers, and ensuring their views are fully captured in our plans. We are encouraged by the direction of travel the Ofwat methodology for PR19 sets for the industry, and are very much aligned to this process of industry transformation.

I look forward to a challenging and successful second half to the year building on the solid base we have established in the first six months. As ever our goal remains to drive our performance and value for money at the frontier for the industry. We are confident of achieving this through the continued hard work and commitment of our people.

Managing Director's Half Year Review

Financial Performance

	2017	Yr on Yr Growth
Turnover	£62.1m	+1.2%
Operating profit	£15.6m	-6.8%

Revenue for the period was £62.1 million. This represents a 1.2% uplift on the same period last year (2016: £61.4 million). A reduction in non-household income as a result of the retail element moving to the joint venture was offset by the effect of inflation on household income as allowed within our 2014 price review (PR14) final determination from the regulator Ofwat. The period also saw an increase in non-appointed income of £1.0 million. This was the result of growth in our Aqua Direct business.

Our operating profit over the period was £15.6 million. This was 6.8% lower than last year (2016: £16.7 million), and was driven by a 4.1% increase in operating costs to £46.6 million (2016: £44.7 million). This increase in expenditure was the result of:

- higher power costs;
- higher infrastructure renewals expenditure.

Finance charges over the period decreased to £5.8 million (2016: £6.1 million). This was because of a reduction in charges associated with our index-linked debt.

We have based our tax for the period of £1.8 million (2016: £0.8 million) on a projected annual charge.

Our capital expenditure was £16.5 million (2016: £11.7 million). This does not include infrastructure renewals expenditure which was £4.9 million (2016: £3.9 million); this is included in operating costs and is net of contributions. The increase reflects our continued investment to ensure a resilient infrastructure and to maintain our improved water quality standards as required by the Drinking Water Inspectorate (DWI).

The increase on last year's figure was in line with our expectations for the period from 2015 to 2020 (AMP6) as set out in our PR14 final determination.

Net cash flow from operating activities was £21.5 million (2016: £27.1 million). The decrease can effectively be offset with the proceeds from the sale of assets (£8.3 million) to the joint venture; £7.9 million of this was in relation to debtors.

On 1 April 2017, we transferred our non-household retail operations and related assets to SSWB Ltd, a fellow Group company, and exited the non-household retail water market.

On the same day, South Staffordshire Plc, our parent company, entered into a joint venture with Pennon Group to operate in the non-household retail water market. South Staffordshire Plc transferred SSWB Ltd to Pennon Water Services Ltd (PWS) in return for a 20% equity share in PWS. South West Water, which is owned by Pennon Group, also transferred its non-household retail operations to PWS.

The consideration paid was the book value of the assets transferred; this generated £8.3 million cash inflow in the period, with no profit or loss generated on the disposal.

Net debt for covenant refinancing purposes at 30 September 2017 was £227.7 million (2016: £212.7 million). This is well within our borrowing covenants. This maintains our conservative gearing at a net debt to RCV of 64% in line with 31 March 2017.

Managing Director's Half Year Review

A lower equity dividend of £5.8 million (2016: £6.7 million) was paid in the period. This includes £2.9m in respect of the appointed business in line with the Final Determination, with the balance being in respect of non-appointed activities and to enable intra-group interest to be paid back to the Company.

Outcome Delivery Incentive (ODI) Update

We are a successful and efficient water only company, with the second-lowest customer bills of any water company in England and Wales. Our performance is measured by a set of industry-wide and company-specific outcomes that we must deliver – and there are incentives for doing this. Our outcome delivery incentive (ODI) targets comprise 15 measures covering all aspects of our operations. This includes delivering:

- excellent water quality;
- secure and reliable water supplies;
- excellent customer service;
- environmentally sustainable operations; and
- fair customer bills.

As reported in our most recent Annual Performance Report, we achieved most of our ODI targets in 2016/17; this included an excellent performance on interruptions to supply and an improvement in the area of water quality compliance.

In the first half of the year we have successfully refocused efforts towards those areas of performance from the prior year that fell short of our customer's expectations.

On SIM, for example, we put an action plan in place, which has delivered renewed focus for our Cambridge region customers and seen complaints performance improve markedly. We are continuing to invest in more leakage activities in both regions; implementing new monitoring technology as well as increasing the number of people we employ in this area. Consequently we are aiming therefore to achieve our leakage targets in both regions. We are also investing more in community engagement initiatives and driving greater employee commitment to ensure we meet this target as too.

In the first half of the year, we were broadly on track to deliver against our remaining ODIs and will keep up the hard work to complete the year successfully.

Managing Director's Half Year Review

Customer Focus

Everything we do starts and ends with our customers, our communities and our role in the wider social environment. So, we aim to deliver high-quality water and excellent service to our customers at an affordable price all the time. We need to be able to respond to changes in lifestyle and circumstance, and offer our customers more choice and flexibility in how they can access information and make contact with us. The continued expansion of MyAccount, our successful online account management service, is an important part of this.

We are also very pleased to be carrying out a trial with WaterSmart as a way of expanding our digital offering. A group of 15,000 customers in our Cambridge region have access to an app which aims to influence their water use behaviour by giving them information about how much water they use compared with other customers. Clearly, the benefits of this trial reflect Ofwat's innovation theme for the 2019 price review (PR19) and support our approach to managing our resources over the long term and strengthening customer engagement.

We have taken significant steps during the first half of the year to improve complaints performance and we are encouraged by the significant progress we are seeing.

We continue to focus on finding and reaching out to those customers who need our help the most. For example, we are delighted to have been shortlisted for a Utility Week award for our initiative to promote our 'Assure' social tariff with local communities. We have a small team who help vulnerable customers complete applications for assistance by visiting them at home or in local community groups. And we are working closely with local authorities in both our regions to identify those customers who are in the greatest need of support. The feedback we have received on this initiative so far has been very positive.

We are continuing to find better ways to listen to our customers and respond to what we hear from them. We are already carrying out more engagement and in-depth research, and we are building on this for PR19. We want to put our customers at the heart of the price review process, and we are sharing our journey and our learning with them on our website.

And we are continuing to engage closely with the Customer Challenge Group – what we call 'the independent customer panel' – which meets every three months. The panel comprises customers with a variety of skills and expertise from within the public and private sectors. It also includes representatives from the Environment Agency and the Consumer Council for Water (CCWater).

The panel has a significant role to play in challenging how we engage with our customers and perform as a business. In addition, it benefits from regular attendance at its meetings by our Independent Non-Executive Directors, and briefings from senior management. We welcome the panel's contributions and the independent challenge it brings.

As we reported at year end, we have launched an interactive monthly performance dashboard on our website. This allows customers in our South Staffs region to see how we are performing in a number of areas, using the latest available figures for:

- metering;
- leaks;
- customer complaints;
- customer satisfaction; and
- interruptions to supply.

The dashboard also demonstrates innovative thinking around how we share information, as we are also able to receive customer comments and feedback through this route. Ofwat has provided useful feedback in developing the dashboard, which we will roll out for customers in our Cambridge region as soon as possible.

Managing Director's Half Year Review

Future Focus

Looking ahead, our focus is on making sure that the predicted benefits of our planned investments are fully realised within this AMP. That said, the remainder of this AMP and the period beyond will require more flexibility and responsiveness than previously seen in the water industry. We need to demonstrate more collaboration, innovation, long-term planning and careful investment if we are going to meet our future commitments.

Our biggest single focus is to find the best way to consistently and sustainably deliver high-quality water at great value for customers now and in the future. We have to consider this while taking into account the significant economic, social and environmental challenges this presents. And we have to consider the significant legitimacy challenges that are currently being posed for the water industry.

We think that we are in a good position to face these challenges and that our ongoing engagement with our customers is the key to our future success. We start from a really strong base with the second lowest bill in the country. Our relative performance across the core comparative indicators set by Ofwat for PR19 shows us to be one of the highest performing companies. We are also both financially efficient compared to our peers and financially prudent with gearing close to the Ofwat "notional" level.

We a privileged to be one of the few water only companies in the UK that has never been in public ownership since our formation (in both of our regions) in 1853. Our customers continue to benefit from the low prices and high levels of local service that this has enabled.

Throughout this document, we have referred to the challenges that Ofwat has set for the industry to tackle. We are confident that we are rising to these challenges by providing a high quality service at an affordable price from an efficient cost base. We are working hard to make sure our business plan is of the highest quality, and clearly represents what our customers want.

We have already carried out a significant amount of work to ensure that our business plan is ready to submit to Ofwat in September 2018. As part of this, we have developed a multi-criteria model to reflect our key business drivers and our customers' requirements. This is so we can decide on the right actions for now and the future – and make sure that our network of pipes, reservoirs, pumping stations and water treatment facilities are fit for purpose and appropriately funded.

To make sure that we get this right, we want to work with everyone in both our regions who benefit from our high-quality water supplies. This includes business owners, developers, household customers and other stakeholders. We want to share our ideas, listen to other opinions, learn from other experiences and form a plan together. In this way, we can be sure that the commitments and measures we include in our business plan truly reflect everything that is important to our customers now and in the future.

Directors’ Responsibilities

Statement

The directors confirm that these condensed interim financial statements represent a fair view of the performance for the 6 months to 30 September 2017.

A list of the current directors of South Staffordshire Water Plc is maintained on our website:

www.south-staffs-water.co.uk

Assurance

All publications issued by South Staffs Water are assessed for risk using our Assurance Framework, which is reviewed and published annually. As our interim results are primarily an update, the level of assurance required is not considered to be as high as for the full year; therefore we have decided not to have these reviewed by our external auditors and have relied upon a review by our independent Group Internal Audit team.

Unaudited Interim Profit and Loss Account

For the 6 months ended 30 September 2017

	30 Sept 2017	30 Sept 2016
	£'000	£'000
Turnover	62,131	61,409
Operating costs (net)	(46,578)	(44,725)
Operating Profit	15,553	16,684
Finance charges (net)	(5,810)	(6,083)
Profit on ordinary before taxation	9,743	10,601
Taxation on profit ordinary activities	(1,784)	(761)
Profit on ordinary activities after taxation	7,959	9,840
Earnings per share		
Basic	374.8p	463.4p
Diluted	374.8p	463.4p

Unaudited Interim Balance Sheet

As at 30 September 2017

	30 Sept 2017 Unaudited £'000	31 Mar 2017 Audited £'000	30 Sept 2016 Unaudited £'000
Fixed Assets			
Tangible assets	496,254	488,985	478,512
Current Assets			
Stocks	**1,779**	**1,747**	**1,663**
Debtors – amounts recoverable within one year	**36,980**	**32,320**	**36,827**
Debtors – amounts recoverable in more than one year	**43,423**	**43,667**	**43,930**
Investments	**2**	**2**	**2**
Cash at bank and in hand	**2,884**	**8,723**	**12,756**
	85,068	**86,459**	**95,178**
Creditors – amounts falling due within one year	**(69,823)**	**(60,533)**	**(62,662)**
Net current assets	**15,245**	**25,926**	**32,516**
Total assets less current liabilities	511,499	514,911	511,028
Creditors – amounts falling due after more than one year	(265,451)	(273,060)	(277,338)
Accruals and deferred income – falling due after more than one year	(140,071)	(138,862)	(136,543)
Provisions for liabilities – falling due after more than one year	(34,675)	(34,534)	(34,236)
Net Assets	71,302	68,455	62,911
Capital and Reserves			
Called up share capital	2,123	2,123	2,123
Share premium account	495	495	495
Hedging reserve	(6,591)	(7,280)	(8,273)
Revaluation reserve	34,666	34,894	35,120
Capital redemption reserve	4,450	4,450	4,450
Profit and loss account	36,159	33,773	28,996
Shareholders' Funds	**71,302**	**68,455**	**62,911**

Unaudited Interim Statement of Comprehensive Income

For the 6 months ended 30 September 2017

	30 Sept 2017	30 Sept 2016
	£'000	£'000
Profit on ordinary activities after taxation	**7,959**	9,840
Movement in hedging reserve including deferred tax impact	**689**	(1,343)
Total comprehensive income relating to the period	**8,648**	8,497

Unaudited Interim Statement of Changes in Equity

As at 30 September 2017

	Called-up Share Capital	Share Premium Account	Capital Redemption Reserve	Revaluation Reserve	Profit & Loss Account	Hedging Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2016	2,123	495	4,450	35,347	25,595	(6,930)	61,080
Profit for the period	-	-	-	-	18,845	-	18,845
Change in value of hedging instruments	-	-	-	-	-	(500)	(500)
Amounts recycled to profit and loss	-	-	-	-	-	150	150
Amounts transferred to profit and loss	-	-	-	(453)	453	-	-
	2,123	495	4,450	34,894	44,893	(7,280)	79,575
Dividends	-	-	-	-	(11,120)	-	(11,120)
Balance at 31 March 2017	2,123	495	4,450	34,894	33,773	(7,280)	68,455
Balance at 1 April 2017	2,123	495	4,450	34,894	33,773	(7,280)	68,455
Profit for the period	-	-	-	-	7,958	-	7,958
Change in value of hedging instruments	-	-	-	-	-	614	614
Amounts recycled to profit and loss	-	-	-	-	-	75	75
Amounts transferred to profit and loss	-	-	-	(228)	228	-	-
	2,123	495	4,450	34,666	41,959	(6,591)	77,102
Dividends	-	-	-	-	(5,800)	-	(5,800)
Balance at 30 September 2017	2,123	495	4,450	34,666	36,159	(6,591)	71,302

Unaudited Interim Cash Flow Statement

For the 6 months ended 30 September 2017

	30 Sept 2017	30 Sept 2016
	£'000	£'000
Cash inflow from operating activities	**22,508**	**28,310**
Corporation tax paid	**(1,025)**	**(1,206)**
Net cash inflow from operating activities	**21,483**	**27,104**
Cash flows from investing activities		
Purchase of tangible fixed assets	(19,626)	(13,529)
Proceeds from sale of tangible fixed assets	30	-
Capital contributions received	2,685	2,299
Proceeds from sales of non-household retail assets	8,300	-
Net cash outflow from Investing activities	**(8,611)**	**(11,230)**
Cash flows from financing activities		
Interest paid	(3,702)	(3,670)
Equity dividends paid – regulated	(2,900)	(4,700)
Equity dividends paid – unregulated	(2,900)	(1,960)
Repayment of Junior Debt	(8,991)	(4,000)
Capital element of finance lease and hire purchase rental payments	(218)	(167)
Net cash outflow from financing activities	**(18,711)**	**(14,497)**
(Decrease) / Increase in cash	**(5,839)**	**1,377**
Cash or Cash Equivalents at the beginning of the period	**8,723**	**11,379**
Cash or Cash Equivalents at the end of the period	**2,884**	**12,756**

Unaudited Interim Financial Statements

Notes

1. The interim results for the six months to 30 September 2017 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2017.

   The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The balance sheet for the year to 31 March 2017 have been extracted from the latest published audited accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2018.

3. Copies of the interim report are available to the public from the Company's Registered Office, South Staffs Water, Green Lane, Walsall, WS2 7PD, or from our website:

   https://www.south-staffs-water.co.uk/publications/annual-reports

South Staffs Water
Green Lane
Walsall
WS2 7PD

www.south-staffs-water.co.uk

Tel: 01922 638282