

# South Staffordshire Water PLC

## Preliminary Results Announcement

### For the Year Ended 31 March 2011

## Highlights

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

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

Liz Swarbrick, Managing Director, commented:

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

11 July 2011

**For enquiries please contact:**

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## Operational Review

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

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

The 3Cs represent:

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

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

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

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

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

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

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

The Company has made good progress in delivering its capital programme, to ensure that its assets remain in good condition, maintain stable asset serviceability and good quality, reliable supplies to customers. Capital expenditure for the year of £28.0m is slightly ahead of the amount included in the 2009 Ofwat Final Determination.

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

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

## **Financial Review**

Turnover for the regulated business has increased by 2.7% to £84.5m (2010: £82.3m) primarily due to the price increase allowed by Ofwat of 1.5% (plus inflation). Non-regulated turnover fell by £0.5m reflecting lower volumes of bottled water sales. Operating profit for the regulated business was £19.4m (2010: £20.5m) with a reduction in the cost of capital allowed by Ofwat for AMP5 (5.7% to 4.9%) and the full year impact of a new power contract which commenced in October 2009 at higher prices partly offset by the allowed increase in charges and reductions in other operating costs reflecting the Company's commitment to maintaining cost efficiency. Non-regulated operating profits were unchanged from the previous year at £1.1m.

The Company generated an exceptional profit on the sale of land of £1.5m in the year, which has been reported after operating profit.

Dividends of £8.5m have been paid in respect of 2010-11 (2010: £9.0m). In addition, a final dividend of £6.9m was paid in the year reflecting better than expected cash flows and levels of debt in 2009-10.

Overall, the book value of net debt amounted to £190.7m at 31 March 2011 (2010: £180.2m). Net debt includes index-linked debt, debenture stock, finance leases, bank loans and overdraft less cash. This differs from the value used for covenant reporting purposes of £174.6m (2010: £161.6m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt. This represents 73.2% (2010: 73.7%) of the Company's Regulated Asset Value (RAV) of £238.5m (2010: £219.4m) being the Final Determination RAV uplifted for inflation. This ratio reflects the higher than expected level of inflation (RPI) at March 2011 of 5.3%, which is used to inflate RAV, whereas the majority of index-linked debt was inflated using

RPI at July 2010 of 4.8%. The Company's dividend policy is to pay dividends to 77% of net debt/RAV although over the AMP5 period this ratio is expected to be at or below 77%. The Company maintains significant headroom in respect of all borrowing covenants.

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

**11 July 2011**

## South Staffordshire Water PLC

### Profit and Loss Account for the Year Ended 31 March 2011

	2011	2010
	£'000	£'000
Turnover	87,843	86,088
Operating costs (net)	(67,377)	(64,423)
<b>Operating profit</b>	<b>20,466</b>	21,665
Exceptional profit on sale of tangible fixed assets	1,465	-
Finance charges (net)	(8,998)	(8,658)
<b>Profit on ordinary activities before taxation</b>	<b>12,933</b>	13,007
Taxation on profit on ordinary activities	(1,413)	(2,834)
<b>Profit on ordinary activities after taxation</b>	<b>11,520</b>	10,173
<b>Earnings per share</b>		
Basic	542.6p	479.1p
Diluted	542.6p	479.1p

# South Staffordshire Water PLC

## Balance Sheet at 31 March 2011

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

## South Staffordshire Water PLC

### Cash Flow Statement for the Year Ended 31 March 2011

	2011 £'000	2010 £'000
<b>Net Cash Inflow from Operating Activities</b>	<b>43,313</b>	37,480
<b>Returns on Investments and Servicing of Finance:</b>		
Interest received	2,613	2,824
Interest paid	(6,367)	(6,985)
Interest element of finance lease rentals	(118)	(103)
Net cash outflow from returns on investments and servicing of finance	(3,872)	(4,264)
<b>Taxation:</b>		
Corporation tax paid	(2,421)	(3,693)
<b>Capital Expenditure and Financial Investment:</b>		
Purchase of tangible fixed assets	(31,006)	(22,676)
Proceeds from sale of tangible fixed assets	1,018	245
Capital contributions received	3,993	2,930
Net cash outflow from capital expenditure and financial investment	(25,995)	(19,501)
<b>Free Cash Flow</b>	<b>11,025</b>	10,022
<b>Equity Dividends Paid</b>	<b>(15,402)</b>	(9,000)
<b>Financing:</b>		
Capital element of finance lease rental payments	(287)	(237)
Net cash outflow from financing	(287)	(237)
<b>(Decrease) / Increase in Net Cash</b>	<b>(4,664)</b>	785

## South Staffordshire Water PLC

### Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2011

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

## **1. Financial Reporting**

The Company's principal accounting policies have been consistently applied throughout the year and the previous year.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2011 or 2010.