

South Staffordshire Water PLC

Regulatory Accounts

31 March 2005

HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2005

	2005			2004		
	Appointed Business	Non-Appointed Business	Total	Appointed Business	Non-Appointed Business	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	61,813	3,244	65,057	60,427	3,068	63,495
Operating costs	(43,946)	(2,199)	(46,145)	(44,202)	(1,633)	(45,835)
Other operating income	135	492	627	549	142	691
Operating Profit	18,002	1,537	19,539	16,774	1,577	18,351
Net interest	(6,857)	8	(6,849)	(6,523)	61	(6,462)
Profit on Ordinary Activities before Taxation	11,145	1,545	12,690	10,251	1,638	11,889
Taxation - Current	(1,756)	(464)	(2,220)	(1,450)	(449)	(1,899)
Taxation - Deferred	(1,046)	-	(1,046)	(1,300)	-	(1,300)
Profit on Ordinary Activities after Taxation	8,343	1,081	9,424	7,501	1,189	8,690
Dividends paid and proposed	(8,343)	(2,558)	(10,901)	(4,167)	(1,717)	(5,884)
Retained (loss)/profit for the Year	-	(1,477)	(1,477)	3,334	(528)	2,806

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

For a commentary and explanation of trends, please refer to the statutory accounts.

HISTORICAL COST BALANCE SHEET

As at 31 March 2005

	2005			2004		
	Appointed Business	Non-Appointed Business	Total	Appointed Business	Non-Appointed Business	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets						
Tangible assets	211,322	1,517	212,839	201,627	1,704	203,331
Capital contributions	(57,756)	-	(57,756)	(53,832)	-	(53,832)
	153,566	1,517	155,083	147,795	1,704	149,499
Current Assets						
Stocks	760	91	851	733	81	814
Debtors	7,063	4,159	11,222	11,532	3,487	15,019
Cash at bank and in hand	1,044	-	1,044	317	710	1,027
	8,867	4,250	13,117	12,582	4,278	16,860
Creditors - amounts falling due within one year						
Ordinary dividend payable	(897)	(275)	(1,172)	(2,691)	(1,717)	(4,408)
Other creditors	(34,921)	(5,307)	(40,228)	(37,720)	(2,612)	(40,332)
	(35,818)	(5,582)	(41,400)	(40,411)	(4,329)	(44,740)
Net Current (Liabilities)	(26,951)	(1,332)	(28,283)	(27,829)	(51)	(27,880)
Total Assets less Current Liabilities	126,615	185	126,800	119,966	1,653	121,619
Creditors - amounts falling due after more than one year						
Borrowings	(97,234)	-	(97,234)	(91,816)		(91,816)
Provisions for Liabilities & Charges	(9,221)	-	(9,221)	(8,235)		(8,235)
Accruals and Deferred income	(5,015)	(9)	(5,024)	(4,770)		(4,770)
Net Assets	15,145	176	15,321	15,145	1,653	16,798
Capital and Reserves						
Share capital	2,123	-	2,123	2,123	-	2,123
Share premium account	495	-	495	495	-	495
Capital redemption reserve	4,450	-	4,450	4,450	-	4,450
Profit and loss account	8,077	176	8,253	8,077	1,653	9,730
	15,145	176	15,321	15,145	1,653	16,798

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

For a commentary and explanation of trends, please refer to the statutory accounts.

HISTORICAL COST BALANCE SHEET RECONCILIATION TO STATUTORY ACCOUNTS

As at 31 March 2005

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: “Tangible Fixed Assets”. However for the purposes of the Regulatory Accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	£000's
Cost (excluding capital contributions)	
Cost at 31 March 2005 per Regulatory Accounts	269,904
Adjustment to opening balance	71,419
Infrastructure renewals expenditure capitalised in the year	1,702
Cost at 31 March 2005 per Statutory Accounts	343,025
Depreciation	
At 31 March 2005 per Regulatory Accounts	(57,065)
Adjustment to opening balance	(64,690)
Depreciation charge for Infrastructure renewals expenditure	(5,446)
At 31 March 2005 per Statutory Accounts	(127,201)
Net Book Value (excluding capital contributions)	
At 31 March 2005 per Regulatory Accounts	212,839
Adjustment for Infrastructure renewals accounting	2,985
At 31 March 2005 per Statutory Accounts	215,824
Capital Contributions	
At 31 March 2005 per Regulatory Accounts	(57,756)
Adjustment for Infrastructure renewals accounting	(2,985)
At 31 March 2005 per Statutory Accounts	(60,741)
Provisions and Liabilities	
At 31 March 2005 per Regulatory Accounts	(9,221)
Less Infrastructure renewals accrual	-
At 31 March 2005 per Statutory Accounts	(9,221)
Debtors	
At 31 March 2005 per Regulatory Accounts	7,063
Less Infrastructure renewals prepayment	-
At 31 March 2005 per Statutory Accounts	7,063
Accruals and Deferred Income	
At 31 March 2005 per Regulatory Accounts	(5,015)
Adjustment for Infrastructure renewals accounting	-
At 31 March 2005 per Statutory Accounts	(5,015)

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS

For the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Turnover	3	61,813	60,427
Current cost operating costs	4	(48,328)	(48,386)
Operating expenses		(709)	(837)
		12,776	11,204
Working capital adjustment		347	211
Current Cost Operating Profit		13,123	11,415
Net interest		(6,857)	(6,523)
Financing adjustment		3,403	2,525
Current Cost Profit on Ordinary Activities before Taxation		9,669	7,417
Taxation - Current		(1,756)	(1,450)
Taxation - Deferred		(1,046)	(1,300)
Current Cost Profit on Ordinary Activities after Taxation		6,867	4,667
Dividends paid and proposed		(8,343)	(4,167)
Retained Current Cost (Loss)/Profit	9	(1,476)	500

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

For a commentary and explanation of trends, please refer to the statutory accounts.

CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS

As at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed Assets			
Tangible assets	5	1,385,098	1,282,192
Third party contributions from 1 April 1989	6	(76,314)	(69,715)
Working capital	7	(10,129)	(10,832)
Operating Assets		1,298,655	1,201,645
Cash and investments		(13,897)	(12,901)
Non-trade debtors		29	601
Non-trade creditors - due within one year		(2,056)	(2,003)
Provision for deferred tax		(9,221)	(8,235)
Dividends payable		(897)	(2,693)
Creditors - due after more than one year		(97,234)	(92,033)
Net Assets Employed		1,175,379	1,084,381
Capital and Reserves			
Capital		2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Profit and loss account	9	(28,874)	(27,398)
Current cost reserve	8	1,197,185	1,104,711
Shareholders' Funds		1,175,379	1,084,381

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

For a commentary and explanation of trends, please refer to the statutory accounts.

CURRENT COST CASH FLOW STATEMENT

For the year ended 31 March 2005

	Note	2005			2004		
		£'000			£'000		
		Appointed Business	Non- Appointed Business	Total	Appointed Business	Non- Appointed Business	Total
Net cash inflow from Operating Activities	10	25,563	3,324	28,887	27,616	1,312	28,928
Returns on Investments and Servicing of Finance:							
Interest received		-	8	8	-	61	61
Interest paid		(3,846)	-	(3,846)	(3,669)	-	(3,669)
Interest element of finance lease rentals		(232)	-	(232)	(318)	-	(318)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(4,078)	8	(4,070)	(3,987)	61	(3,926)
Taxation							
Corporation tax paid		(1,666)	(449)	(2,115)	(808)	(418)	(1,226)
Investing Activities:							
Gross cost of purchase of fixed assets		(16,247)	(3)	(16,250)	(25,984)	(237)	(26,221)
Disposal of fixed assets		359	409	768	70	142	212
Infrastructure renewals expenditure		(1,702)	-	(1,702)	(3,755)	-	(3,755)
Capital contributions		4,682	-	4,682	4,222	-	4,222
Net cash (outflow)/inflow from investing activities		(12,908)	406	(12,502)	(25,447)	(95)	(25,542)
Equity Dividends Paid		(10,138)	(3,999)	(14,137)	(4,202)	(592)	(4,794)
Financing:							
New Bank Loans		3,200	-	3,200	-	-	-
Capital element of finance lease rental payments		(969)	-	(969)	(971)	-	(971)
Net cash inflow/(outflow) from financing		2,231	-	2,231	(971)	-	(971)
(Decrease)/Increase in Cash		(996)	(710)	(1,706)	(7,799)	268	(7,531)

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

NOTES TO THE REGULATORY ACCOUNTS

1 Statement of Accounting Policies

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

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

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

(a) Historic Cost Regulatory Accounts

The accounting policies used are the same as those adopted in the statutory historic cost accounts on pages 14 to 16, with the exception of infrastructure renewals which, following the instructions of the Director General of Water Services set out in his letter RD15/99, dated 21 April 1999, “Regulatory Accounts for 1999/00 Reporting Requirements – RAG3.04”, has been accounted for in accordance with RAG 2, “Classification of Infrastructure Expenditure”. RAG2 is not in accordance with Financial Reporting Standard No. 12 (FRS 12), Provisions, Contingent Liabilities and Contingent Assets or FRS 15 Tangible Fixed Assets.

(b) Basis of Current Cost Accounting

The Current Cost financial statements have been prepared for the Appointed Business of the Company in accordance with guidance issued by the Director General of Water Services 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.

NOTES TO THE REGULATORY ACCOUNTS

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. The process of continuing refinement of asset records has produced adjustments to existing values. 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 2003.

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

In accordance with instructions from the Director General of the Office of Water Services set out in his letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1999/00 Reporting Requirements – RAG 3.04", the Company has not applied FRS 12, "Provisions, Contingent Liabilities and Contingent Assets" and FRS15 "Tangible Fixed Assets" in respect of infrastructure renewals accounting and has continued to charge infrastructure renewal costs (calculated in accordance with their Asset Management Plan) to prepayments or provisions. Expenditure during the years is applied against the prepayment or provision.

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

- I. restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewal expenditure, depreciation and retirement of assets since the year ended 31 March 1989, when renewals accounting was first adopted. Accordingly, infrastructure renewal prepayments and provision at years ended 31 March 2004 and 31 March 2005 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.

NOTES TO THE REGULATORY ACCOUNTS

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) Five Year Rolling Summary

The previous years' figures as shown in the statement in note 13 have been restated to current year values using RPI.

NOTES TO THE REGULATORY ACCOUNTS

2. Non-Appointed Business Activities

In general, non-appointed activities are those for which the Company is not a monopoly supplier or where the activity involves the optional use of an asset owned by the appointed business. The historical cost profit and loss account analysis for non-appointed activities has been continued down to retained profit/(loss).

3. Turnover Analysis

	2005	2004
	£'000	£'000
Measured supplies	17,769	16,888
Unmeasured supplies	39,819	39,181
Large User Revenues	2,792	2,851
Other Sources	502	552
Third Party Services	931	955
Total turnover	61,813	60,427

NOTES TO THE REGULATORY ACCOUNTS

4. Current Cost Activity Cost Analysis – 2004/2005

	Service Analysis			Business Analysis		
	Resources & Treatment	Distribution	Subtotal	Customer Services	Scientific Services	Cost of Regulation
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Costs						
Employment Costs	1,092	3,655	4,747			
Power	1,656	1,525	3,181			
Hired & Contracted Services	344	856	1,200			
Associated Companies	155	2,179	2,334			
Materials and Consumables	1,400	910	2,310			
Service Charges EA	2,019	-	2,019			
Bulk Supply Imports	-	10	10			
Other Direct Costs	186	1,401	1,587			
Total Direct Costs	6,852	10,536	17,388	4,484	864	1,000
General & support expenditure	1,263	1,939	3,202	-	-	-
Functional Expenditure	8,115	12,475	20,590	4,484	864	1,000
Total business activities			26,938	(4,484)	(864)	(1,000)
Rates			3,175			
Doubtful debts			1,055			
Total operating costs less third party services			31,168			
Third party services			932			
Total Operating Expenditure			32,100			
Capital Costs						
Infrastructure renewal expenditure	-	1,702	1,702			
Movement in infrastructure renewal prepayment	-	3,744	3,744			
Current cost depreciation	6,636	4,458	11,094			
Amortisation of deferred credits			(312)			
Total Capital Maintenance			16,228			
Total Operating Costs			48,328			
CCA (MEA) Values						
Service Activities	264,518	1,243,841	1,508,359			
Business Activities			3,174			
Water Supply Total			1,511,533			

NOTES TO THE REGULATORY ACCOUNTS

Current Cost Activity Cost Analysis – 2003/2004

	Service Analysis			Business Analysis		
	Resources & Treatment	Distribution	Subtotal	Customer Services	Scientific Services	Cost of Regulation
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Costs						
Employment Costs	851	3,738	4,589			
Power	1,757	1,572	3,329			
Hired & Contracted Services	387	711	1,098			
Associated Companies	322	2,341	2,663			
Materials and Consumables	1,299	1,111	2,410			
Service Charges EA	1,930	-	1,930			
Bulk Supply Imports	-	23	23			
Other Direct Costs	213	1,218	1,431			
Total Direct Costs	6,759	10,714	17,473	4,429	923	1,060
General & support expenditure	1,318	2,077	3,395	-	-	-
Functional Expenditure	8,077	12,791	20,868	4,429	923	1,060
Total business activities			27,280	(4,429)	(923)	(1,060)
Rates			3,676			
Doubtful debts			1,085			
Total operating costs less third party services			32,041			
Third party services			1,011			
Total Operating Expenditure			33,052			
Capital Costs						
Infrastructure renewal expenditure	(62)	3,817	3,755			
Movement in infrastructure renewal prepayment		1,730	1,730			
Current cost depreciation	6,471	3,672	10,143			
Amortisation of deferred credits			(294)			
Total Capital Maintenance			15,334			
Total Operating Costs			48,386			
CCA (MEA) Values						
Service Activities	250,691	1,178,823	1,429,514			
Business Activities			3,008			
Water Supply Total			1,432,522			

NOTES TO THE REGULATORY ACCOUNTS

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

	Specialised Operational Assets	Non- specialised Operational Assets	Infrastructure Assets	Other Tangible Assets	Total
	£'000	£'000	£'000	£'000	£'000
Gross Replacement Cost					
At 1 April 2004	243,871	25,822	1,110,031	52,798	1,432,522
AMP adjustment	(4,841)	(538)	34,544	(11,136)	18,029
RPI adjustment	7,804	826	35,521	1,690	45,841
Additions	1,792	23	6,568	8,234	16,617
Disposals	(23)	-	(816)	(637)	(1,476)
At 31 March 2005	248,603	26,133	1,185,848	50,949	1,511,533
Depreciation					
At 1 April 2004	113,195	5,258	-	31,877	150,330
AMP adjustment	(26,708)	(1,113)	-	(11,567)	(39,388)
RPI adjustment	3,622	168	-	1,013	4,803
Charge for year	6,406	373	-	4,315	11,094
Disposals	(6)	-	-	(398)	(404)
At 31 March 2005	96,509	4,686	-	25,240	126,435
Net Book Value					
At 31 March 2005	152,094	21,447	1,185,848	25,709	1,385,098
Net Book Value					
At 31 March 2004	130,676	20,564	1,110,031	20,921	1,282,192

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.

NOTES TO THE REGULATORY ACCOUNTS

6. Current Cost Analysis of Capital Contributions

	Infrastructure Assets	Other Assets	Total
	£'000	£'000	£'000
Gross Replacement Cost			
At 1 April 2004	64,743	6,829	71,572
RPI adjustment	2,072	218	2,290
Additions	3,922	758	4,680
At 31 March 2005	70,737	7,805	78,542
Depreciation			
At 1 April 2004	-	1,857	1,857
RPI adjustment	-	59	59
Amortised in year	-	312	312
At 31 March 2005	-	2,228	2,228
Net Book Value			
At 31 March 2005	70,737	5,577	76,314
Net Book Value			
At 31 March 2004	64,743	4,972	69,715

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

7. Current Cost Working Capital

	2005	2004
	£'000	£'000
Stocks	760	733
Trade debtors	4,734	3,694
Trade creditors	(5,898)	(6,014)
Short-term capital creditors	(1,581)	(3,809)
Infrastructure renewals	-	3,961
Trade payments in advance	(6,410)	(5,819)
Tax and social security	(327)	(323)
Group creditors	(2,018)	(2,251)
Other short-term trade debtors	-	15
Other short-term trade creditors	(1,681)	(3,823)
Prepayments	2,292	2,804
	(10,129)	(10,832)

NOTES TO THE REGULATORY ACCOUNTS

8. Movement on Current Cost Reserve

	2005	2004
	£'000	£'000
Balance at 1 April	1,104,711	1,077,001
AMP adjustment	57,417	-
RPI adjustments:		
Fixed assets	41,038	32,113
Capital contributions	(2,231)	(1,667)
Working capital	(347)	(211)
Financing	(3,403)	(2,525)
Balance at 31 March	1,197,185	1,104,711

9. Movement on Current Cost Profit and Loss Account

	2005	2004
	£'000	£'000
Balance at 1 April	(27,398)	(27,898)
Retained current cost (loss)/profit	(1,476)	500
Balance at 31 March	(28,874)	(27,398)

NOTES TO THE REGULATORY ACCOUNTS

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

	2005	2004
	£'000	£'000
Current cost operating profit	13,123	11,415
Working capital adjustment	(347)	(211)
(Increase)/Decrease in stocks	(27)	62
Current cost depreciation and amortisation of deferred credits	10,782	9,849
Current cost loss on disposal of assets	709	837
Decrease in debtors and prepaid expenses	4,469	1,864
(Decrease)/Increase in creditors and accrued expenses	(4,631)	262
Infrastructure renewals expenditure	1,702	3,755
Reduction of provisions	(217)	(217)
Net Cash Inflow from Appointed Operating Activities	25,563	27,616

11. Analysis of Net Debt for the Appointed Business

	Balance at 31 March 2004	Cash flow	Other non- cash changes	Balance at 31 March 2005
	£'000	£'000	£'000	£'000
Cash, Bank loans and Overdraft	(12,901)	(996)	-	(13,897)
Retail Price Index-linked Bond	(87,941)	-	(2,720)	(90,661)
Bank Loans	-	(3,200)	-	(3,200)
Irredeemable debenture stock	(1,633)	-	-	(1,633)
Obligations under finance leases	(3,183)	969	(371)	(2,585)
Net Debt	(105,658)	(3,227)	(3,091)	(111,976)

NOTES TO THE REGULATORY ACCOUNTS

12. Regulatory Capital Values

		2005
		£'000
Opening RCV for the year		167,210
Capital Expenditure		12,670
Infrastructure Renewals Expenditure		5,243
Grants and Contributions		(4,619)
Depreciation		(4,153)
Infrastructure Renewals Charge		(7,944)
Outperformance of Regulatory Assumptions in 1998/99		1,251
Closing RCV carried forward		169,658
Average RCV		166,401

The table shows the RCV used in setting price limits for the period (2000-01 to 2004-05); the differences from the actual capital expenditure and depreciation etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

NOTES TO THE REGULATORY ACCOUNTS

13. Five Year Rolling Summary

	2005	2004	2003	2002	2001
	£'000	£'000	£'000	£'000	£'000
Current Cost Profit and Loss Account for Appointed Business					
Turnover	61,813	62,300	62,358	63,982	63,138
Current cost operating costs	(48,328)	(49,886)	(49,159)	(51,122)	(50,358)
Operating expenses	(709)	(863)	(1,023)	(1,341)	(364)
	12,776	11,551	12,176	11,519	12,416
Working capital adjustment	347	218	344	147	205
Current Cost Operating Profit	13,123	11,769	12,520	11,666	12,621
Net interest	(6,857)	(6,725)	(5,056)	(1,203)	(1,126)
Financing adjustment	3,403	2,603	850	289	575
Current Cost Profit on Ordinary Activities before Taxation	9,669	7,647	8,314	10,752	12,070
Taxation	(2,802)	(2,835)	(2,950)	(3,372)	(4,170)
Current Cost Profit on Ordinary Activities after Taxation	6,867	4,812	5,364	7,380	7,900
Dividends	(8,343)	(4,296)	(5,060)	(6,626)	(6,609)
Current Cost Profit Retained	(1,476)	516	304	754	1,291
Current Cost Balance Sheet for Appointed Business					
Fixed Assets					
Tangible fixed assets	1,385,098	1,323,222	1,307,809	1,300,580	1,273,841
Third party contributions from 1 April 1989	(76,314)	(71,946)	(67,892)	(63,916)	(58,945)
Working capital	(10,129)	(11,179)	(8,599)	(11,447)	(12,446)
Net Operating Assets	1,298,655	1,240,097	1,231,318	1,225,217	1,202,450
Cash and investments	(13,897)	(13,314)	(5,403)	(18,465)	(10,610)
Non-trade debtors	29	620	95	775	573
Non-trade creditors - due within one year	(11,277)	(10,566)	(8,862)	(10,211)	(10,296)
Dividends payable	(897)	(2,779)	(2,885)	(4,493)	(4,530)
Creditors - due after more than one year	(97,234)	(94,978)	(95,956)	(6,312)	(7,200)
Net Assets Employed	1,175,379	1,119,080	1,118,307	1,186,511	1,170,387
Capital and Reserves					
Share Capital	2,123	2,191	2,248	5,866	5,866
Share premium account	495	511	524	540	540
Capital redemption reserve	4,450	4,592	4,712	1,310	1,310
Profit and loss account	(28,874)	(28,275)	(29,539)	40,187	39,416
Current cost reserve	1,197,185	1,140,061	1,140,362	1,138,608	1,123,255
Shareholders' Funds	1,175,379	1,119,080	1,118,307	1,186,511	1,170,387

The prior year and before have been restated for the effects of inflation.

NOTES TO THE REGULATORY ACCOUNTS

14. Condition F

In the opinion of the Directors, 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).

Furthermore, in the opinion of the Directors, 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.

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 2005 in respect of which all conditions precedent have been met were £23.0m.

(b) Dividends

During the year, South Staffordshire Water PLC paid dividends in respect of the Appointed Business of £10.1 million (2004: £4.2 million) on its ordinary shares. This comprised the final dividend for 2003/04 and interim dividend for 2004/05.

(c) Other Transactions

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

(d) Associated Companies

The turnover of the associated companies which traded with the Company, in the year ended 31 March 2005, was as follows:

	£m
Underground Pipeline Services Limited	8.1
Integrated Water Services	1.9
Echo Managed Services Limited	9.1

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

NOTES TO THE REGULATORY ACCOUNTS

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Underground Pipeline Services Limited	8.1	Repair and maintenance of water mains	4.9	Competitive tendering
		Mains Rehabilitation	0.7	Competitive tendering
		Installation of DMAs	0.4	Competitive tendering
South Staffordshire Plc	nil	Management services	0.9	Cost
		Parent company services	1.1	Cost
Echo Managed Services Limited	9.1	Customer Services	3.9	Cost

15. Condition K

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of its Instrument of Appointment as at 31 March 2005.

REPORT OF THE AUDITORS

INDEPENDENT ACCOUNTANTS' REPORT TO THE DIRECTOR GENERAL OF WATER SERVICES ("THE REGULATOR") AND SOUTH STAFFORDSHIRE WATER PLC ("THE COMPANY")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2005 which comprise;

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account and the regulatory historical cost balance sheet; and
- the regulatory current cost accounting statements, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes numbered 1 to 15 to the current cost financial statements including the statement of accounting policies on which the Regulatory Accounts have been prepared.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Condition F of the Instrument of appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator 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 the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator 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 Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the appointment and the Regulatory Accounting Guidelines (being versions 1.03, 2.03, 3.05, 4.02 and 5.03), 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.

REPORT OF THE AUDITORS

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 9.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the 'Basis of opinion', below and having regard to the guidance contained in Audit Technical Release 05/03 *'Reporting to Regulators of Regulated Entities'*.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, asset and liabilities of the Company and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory accounting Guideline 2.03 (Guidelines for the classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets) and whether the regulatory current cost accounting statements on pages 36 to 38 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Company has not kept proper accounting

REPORT OF THE AUDITORS

records as required by paragraph 3 of Condition F of the Regulatory Licence or if we have not received all the information and explanations we require for our audit, and whether the information provided is in agreement with the appointee's underlying accounting records,.

We read the other information contained within the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on regulatory information, and the additional information required by the licence.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, 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 Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 15 July 2005, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

REPORT OF THE AUDITORS

The regulatory historical cost accounting statements on pages 33 to 34 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 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 Principles, and a reconciliation of the balance sheet drawn upon this basis with that drawn upon under Companies Act 1985 is given on page 35.

Audit opinion

In our opinion the Regulatory Accounts of the company for the year ended 31 March 2005 fairly present in accordance with 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, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on pages 39 to 41, the state of the company's affairs at 31 March 2005 and its profit for the period then ended. We are also required to report in respect of various specific obligations of the Company as set out in its Instrument of Appointment. In respect of these obligations, we report that in our opinion:-

- a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records;
- (c) the regulatory historical cost accounting statements on pages 33 to 35 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 36 to 38 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator

Deloitte & Touche LLP

Chartered Accountants

Birmingham

Note: Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes have occurred to the

REPORT OF THE AUDITORS

financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.