South Staffs Water

South Staffs Water

Accounts for the Year Ended 31 March 2016

Together with The Strategic, The Directors' and
The Independent Auditor's Reports

Company Registration No: 2662742

Highlights

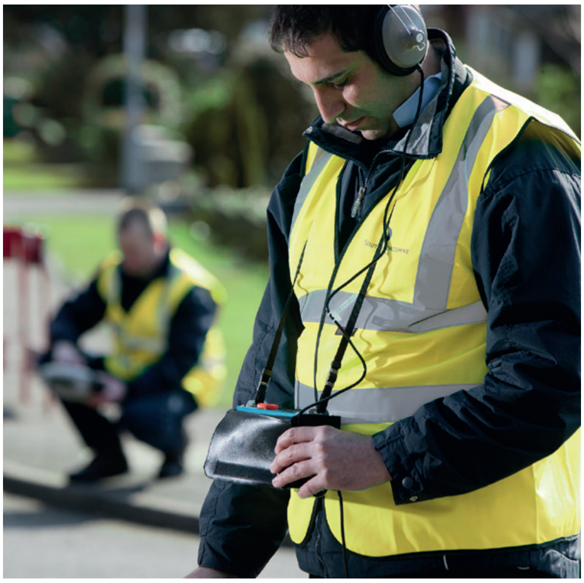
First year of delivery in the new AMP 6 regulatory control period and the introduction of Outcome Delivery Incentives.

A number of retail cost reduction initiatives successfully implemented.

Preparations for retail market opening in April 2017 on target.

Water resource position remains healthy.

Challenging and demanding targets for leakage met.



£25.6m of planned net capital investment completed.

Third lowest domestic charges in England and Wales in 2015-16 at a combined average of £141, 23% below the national average.

Turnover

2016	2015
£123.9m	£126.9m

Operating Profit

2016	2015 (restated*)
£35.3m	£33.9m

* Restated to reflect the adoption of FRS102 – See note 28 to the financial statements for further details.

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 complementary specialist service businesses.

South Staffordshire Water 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 kilometres 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 businesses now operate under one single water supply licence.

Cambridge Water was also formed in 1853 and supplies high quality underground water that is pumped from boreholes, all from chalk 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 of 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.

The Strategic Report includes a detailed description of the Company's objectives and business model and its activities to generate value for its various stakeholders.

MANAGING DIRECTOR'S REVIEW

A year of challenge and change

This has been the first year of delivery in the new AMP6 period. The new Outcome Delivery Incentive (ODI) targets represent our commitment to deliver what our customers said was important to them. The five Outcomes and 15 specific ODIs, covering all aspects of operations from water quality, secure and reliable supplies, customer services and environmentally sustainable operations to fair customer bills, provide real focus for delivery. Alongside these, we have defined seven business targets of our own, including a focus on readiness for non-household competition and employee satisfaction, safety and wellbeing.

A strong business plan, based on one of the largest pieces of customer engagement we have undertaken to date, is in place to deliver these targets and meet the challenges and opportunities this five year AMP 6 period will present.

The business has maintained a clear focus on delivering both high quality service and value for money throughout the year while it responds to the shifting landscape of the UK water industry.

Our household customers continue to enjoy some of the lowest bills in England and Wales. The average household bill has reduced from £144 in 2015/16 to £142 in 2016/17 in the South Staffs region and from £129 to £127 in the Cambridge region.

Water quality has been the most notable challenge of the year, with results falling short of our target in some areas. We have worked transparently with the Drinking Water Inspectorate and have taken steps to restore performance and as a result are already seeing real improvements in this vital area.

We have maintained our strong track record on leakage and are pleased to have delivered our best result in customer supply interruptions in 15 years.

Achieving a reduction in our retail costs without impacting on the quality of customer service is a key area of focus. Savings have been made this year through transferring some non-voice back office functions offshore, the merging of the Cambridge customer contact centre operations with those in the South Staffs region and further changes to metering operations.
We have successfully transferred all Cambridge region customers to the same billing system as the South Staffs region, providing a platform for further long term sustainable efficiencies and improvements in customer service. This change also supports the business's digital shift strategy to change how we communicate with and provide more choice to customers now and in the future, underpinned by the new South Staffs Water website launched in 2015.

We have worked hard to deliver an improved performance against the new SIM measures, Ofwat's score of customer experience. We aspire to be positioned in an upper quartile position for the AMP 6 period and await the publication of the industry comparative results for the year with interest.

A slow start to the year resulted in failure to meet our community engagement target of 400 days of employee volunteering. However, momentum gathered throughout the year with activities ranging from charity fundraising and helping out with a community garden to clearing a brook and painting of community facilities, totalling over 250 days of support in our communities.

Overall, we have ended the year in a strong position with good performance against most ODIs and the business on track to deliver against our commitments for the AMP6 period.

A plan for the future

The AMP6 period demands a degree of flexibility and responsiveness not previously seen in the water industry. To meet our commitments, we need to demonstrate a combination of collaboration, innovation, long term planning and careful investment.

The highest quality water, today and tomorrow

The quality of the water we supply to our customers every day is the single most important thing we do and we are committed to ensuring customer interests in this key area of our operation are protected. During this AMP period, we have identified improving the quality of our water beyond just meeting our regulatory commitments as the number one target for the business.

A multimillion pound investment in our Seedy Mill treatment works is due for completion this year. The project will create the second largest clean water UV treatment plant in the UK, delivering enhanced performance and compliance in this area. This year will also see the commencement of significant investment in our Hampton Loade treatment works.

Additional improvement activities around bore holes and the network, combined with ongoing training of operational employees and work to educate and inform our customers, will all contribute toward our aim to achieve 100% water quality compliance and an improved customer perception of water through appearance, taste and odour.

Secure and reliable supplies, now and in the future

Balancing the needs of customers with those of the environment demands considerable resource planning and we recognise the need to protect water supplies as our communities grow and demand increases.

We will continue to focus on minimising supply interruptions, ensuring our pipes and networks are well maintained and investing in our infrastructure to provide secure and reliable supplies. Joint working has increased as an approach to addressing challenges in this area. We will work closely with the Environment Agency to maintain practices that are environmentally responsible as well as develop appropriate partnerships that will provide innovative solutions. Successful collaboration with the University of Cambridge will facilitate the UK's largest rainwater recycling scheme at the £1 billion North West Cambridge development. Phase 1 of the award winning project to supply 3,000 homes, 2,000 student rooms and other community facilities, is due for completion in 2017. We see this as an exciting template for future strategic developments in a water scarce area which is also seeing continued and significant population growth.

Water efficiency is fundamental to safeguarding supplies and we are committed to helping our customers change the way they value and use water every day through an ongoing programme of educational engagement.

Excellent customer service, every time

We remain committed to exceeding customer expectations and aim to be positioned in the industry upper quartile of the new SIM measure.

Good customer engagement to provide in-depth insight into our customers' needs and experiences is vital to delivering excellent customer service. We are continually working to be better enabled to listen to customers and act in response to what we hear from them.

During the year we undertook research which identified our customers' willingness to support the introduction of a social tariff that has subsequently been implemented with their endorsement. We now look forward to helping many more customers who are struggling to pay their water bill.

Further research was undertaken to help shape our offering in line with business customers' current and future needs ahead of the business retail market opening to competition. This was alongside wider research into both business and residential customers' views of our services which will be used to inform future business decisions and fit with our customers' needs. We plan to listen and develop services which our customers have told us they value.

We have also now established an independent Customer Panel to monitor and actively challenge how we perform. The Panel has an independent Chair, Simon Sperryn, who was recruited in an arms-length and transparent manner. We look forward to the contribution and challenge that Simon will bring. Simon has proceeded to recruit further members and together they comprise a strong and balanced team. We are confident they will challenge the robustness of our customer engagement activity and our performance as a business in the communities we serve.

Greater choice and flexibility will be met by continued development of our digital offering to customers. Our new website now offers online account management 24 hours a day to respond to changes in lifestyles. This has been underpinned with planned improvements in our use of technology in our customer contact centre and live visibility of operational activity and supply issues.

We remain committed to investing in the training and development of all of our front line staff, in the contact centre and out in the field, to ensure we deliver a seamless experience of first time resolution of customer issues wherever possible.

Connecting with our communities

We want to make a positive difference and develop strong and lasting partnerships with the communities we live and work in through education about water usage and efficiency, enhancing biodiversity and charitable support.

Active community engagement initiatives, including an education programme, biodiversity projects and our employee volunteering scheme, will aim to deliver at least 400 days of support in our communities each year.

Environmentally sustainable operations

We understand and recognise the impact of our operations and are dedicated to protecting our environment.

We hold a good long term track record on leakage and work is ongoing to ensure we continue to meet our targets. This includes fitting many more additional flow-meters in the Cambridge distribution network to automatically monitor consumption and support leak detection performance improvements.

We take an active approach to catchment management as a long term solution to improving the quality of raw water; developing partnerships with key stakeholders, undertaking relevant research, participating in initiatives and acting as an education resource. We also work to deliver innovative projects that will enhance biodiversity across our regions.

Reducing carbon emissions from the power we use to pump water around our networks is a key target and activities included in 2015, the installation of solar panels to a number of operating sites.

We will continue to encourage our communities to access our sites that are open to the public as well as provide opportunities to support increased knowledge of the water cycle and the environment we live in. A particular highlight was the opening of the new nitrate treatment plant at Fleam Dyke in Cambridge which involved a local school and the Mayor. This asset will improve the quality of the water we supply to the local community for many years to come.

Fair customer bills for all

Our household customers have some of the lowest bills in England and Wales and we are working to make sure they remain affordable. We are committed to reducing customer bills over the five year AMP 6 period and will continue to support our most vulnerable customers with a range of help when they need it most. We will engage with 30,000 customers in debt each year to help them manage their water accounts and take control of their consumption.

We have a range of solutions for customers that struggle with bills including our Charitable Trust, Water Direct and WaterSure and this year will see the implementation of a renewed strategy on affordability including a new social tariff.

Consultation with customers showed strong support for the introduction of a cross subsidy for the tariff to support those customers in need of additional support. Available to all customers, it will provide a significant discount on bills subject to eligibility based on income and expenditure. We aim to help 7,000 customers this year with targeted support through the new social tariff.

Valuing our people

We are committed to making South Staffs Water a great place to work with a safe, positive and rewarding working environment. We reduced accidents in the workplace by 20% last year and we will continue to place focus on ensuring the highest employee safety standards in the year ahead.

Our annual employee survey will continue to play an important role in helping us to understand the feelings and motivations of our people and we will work to use this measure to act in response to results in areas such as training and development.

Employees are encouraged to support the water industry's charity, WaterAid, and are provided with opportunities to get involved. Over £35,000 was raised in 2015 with activities including a group cycling 95 miles along the Shropshire Union Canal, a fly fishing competition and a dinner dance.

Gender of Directors, Senior Managers and Other Employees

The split between male and female employees as at March 2016 is as follows:

	Directors	Senior Managers	Wider Employees
Male	7	14	308
Female	0	6	103

The year ahead

As we progress through this five year regulatory cycle, much of our activity is mapped out. Our primary business objective of consistently supplying excellent quality water to customers as well as achieving our other performance commitments remains and we must focus on ensuring that the predicted benefits of investing £480 million are fully realised.

We will continue to develop our systems, processes and organisational structures in preparation for the non-household retail business opening up for competition in April 2017, with significant change expected in a number of areas. This new era presents both risks and opportunities for the business and we will continue to ensure we have identified and planned accordingly for both.

With the recent publication of Ofwat's 'Water 2020: Our Regulatory Approach for Water and Wastewater Services in England and Wales', the direction of future regulation is becoming clear. Whilst the full implications are yet to be fully evaluated, early indications are that the broad objectives align to the direction of travel within our business. Key components of this are understanding our customers' needs, adapting to change in a positive way and ensuring that we look after our resources and environment whilst continuing to provide excellent value for money. We look forward to meeting these new challenges.

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. Appointed capital expenditure for the year of £25.3m (net of contributions and excluding infrastructure renewals expenditure), £3.0m above the Final Determination reflecting increased spend on production assets.

FINANCIAL

The Company has adopted FRS102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" for the first time for the year ended 31 March 2016. The impact of the transition to FRS102 is detailed in the notes to the financial statements. Where relevant, comparative figures for the previous year have been restated as if they had been reported under FRS102 in that year.

Turnover in South Staffs Water decreased by £3.1m to £123.9m, reflecting the real terms price reduction following the Final Determination. Despite this, operating profit of £35.3m was £1.4m higher than 2014-15 and reflects operating cost efficiencies achieved in the business during the year, particularly in the retail business and the full year effect of the reduction in the cost base made in the previous year.

EBITDA before infrastructure renewals was £61.9m (2015: £60.6m).

Finance charges increased by £0.4m to £11.9m largely due to higher charges associated with the Company's index-linked debt in the year.

The tax charge for the year reduced to £1.3m (2015 as restated: £4.8m*) largely due to the £4.4m reduction in deferred tax liabilities and the associated reduction in the tax charge arising from a reduction in future corporation tax rates from 20% to 18% which was enacted during the year. There was also a reduction in current tax rates from 21% to 20% which reduced the tax charge partly offset by an increase in taxable profits arising in the year.

Dividends paid during the year reduced to £12.1m including £6.1m from the appointed business (2014-15: £13.8m).

Overall, the book value of net debt amounted to £232.5m at 31 March 2016 (2015: £232.2m). Net debt includes index-linked debt, debenture stock, finance leases and bank loans less cash. This differs from the value used for covenant reporting purposes of £213.4m (2015: £217.0m) 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 64.3% (2015: 63.3%) of its RCV of £332.0m (2015: £342.8m) being the PR14 Final Determination RCV uplifted for inflation. This ratio reflects the impact of better than expected free cash generation in the year and inflation (RPI) at March 2016 of 1.6% (March 2015: 0.9%), which is used to inflate RCV, whereas the majority of index-linked debt was inflated using RPI at July 2015 which was lower at 1.0% (July 2014: 2.5%). Going forward, the Board is targeting a net debt/RCV ratio in the region of 66%. The Company has maintained and continues to forecast to maintain significant headroom in respect of all of its borrowing covenants as detailed below and as at 31 March 2016 had undrawn borrowing facilities of £25,000,000 along with cash balances of £11,378,000 providing significant liquidity.

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

***** Throughout this section, certain amounts are restated to reflect the adoption of FRS 102 which has been explained in more detail in note 28 to the financial statements.

Pensions

In order to reduce operating costs and cash flow uncertainty and increase pension benefit consistency across the Company, on 1 April 2015, the South Staffordshire section of the final salary Water Companies Pension Scheme was closed to future accrual with active member benefits accrued up to that date being preserved and increasing by inflation each year to retirement with benefits for current service now being accrued in an alternative defined contribution Group Personal Pension Plan. The Cambridge Water section of the Water Companies Pension Scheme was closed to future accrual in 2010. The current funding deficit contributions in respect of both of these sections of the Water Companies Pension Scheme of £2.2m per annum plus inflation continue to be paid. The Company accounts for these pension schemes as defined contribution schemes as there are a number of other group companies who have members in the Scheme.

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 year and previous year 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 with the Company adopting FRS102 for the first time in the year ended 31 March 2016. 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.

Principal Risks and Uncertainties and Risk Management

The Directors acknowledge that risks exist in all businesses with the Company's approach to risk reflecting its status as a regulated business with a long-term water supply license and a long-term business model to provide an essential service to its customers. As part of its normal activities, the Board of Directors, assisted by the senior management team and the Audit Committee, carry out robust assessments of the principal risks facing the Company, including those risks that have the potential to threaten the Company's business model, future operational or financial performance, solvency and liquidity. There is ongoing monitoring of the Company's risk management and internal control systems to review their continuing relevance to the business and their effectiveness and to ensure that appropriate risk management activities are in place or are planned to mitigate the risks identified. It is accepted that risks can emerge and change quickly and therefore that risk identification and mitigation activities will need to be able to respond to this and that at any given point in time enhancements to mitigating actions may be required in response to changes. Risks are assessed both on a gross basis (likelihood and consequence before mitigating controls) and a net basis (likelihood and consequence after mitigating controls) so that the Directors can properly assess the overall significance of the risk and the estimated effectiveness of mitigating actions and therefore if further actions are required. The Directors accept that not all risks can be mitigated entirely but aim to ensure that risk management activities reduce the overall impact of risks, on a net basis, to a level that is considered to be acceptable and that do not impact on the long-term viability of the Company. The Directors believe that the most significant risk areas currently faced by the Company include:

- Health and safety - the risks to the health, safety and wellbeing of the Company's employees, contractors and members of the public
- Availability of adequate water resources - the risk that due to inadequate water resources, the Company is unable to meet its legal and regulatory obligations for the secure and resilient supply of water
- Water quality - the risk that the Company is unable to meet its legal and regulatory obligations for the supply of clean, safe drinking water or that water quality is not of an acceptable standard
- Asset quality and maintenance - the risk of failure of key infrastructure and other assets or processes which may result in the inability to provide a continuous supply of clean, safe drinking water
- Customer service - the risk of failure to maintain industry leading customer service levels to ensure that the Company is delivering what customers require
- Security and availability of information and systems - the risk that the security over the Company's information and assets are breached and the risk to the business of the loss of key systems
- Market and regulatory reform - the risk of non-compliance within a regulatory environment which is complex and changing and the risk of these changes having a detrimental impact on the success and financial position of the Company
- Economic uncertainty - the risk to the business of uncertain future economic conditions, including inflation, interest rates, availability of capital markets and customer creditworthiness

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.

Long Term Viability and Financial Resilience

The Company has prepared a detailed business plan which states its long-term strategic objectives and operational plans and the key business issues that the Company faces both now and those anticipated in the future and how the Company proposes to address these issues.

As part of this business planning process, the Company has assessed its future prospects and, as part of this assessment, has prepared operational forecasts including expectations of its performance in important operational matters.

Based on this business plan, the Company has also prepared financial forecasts for the five-year period to 31 March 2021, which reflect the stated strategic objectives and operational plans, and include but are not limited to trading forecasts with turnover, operating and capital maintenance costs along with cash flow projections including operating cash flows, the planned investment programme, tax and finance related cash flows. The level of net debt is also projected through the period and is compared to the level of gearing as permitted in the Company's borrowing covenants as is its interest cover. The period to March 2021 covered by the forecasts cover one year beyond the remainder of the existing regulatory price control period and is considered to be appropriate for a long-term regulated business that provides an essential public service and invests for the long-term.

In order to assess the long-term viability and financial resilience of the Company to possible changing circumstances, sensitivity analysis has been applied to these financial forecasts to assess the impact on profitability, cash flows, liquidity, borrowing capacity and compliance with borrowing covenants of severe but plausible adverse changes to the most important assumptions made within these base projections, including those that are outside of the control of the Company, both individually and in aggregate, including an increase in the required level of capital investment and operating costs (including those arising from principal risk events occurring – see principal risks above), the level of inflation and interest rates. The Directors have selected these assumptions as they believe it is these that could most significantly impact on the longer term viability of the Company and those that could most materially deviate from the Company's base assumptions over the longer-term.

Based on the business plan, the related long-term financial projections and associated sensitivity analysis detailed above, the Board of Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment to March 2021. This expectation is based on the assumption that the Company continues its existing access to capital markets to fund its required investment programme and provide sufficient liquidity.

Some of the work required to form this Board level expectation has been delegated to the Audit Committee with a review carried out at a Board level following completion of this work.

To provide assurance, the assessment has been independently reviewed and challenged at different levels by the Group Internal Audit function, the Group Director of Finance and by the Audit Committee. The Directors consider that this level of assurance is sufficient and has therefore not sought any further third party assurance.

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 previous year show that there is significant headroom in both covenants.

	Covenant Ratio	Actual Ratio 31 March 2016	Actual Ratio 31 March 2015
Historic net cashflow less total RAV run-off & infrastructure renewals expenditure/ Historic debt service	>1.0:1	3.8	3.4
Net Debt / Regulated Asset Value	<0.90	0.64	0.63

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 including:

- Turnover
- Operating costs
- EBITDA (excluding Infrastructure Renewals Expenditure)
- Cashflow
- Net capital expenditure
- Trade debtors and associated collection rates

Non-Financial Key Performance Indicators

The new Outcome Delivery Incentive (ODI) targets represent our commitment to deliver what our customers said was important to them. The five Outcomes and 15 specific ODIs, covering all aspects of operations from water quality, secure and reliable supplies, customer services and environmentally sustainable operations to fair customer bills, provide real focus for delivery. Alongside these, we have defined our own seven business targets, including a focus on readiness for non-household competition and employee satisfaction, safety and wellbeing.

The performance against the ODI targets is set out on page 88 of the Annual Performance Report.

The Strategic Report on pages 1 to 14 is approved on behalf of the Board of Directors.

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

P Newland
Managing Director
15 July 2016

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and accounts for the year ended 31 March 2016. 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 2016, 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		8/8
Phillip Newland	Executive Director - Managing Director	01/04/2014		8/8
Jesús Olmos	Non-Executive Director	30/07/2013	30/07/2015	1/2
Ram Kumar	Non-Executive Director	30/07/2013		6/8
Oleg Shamovsky	Non-Executive Director	31/07/2015		5/5
Sir James Perowne	Senior Independent Non-Executive Director	01/01/2011		8/8
Michael Hughes	Independent Non-Executive Director	21/12/2004	02/04/2015	0/0
Keith Harris	Independent Non-Executive Director	30/04/2015		8/8
Stephen Kay	Independent Non-Executive Director	01/04/2013		7/8

No Director had 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 34 and in pages 8 and 9 of the Strategic Report.

Dividends of £12.1m were paid during the year (2014-15: £13.8m).

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 2016 represent 46 days (2015: 50 days) of purchases. 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, wellbeing and fair treatment of its employees, including disabled persons, as integral to the Company.

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.

Further information on the Company's practices is provided on pages 6 to 8.

Corporate Governance

A detailed report on Corporate Governance is set out on pages 18 to 30.

Risk Management

The Company's practices in respect of risk management are provided on pages 10 and 11 of the Strategic Report.

Going Concern

The Company's statement on Going Concern and the basis for the Going Concern assumption is provided on page 29 and 30.

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
15 July 2016
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. Following the publication of Ofwat's principles on board leadership, transparency and governance in January 2014 the Company 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 principles 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, its business model and how it delivers this and its strategy are provided in the Strategic Report.

There have been no material changes to the Company's Corporate Governance arrangements during the year, although additional disclosure has been made in respect of risk management and the long term viability and financial resilience of the Company in the Strategic Report.

Group Structure

The Company is controlled 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 controlling stake in the Company, together with certain co-investors of KKR. The KKR infrastructure fund is 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 two of the Company's seven 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, professional 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 infrastructure investment fund co-investors invest. All KKR funds investing in this company are controlled and managed by the Holding Company.

Two of these UK holding 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 the accompanying Accounts. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own Annual Report and Accounts.

The Holding Company and the immediate parent company are 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 Company. The Board 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 a Directors' & Officers' insurance policy 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 2016 were Ram Kumar and Oleg Shamovsky, both of whom are also Directors of certain holding companies above South Staffordshire Plc in the Group structure. Ram Kumar is also a non-executive Director of the Company's immediate parent, South Staffordshire Plc. Adrian Page is also an Executive Director of the immediate parent and all of 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 SSW Code, Ofwat was consulted regarding the appointment of Adrian Page as Chairman prior to his appointment. There is an agreed and clear division of responsibilities between the Executive Chairman and the Managing Director, and there is a Senior Independent Non-Executive Director with whom all appropriate regulatory interactions would also take place.

Mr Stephen Kay is considered by the Board to be independent in both character and judgement. While Stephen 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.

From 21 December 2013, Michael Hughes had served over 9-years as an Independent Non-Executive Director. The Board decided not to seek a replacement whilst the 2014 Price Review was underway. Following completion of this, the Nomination Committee sought a suitable replacement and Mike Hughes was replaced by Keith Harris as an Independent Non-Executive Director in April 2015.

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 eight Board meetings during the year ended 31 March 2016.

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, 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, financing structure, 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 appropriate preparation 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.

In accordance with the SSW code, a formal evaluation of Board performance is carried out. 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 and Markets Authority and similar regulators, 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, particularly in respect of Price Reviews and major structural reform;
- Appointment and removal of any Director, in its role as shareholder;
- Prosecution, defence or settlement of litigation above £1 million; and
- 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 personal performance related objectives. Performance related objectives 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 and setting the remuneration packages of the Board, the executive team and other senior management and meets at least once a year. No Director is involved in determining his or her own remuneration. The Committee comprises Sir James Perowne (Committee Chairman), Stephen Kay, Keith Harris, Adrian Page and Ram Kumar. The majority of the Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director.

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, Keith Harris (Committee Chairman), Stephen Kay and Sir James Perowne. The Committee is entirely comprised of Independent Non-Executive Directors and is chaired by an Independent Non-Executive. Deloitte LLP, the Company's external independent auditor, the Finance, Regulation and Business Services Director, the Company Secretary and the Internal Audit Manager are also invited to the meetings. During the year ended 31 March 2016, the committee met twice and all members attended both meetings except for Stephen Kay who attended one out of two 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. Based on current legislation, Deloitte LLP can be re-appointed for all financial years up to and including the year to 31 March 2023. Thereafter, auditor rotation is required once every 10 years with this extendable to 20 years if a tender is conducted after 10 years.

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;
- 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.

The key areas of management judgement that the Committee assessed and considered in respect of the 2015-16 annual financial statements were recoverability of receivables, capitalisation of fixed assets, asset useful economic lives, revenue recognition and management override of controls, the value of deferred tax liabilities and adoption for the first time of FRS 102. The Committee has also considered the assessment and application of the accounting policies adopted on applying FRS 102 for the first time this year.

– Nomination Committee

The Nomination Committee currently comprises Independent Non-Executive Directors, Sir James Perowne (Committee Chairman), Stephen Kay and Keith Harris and also Adrian Page and Ram Kumar. The majority of the Nomination Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director. 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. During the year ended 31 March 2016, 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; and
- 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.

Business plans, annual budgets and longer term financial forecast 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. As detailed in the Strategic Report, sensitivity analysis has been carried out on the Company's longer term financial forecasts to ensure the Company has the ability to withstand certain severe but plausible events in order to demonstrate and provide the Board with evidence of its long term viability and financial resilience.

– 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. Further details in respect of risk management are provided in the Strategic Report.

- Internal Audit

There is an 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, assurance over the quality of information 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 provide assurance, improve the Company's operations and help manage risk. 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 and staff 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 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 and Audit Committee 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. Further details of risk management and principal risks are provided in the Strategic Report.

– 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 relating to each year's financial statements.

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 to provide appropriate assurance.

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, other regulators and stakeholders. 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 and make appropriate decisions with reference to this data.

The Company's Regulatory Accounts are contained within the Annual Performance Report set out on pages 72 to 104.

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 2017 and the longer term plan and financial forecasts to 31 March 2021 and the related sensitivity analysis performed on this plan as detailed in the Strategic Report. This assertion is also based on the Company's investment programme, the Final Determination for 2015-20 and the Company's plan in relation to it, the committed borrowing facilities available to the Company together with cash balances, actual and forecast compliance with borrowing 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.

CORPORATE GOVERNANCE REPORT

The Company's business activities, its business model and strategy together with the factors likely to affect its future development, are set out in the Strategic Report on pages 1 to 14. The financial position of the Company, its liquidity position and available borrowing facilities are set out on pages 8 to 9 of the Strategic Report, the balance sheet on page 35 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.

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, set out on pages 32 and 33, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the accounts.

DIRECTORS' RESPONSIBILITIES STATEMENT

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 38 to 45) 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 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 29. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 2016 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.

Jacqueline Holden

Jacqueline Holden FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
15 July 2016

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2016

	Note	**2016** £'000	2015 Restated (Note 28) £'000
Turnover	2	123,876	126,930
Operating costs (net)	3	(88,597)	(93,056)
Operating profit		**35,279**	33,874
Exceptional profit on disposal of rental income rights	7	**4,590**	-
Finance charges (net)	8	**(11,872)**	(11,487)
Profit on ordinary activities before taxation		**27,997**	22,387
Taxation on profit on ordinary activities	9	**(1,323)**	(4,849)
Profit on ordinary activities after taxation	23	**26,674**	17,538
Earnings per share			
Basic	11	**1,256.3p**	**826.0p**
Diluted	11	**1,256.3p**	**826.0p**

The results above are derived from continuing operations.

A statement of movements in reserves is given in note 23 to the financial statements.

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

BALANCE SHEET

As at 31 March 2016

	Note	2016	2015
			Restated (Note 28)
		£'000	£'000
Fixed Assets			
Tangible assets	12	**475,542**	466,112
Current Assets			
Stocks	15	**1,554**	1,590
Debtors - amounts recoverable within one year	16	**29,091**	25,732
Debtors - amounts recoverable in more than one year	16	**43,813**	43,940
Investments	17	**2**	2
Cash at bank and in hand		**11,379**	2,432
		85,838	73,696
Creditors - amounts falling due within one year	18	**(54,684)**	(76,313)
Net current assets / (liabilities)		**31,154**	(2,617)
Total assets less current liabilities		**506,696**	463,495
Creditors - amounts falling due after more than one year	19	**(276,732)**	(244,780)
Accruals and deferred income - falling due after more than one year	14	**(134,353)**	(131,222)
Provisions for liabilities - falling due after more than one year	21	**(34,531)**	(39,330)
Net Assets		**61,080**	48,163
Capital and Reserves			
Called-up share capital	22	**2,123**	2,123
Share premium account	23	**495**	495
Hedging reserve	23	**(6,930)**	(4,358)
Revaluation reserve	23	**35,347**	35,800
Capital redemption reserve	23	**4,450**	4,450
Profit and loss account	23	**25,595**	9,653
Shareholders' Funds	24	**61,080**	48,163

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 15 July 2016.

P. Newland

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Note	2016	2015 Restated (Note 28)
		£'000	£'000
Profit on ordinary activities after taxation		**26,674**	17,538
Movement in hedging reserve (net of deferred tax) - before transfers	23	**(1,637)**	381
Total comprehensive income		**25,037**	17,919

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2016

	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 2014							
- as previously reported	2,123	495	4,450	-	8,137	(4,739)	10,466
FRS102 transitional adjustments (Note 28)	-	-	-	36,253	(2,653)	-	33,600
Balance at 1 April 2014							
- as restated	**2,123**	**495**	**4,450**	**36,253**	**5,484**	**(4,739)**	**44,066**
Profit for the financial period	-	-	-	-	17,538	-	17,538
Change in value of hedging instruments							
- cash flow hedges (net of deferred tax)	-	-	-	-	-	232	232
Amounts recycled to profit and loss							
(net of deferred tax)	-	-	-	-	-	149	149
Amounts transferred to profit and loss	-	-	-	(453)	453		-
Total comprehensive income	2,123	495	4,450	35,800	23,475	(4,358)	61,985
Dividends (Note 10)	-	-	-	-	(13,822)	-	(13,822)
Balance at 31 March 2015	**2,123**	**495**	**4,450**	**35,800**	**9,653**	**(4,358)**	**48,163**
Balance at 1 April 2015							
- as previously reported	2,123	495	4,450	-	10,369	(4,358)	13,079
FRS102 transitional adjustments (Note 28)	-	-	-	35,800	(716)	-	35,084
Balance at 1 April 2015							
- as restated	**2,123**	**495**	**4,450**	**35,800**	**9,653**	**(4,358)**	**48,163**
Profit for the financial period	-	-	-	-	26,674	-	26,674
Change in value of hedging instruments							
- cash flow hedges (net of deferred tax)	-	-	-	-	-	(1,789)	(1,789)
Amounts recycled to profit and loss							
(net of deferred tax)	-	-	-	-	-	152	152
Amounts transferred to profit and loss	-	-	-	(453)	1,388	(935)	-
Total comprehensive income	2,123	495	4,450	35,347	37,715	(6,930)	73,200
Dividends (Note 10)	-	-	-	-	(12,120)	-	(12,120)
Balance at 31 March 2016	**2,123**	**495**	**4,450**	**35,347**	**25,595**	**(6,930)**	**61,080**

1. Statement of Accounting Policies

The principal accounting policies are summarised below. The Company has adopted the accounting standards of FRS 102 for the first time in the year ended 31 March 2016. The impact of the change has been detailed in note 28. For comparative purposes, the figures for the year ended 31 March 2015 have been restated as if FRS 102 were adopted for that period also and as such the transition date is the 1 April 2014. The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. South Staffordshire Water is consolidated in the financial statements of its ultimate holding company, Hydriades IV Limited which may be obtained from Companies House in the UK. Exemptions have been taken in these separate Company financial statements in relation to presentation of a cash flow statement and remuneration of key management personnel.

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 29 and 30.

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 supplied in the year together with an estimation of amounts supplied but unbilled at the year end. Further information on the Company's revenue recognition policy is shown on pages 78 and 79 of the regulatory accounts.

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 include two regional network assets that, as a whole, are 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 is treated as additions which are capitalised at cost.

Infrastructure renewals expenditure which is the annual expenditure required to maintain the operating capability of the network is not capitalised within tangible fixed assets but is expensed within operating costs for the year. In accordance with FRS 102, new infrastructure assets are depreciated over their useful economic life of 100 years (or 80 years for existing assets at transition to FRS 102).

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 is being depreciated over the estimated remaining economic life of 80 years.

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, including those in respect of infrastructure assets, are treated as deferred income and released to operating costs over the useful lives of the assets concerned.

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

For the defined contribution schemes the amount charged to the profit and loss account is the contributions payable in the year. The defined benefit scheme is now closed to new entrants and has ceased future accrual. In accordance with the agreed policy in the Company and the Group, as the scheme is a multi-employer scheme with deferred members of the scheme also being employees of other Group companies 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 the stated policy, the scheme is accounted for by the Company with the amount charged to the profit and loss account being equivalent to the deficit contributions payable in the year by the Company with the profit and loss items, actuarial gains and losses and assets and liabilities relating to the scheme being accounted for in the accounts of South Staffordshire Plc, the immediate holding company.

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 estimated 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 substantively enacted at the balance sheet date.

j) Financial Instruments

Financial Assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable 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 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 has entered into derivative financial instruments to hedge exposure to floating interest rates. These derivative financial instruments are recorded on the balance sheet at fair value on inception and at each balance sheet date. Movements in fair value are recorded in the profit and loss account except where hedge accounting has been adopted by the Company.

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 net of deferred tax. 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. 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 FRS 102, the Company has not prepared a cash flow statement because its immediate parent company, South Staffordshire Plc, prepares consolidated accounts each year which include the accounts of the Company, and contains a consolidated cash flow statement. These accounts 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.

n) Exceptional Items

The Company separately presents certain items on the face of the profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, are presented separately to allow an understanding of the Company's financial performance and comparison to the prior year. They are not expected to be incurred on a recurring basis. Additional details of exceptional items are set out in Note 7.

Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements. These are based on historical experience, future forecasts and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed and amended where necessary on a regular basis. However, it is also recognised that the actual outcomes may still differ to the judgements, estimates and assumptions made. Provided below are details of the principal accounting judgements, estimates and assumptions that the Directors have made when applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Accrued income

An estimate of water consumption by metered customers since the date of the last water bill and the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from the Company's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2016 was £14,600,000 (2015: £11,900,000).

Bad and doubtful debt provision

The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year-end, requires judgement. This judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually calculated as a percentage of the total amount billed in each year. This information is used in order to estimate the level of debt outstanding at the end of the year which is expected to be irrecoverable after following the processes of collection that the Company adopts. This estimate represents the year-end bad and doubtful debt provision which was £29,790,000 as at 31 March 2016 (2015: £27,671,000).

Tangible fixed assets – Determining costs which are capital in nature

Judgment is required to determine whether costs incurred when work is carried out on Company assets are capital or revenue in nature. This work includes repairs, like-for-like replacement, new assets or replacement of assets with an element of asset enhancement or increased capacity. Identifying which element of expenditure represents capital expenditure rather than revenue expenditure may include judgement that the Company's two regional infrastructure networks each represent single infrastructure assets. In order to apply the appropriate accounting, a judgement is made as to whether it is probable that the expenditure will generate future economic benefits and also if the costs can be measured reliably.

Tangible fixed assets – Deemed cost on transition to FRS 102

In order to record a deemed cost of infrastructure assets on transition to FRS 102, there was a requirement to estimate the fair value of these assets as at the transition date (1 April 2014). In line with market practice, in forming this estimate of fair value, the Company's Regulated Asset Value as at that date was used, making deductions for net debt and the net book value of other assets and liabilities. The difference of £45,316,000 between the fair value of infrastructure assets calculated in this way and their net book value under previous UK GAAP at 1 April 2014 has been recorded as an increase to the book value of infrastructure assets to estimate deemed cost on transition with a corresponding credit recorded as a revaluation reserve.

Tangible fixed assets – Assessment of useful economic lives

There is a requirement to estimate the useful economic lives of the Company's tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the businesses forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of assets lives.

The total net book value of tangible fixed assets as at 31 March 2016 is £475,542,000 (2015: £466,112,000)

Hedge accounting

In applying the Company's interest rate hedging strategy and the corresponding hedge accounting applied in the financial statements a judgement has been made that there will be highly probable floating interest rate payments over the term of the interest rate derivatives. Underlying this judgement is the assessment that the future refinancing of bank facilities is highly probable. The basis for this judgement includes the Company's long-term 25-year water supply licence, its related long-term business model and regulated asset base, its ability to access capital markets including the bank debt market, its strong investment grade credit rating and also the stability and predictability of the regulated UK water sector as a whole.

Amortised cost of index-linked borrowings

In order to record the Company's index-linked borrowings at amortised cost an estimate of the long-term average inflation rate (Retail Price Index - RPI) per annum is required to be made. In forming this estimate, financial market data such as the long-term yields for fixed rate and index-linked (RPI) gilts is obtained and considered with the difference between these yields being the market implied long-term inflation assumption. The net book value of index-linked borrowings as at 31 March 2016 was £212,046,000 (2015: £205,978,000).

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)

	2016 £'000	2015 Restated £'000
Operating costs (net) were as follows:		
Other operating income (see note 6)	**(1,587)**	(981)
Raw materials and consumables	**4,150**	4,338
Staff costs (see note 4)	**19,681**	22,922
Own work capitalised	**(7,934)**	(7,483)
Depreciation : non-infrastructure assets	**17,916**	16,883
Depreciation : infrastructure assets	**3,439**	3,338
Infrastructure renewals expenditure	**7,510**	8,693
Amortisation of capital contributions	**(2,283)**	(2,208)
Other operating costs	**47,705**	47,553
	88,597	93,056

Auditor remuneration is analysed as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**83**	81
Other services pursuant to legislation	**-**	-
	83	81

4. Staff Costs

	2016 £'000	2015 £'000
Wages and salaries	**15,091**	16,853
Social security costs	**1,465**	1,463
Pension costs (see note 25)	**3,125**	4,606
	19,681	22,922

	2016 Number	2015 Number
Average number of employees	**430**	478

5. Directors' Remuneration

	2016 £'000	2015 £'000
Emoluments	**308**	**307**

Contributions made by the Company to money purchase pension schemes in respect of directly employed Directors was £21,000 (2015:£19,000).

The highest paid directly employed Director received emoluments of £230,000 (2015: £227,000) and was not a member of a defined benefit pension scheme and had contributions of £21,000 (2015:£19,000) paid by the Company in respect of defined contribution pension schemes during the year.

During the year and the prior year, certain Directors received no emoluments as Directors of this Company. These directors were remunerated by the immediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £362,000 (2015: £336,000). Contributions to the money purchase pension scheme in respect of these directors was £61,000 (2015: Nil). No Directors (2015: 1) who held office at the end of the year were accruing benefits due in the year under a defined benefit pension scheme and 2 Directors (2015: 1) were contributing members under a money purchase scheme.

6. Other Operating Income

	2016 £'000	2015 £'000
Profit on disposal of fixed assets	**1,045**	228
Rental income	**543**	753
	1,588	981

7. Exceptional Item

	2016 £'000	2015 £'000
Exceptional profit on disposal of rental income rights	**4,590**	-

During the year the Company has sold the contractual rights to future rental income relating to a number of its sites. This sale has generated a profit of £4,590,000 which has been disclosed in the profit and loss account as exceptional due to the non-recurring nature of the sale and the significance of the proceeds and the profit generated. It is considered that the disposal and the related profit is not of an operating nature and as such it has been recorded after operating profit.

8. Finance Charges (Net)

	2016 £'000	2015 £'000
Interest payable and similar charges:		
Index-linked debt (Cash)	**7,049**	6,900
Index-linked debt (Non-cash)	**6,068**	5,875
Bank loan and other interest	**1,176**	1,236
Finance charges in respect of finance leases	**5**	33
Debenture interest	**68**	68
	14,366	14,112
Interest receivable:		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(133)**	(266)
	11,688	11,301
Other finance charges:		
Amounts recycled from hedging reserve	**184**	186
	11,872	11,487

9. Taxation on Profit on Ordinary Activities

Tax on profit on ordinary activities

	2016	2015 (Restated)
	£'000	£'000
Current tax:		
UK corporation tax at 20% (2015: 21%)	**6,087**	5,622
Adjustments in respect of prior periods	**(162)**	343
Total current tax charge	**5,925**	5,965
Deferred tax:		
Origination and reversal of timing differences	**(418)**	(854)
Impact of changes in future tax rates	**(4,424)**	-
Adjustments in respect of prior periods	**240**	(262)
Total deferred tax credit	**(4,602)**	(1,116)
Total tax charge	**1,323**	4,849

Tax included in statement of total other comprehensive income

	2016	2015
Deferred tax:		
Movement in hedging reserve	**(330)**	96
Effect of change in deferred tax rate	**133**	-
Total tax (credit) / charge	**(197)**	96

Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 20% (2015 - 21%). The differences are reconciled below.

	2016	2015 (Restated)
	£'000	£'000
Profit on ordinary activities before tax	**27,997**	22,387
Profit on ordinary activies multiplied by standard UK corporation tax rate of 20% (2015: 21%)	**5,600**	4,701
Expenses not deductible for tax purposes (net)	**23**	25
Deferred tax provided at lower rate	**46**	42
Effect of changes in deferred tax rate	**(4,424)**	0
Adjustments in respect of prior years	**78**	81
Total tax charge	**1,323**	4,849

Factors that may affect the future tax charge

Reductions in the future UK corporation tax rates from 20% to 19% and then 18% were substantively enacted in July 2015 and will take effect in April 2017 and April 2020 respectively. A further reduction to 17% from April 2020 has been announced but has not been substantively enacted. Deferred tax has been recognised at 18% or 19% depending on the expected reversal period.

Applying the proposed future tax rate of 17% to the deferred tax balance would have resulted in a reduction of the deferred tax liability and an additional profit and loss account reserve credit of £2,270,000.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £1,879,000 (2015: £2,087,000).

10. Dividends Paid

	2016	2015
	£'000	£'000
Equity interests:		
Ordinary dividends paid of 570.8p (2015: 651.0p) per share	**12,120**	13,822

11. 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:

	2016	2015
		Restated
	£'000	£'000
Profit on ordinary activities after taxation and profit for earnings per share	**26,674**	17,538

	2016	2015
	Number of Shares	Number of Shares
Weighted average number of shares for basic and diluted earnings per share	**2,123,210**	2,123,210

12. 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 2015 (as previously reported)	178,256	23,425	254,701	168,739	625,121
FRS102 transitional adjustments (Note 28)	-	-	186,271	-	186,271
At 1 April 2015 (as restated)	**178,256**	**23,425**	**440,972**	**168,739**	**811,392**
Additions	11,306	-	7,647	12,075	31,029
Capital Contributions	-	-	-	-	-
Disposals	(12)	(60)	(14)	(560)	(646)
At 31 March 2016	**189,550**	**23,365**	**448,605**	**180,254**	**841,775**
Depreciation					
At 1 April 2015 (as previously reported)	80,708	6,548	167,690	86,997	341,943
FRS102 transitional adjustments (Note 28)	-	-	(3,338)	-	(3,338)
At 1 April 2015 (as restated)	**80,708**	**6,548**	**171,028**	**86,997**	**345,281**
Charge for the year	6,262	390	3,439	11,264	21,355
Disposals	-	-	-	(403)	(403)
At 31 March 2016	**86,970**	**6,938**	**174,467**	**97,858**	**366,233**
Net Book Value					
At 31 March 2016					
Owned	101,876	16,427	269,911	81,745	469,959
Leased	704	-	4,227	651	5,582
	102,580	**16,427**	**274,138**	**82,396**	**475,542**
Net Book Value					
At 31 March 2015 (Restated)					
Owned	96,634	16,877	265,718	80,841	460,070
Leased	914	-	4,227	901	6,042
	97,548	16,877	269,945	81,742	466,112

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £12,502,000 (2015: £12,920,000) less accumulated depreciation of £6,920,000 (2015: £6,878,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £296,000 (2015: £478,000). Tangible fixed assets include freehold land of £2,465,000 (2015: £2,385,000) which is not subject to depreciation.

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £19,725,000 at 31 March 2016 (2015: £19,795,000).

13. Commitments

Capital commitments outstanding at 31 March 2016 were £2,936,000 (2015: £1,793,000).

14. Capital Contributions – Accruals and Deferred Income

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2015 (as previously reported)	140,956	8,656	149,612
FRS102 transitional adjustments (Note 28)	(18,390)	-	(18,390)
Balance at 1 April 2015 (restated)	**122,566**	**8,656**	**131,222**
Capital contributions received	4,853	561	5,414
Amortised in year	(1,563)	(720)	(2,283)
Balance at 31 March 2016	**125,856**	**8,497**	**134,353**

15. Stocks

	2016 £'000	2015 £'000
Raw materials and consumables	**1,554**	1,590

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

16. Debtors

	2016 £'000	2015 £'000
Amounts recoverable within one year:		
Trade debtors	**12,380**	12,908
Other debtors	**68**	180
Amounts due from other group undertakings	**2,035**	27
Amounts due from parent undertakings	**364**	364
Prepayments and accrued income	**14,244**	12,253
	29,091	25,732
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**3,786**	3,906
Other debtors	**27**	34
	43,813	43,940
	72,904	69,672

17. Investments

	2016 £'000	2015 £'000
Investments	**2**	2

The balance represents the cost of investment 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.

18. Creditors – amount falling due within one year

	2016	2015
		Restated
	£'000	£'000
Bank loans and overdraft (unsecured)	-	26,420
Obligations under finance leases	392	580
Payments received in advance	21,308	17,552
Trade creditors	15,005	18,086
Other creditors	6,747	4,829
Derivative financial liabilities	-	325
Amounts owed to other Group undertakings	5,395	4,956
Corporation tax payable	5,317	3,036
Other taxation and social security	520	531
	54,684	76,315

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.

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

	2016	2015
	£'000	£'000
Irredeemable debenture stock (unsecured) (note 20)	1,633	1,633
Perpetual debenture stock (unsecured)	19	19
Amounts owed to other Group undertakings	20,495	26,364
Obligations under finance leases:		
payable between one and two years	-	45
Other creditors	10,412	10,741
Derivative financial liabilities	2,344	-
Bank loan (unsecured):		
payable between one and two years	29,783	-
Retail Price Index-linked debt (unsecured)	212,046	205,978
	276,732	244,780

The gross bank loan (unsecured) of £30,000,000 (2015: £26,500,000 included in amounts falling due within one year) is used for covenant reporting purposes but, in accordance with FRS102, is stated above net of unamortised issue costs.

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 £212,046,000 (2015: £205,978,000) is stated above at amortised cost in accordance with FRS102. The indexed principal of £192,706,000 (2015: £190,638,000) is used for borrowing covenant reporting purposes.

20. Irredeemable Debenture Stock

	2016 £'000	2015 £'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

21. Provisions for Liabilities

	2016 £'000	2015 Restated £'000
Deferred tax is provided as follows:		
Accelerated capital allowances	**36,360**	40,443
Timing differences in respect of hedging reserves	**(1,521)**	(1,323)
Timing differences in respect of finance charges	**(195)**	328
Other timing differences	**(113)**	(118)
	34,531	39,330

	Deferred Tax £'000
At 1 April 2015 (restated)	**39,330**
Profit and loss account credit	**(4,602)**
Credit to other comprehensive income	**(197)**
At 31 March 2016	**34,531**

22. Share Capital

	2016 £'000	2015 £'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

23. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Revaluation Reserve £'000
Balance at 1 April 2015 (as previously reported)	495	4,450	10,369	(4,358)	-
FRS102 transitional adjustments (Note 28)	-	-	(716)	-	35,800
Balance at 1 April 2015 (as restated)	**495**	**4,450**	**9,653**	**(4,358)**	**35,800**
Profit for the financial year	-	-	26,674	-	-
Dividends paid (note 10)	-	-	(12,120)	-	-
Amounts transferred to profit and loss	-	-	1,388	(935)	(453)
Changes in value of hedging instruments - cash flow hedges (net of deferred tax)	-	-	-	(1,789)	-
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	152	-
Balance at 31 March 2016	**495**	**4,450**	**25,595**	**(6,930)**	**35,347**

24. Reconciliation of Movements in Shareholders' Funds

	2016 £'000	2015 Restated £'000
Profit for the financial year	**26,674**	17,538
Dividends paid (note 10)	**(12,120)**	(13,822)
Movement on hedging reserve (net of deferred tax)	**(1,637)**	381
Net increase to shareholders' funds	**12,917**	4,097
Opening shareholders' funds (restated)	**48,163**	44,066
Closing shareholders' funds	**61,080**	48,163

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 section (the South Staffordshire Section of the Scheme) which provides benefits based on pensionable pay. The scheme was closed to all future benefit accrual with effect 1 April 2015 and as such only funding deficit contributions are now being paid into the Scheme (with these being £1,764,000 in the year ended 31 March 2016 and £1,724,000 in the year ended 31 March 2015) with an equivalent amount charged to the profit and loss account in the year. No current service contributions are now paid. There was also £430,000 charged to the profit and loss account in relation to the Cambridge section of the Water Companies Pension Scheme. The assets and liabilities of the South Staffordshire section of the Scheme are accounted for in the accounts of the immediate parent undertaking, South Staffordshire Plc. In addition, the Company participates in two defined contribution Money Purchase Pension Schemes. The assets of all schemes 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. The amount charged to the profit and loss account for the defined contribution schemes for the year ended 31 March 2016 was £931,000 (2015: £980,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS102. The latest actuarial valuation of the South Staffordshire section of the scheme as at 31 March 2015, prepared for the purposes of the consolidated financial statements of the parent company under FRS 102 rather than on the actuarial basis used for funding purposes, shows a surplus before deferred tax of £28,093,000 (2015: surplus of £19,172,000 as restated). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme that were accounted for in the parent company at the balance sheet date were:

	2016 Valuation	2015 Valuation (Restated)	2014 Valuation (Restated)
	£'000	£'000	£'000
Equities	**61,018**	71,970	70,195
High yield bonds / gilts and debt instruments	**112,115**	108,265	85,050
Diversified growth funds	**26,789**	28,174	25,271
Emerging markets multi-asset funds	**14,762**	14,138	13,007
(Overdraft) / Cash	**(230)**	(33)	353
Market value of assets	**214,454**	222,514	193,876
Present value of scheme liabilities	**(186,361)**	(203,342)	(175,439)
Surplus before deferred tax	**28,093**	19,172	18,437
Related deferred tax liability	**(5,057)**	(3,834)	(3,687)
Surplus after deferred tax	**23,036**	15,338	14,750

Further details required by FRS 102 section 28 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, 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 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 2016 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 2016	**243,873**	**31,827**	**-**	**212,046**
31 March 2015	234,675	28,697	-	205,978

Floating rate loans that are hedged by the floating to fixed interest rate swaps are shown above as fixed rate. 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 (2015: £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2016 of £167,350,000 (2015: £162,718,000), and a fair value of £267,300,000 (2015: £287,735,000) and the £35,000,000 (2015: £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2016 of £44,696,000 (2015: £43,260,000) and a fair value of £46,701,000 (2015: £47,642,000).

Fixed Rate Borrowings

	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
31 March 2016	**3.1**	**4.7**
31 March 2015	3.6	0.7

Borrowing Facilities

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2016 in respect of which all conditions precedent have been met were as follows:

	2016 £'000	2015 £'000
Expiring in one year or less	-	13,500
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years but not more than five years	**25,000**	15,000
	25,000	28,500

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 principles 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 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 2016. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2016	2015
	£'000	£'000
RPI +0.25%	**(494)**	(476)
RPI -0.25%	**494**	476
LIBOR +1.00%	**48**	91
LIBOR -1.00%	**(48)**	(91)

The impact on the pre-tax profit and loss account for 2016 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2015 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 2014.

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 2016 was as follows:

Borrowings	2016	2015 (Restated)
	£'000	£'000
In one year or less or on demand	392	27,080
In more than one year, but not more than two years	-	45
In more than two years, but not more than five years	30,000	-
In more than twenty years	194,358	192,290
	224,750	219,415
Other Financial Liabilities		
In one year or less or on demand	54,292	49,315
In more than one year, but not more than two years	430	408
In more than two years, but not more than five years	21,932	27,726
In more than five years, but not more than twenty years	10,889	8,971
	312,293	305,835

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £192,706,000 (2015: £190,638,000) 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 (2015: £399,467,000) and at redemption in 2051 is £139,996,000 (2015: £139,996,000).

Debtors recoverable in more than one year of £43,813,000 (2015: £43,940,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2015: £40,000,000) with £15,000,000 (2015: £15,000,000) due to be repaid within two to five years and £25,000,000 having no fixed repayment date (2015: £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 2016 in respect of such provisions was £2,427,000 (2015: £4,265,000). Total trade debtors as at 31 March 2016 were £12,380,000 (2015: £12,908,000). The total amount of the provision included in the above, as at 31 March 2016 was £29,790,000 (2015: £27,671,000). 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 2016 was £155,000 (2015: £178,000), representing only 1.3% of the Company total (2015: 1.4%).

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
2016	**7,636**	**2,149**	**1,033**	**692**	**392**	**-**	**11,902**
2015	8,003	2,030	1,171	679	393	-	12,276

Non-Regulated	<1 month	1-2 months	>2months	Total
2016	**330**	**14**	**-**	**344**
2015	620	89	92	800

Non-regulated debtors that are considered to be impaired of £70,000 (2015: £38,000) 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
2016	**3,894**	**3,475**	**3,299**	**3,181**	**2,949**	**12,922**	**29,720**
2015	3,947	3,406	3,259	3,064	2,895	11,062	27,633

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 16 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 2016 was £4,150,000 (2015: £4,270,000). 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.

28. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard. The following disclosures are required in the first year of adoption.

Reconciliation of Equity

	At 1 April 2014 £'000	At 31 March 2015 £'000
Equity reported under previous UK GAAP	10,466	13,079
Adjustments to equity on transition to FRS 102		
1) Accounting for infrastructure assets	36,252	33,582
2) Amortisation of infrastructure contributions	13,521	14,712
3) Removal of deferred tax discount	(8,823)	(6,641)
4) Recognition of deferred tax on infrastructure assets	(7,291)	(6,510)
5) Holiday pay accrual	(59)	(59)
Equity reported under FRS 102	44,066	48,163

Reconciliation of Profit and Loss	Year ended 31 March 2015 £'000
Profit after tax for the financial year reported under previous UK GAAP	16,054
Adjustments to profit and loss on transition to FRS 102	
1) Accounting for infrastructure assets	(2,670)
2) Amortisation of infrastructure contributions	1,192
3) Removal of deferred tax discount	2,181
4) Recognition of deferred tax on infrastructure assets	781
5) Holiday pay accrual	-
Profit after tax for the financial year under FRS 102	17,538

All figures provided above are after accounting for the relevant tax impact of the adjustments required.

Notes to the reconciliation of Equity and Profit and Loss on transition to FRS 102

1. Infrastructure assets were previously accounted for in accordance with the infrastructure renewals accounting provisions of FRS 15. The estimated annual expenditure required to maintain the assets' operating capability, the infrastructure renewals charge, was charged as depreciation with infrastructure renewals expenditure capitalised within tangible fixed assets. FRS102 does not permit infrastructure renewals accounting. Under FRS 102, depreciation is now charged on the cost of these infrastructure assets (including the cost of new assets since transition and deemed cost of existing assets – see below) over the useful life of the assets and infrastructure renewals expenditure is charged to the profit and loss account as it arises and not through the previous annual infrastructure renewals charge.
   The Company has elected to measure infrastructure assets at fair value on the date of transition and to apply that fair value as deemed cost which will be depreciated in

subsequent periods over the infrastructure’s useful economic life. In line with industry practice, the fair value of the assets has been calculated by reference to the Company's Regulatory Asset Value (further details are provided in note 1). The impact of the adjustment to equity at 1 April 2014 represents the difference between the previous book value of infrastructure assets and their fair value after accounting for the corresponding deferred tax liability.

2. Infrastructure contributions receivable from third parties were previously netted against the book value of the infrastructure assets and renewals accounting applied as described above, with no corresponding amortisation credit recorded in the profit and loss account for these contributions. In accordance with FRS102 the contributions are now classified as deferred income in the balance sheet and amortised to the profit and loss account over the expected life of the relevant assets. On transition to FRS102, there is a balance sheet reclassification between tangible fixed assets and deferred income with no impact on equity. There is also an adjustment to recognise cumulative amortisation from the date of receipt of the contributions to the date of transition with a related increase to deferred tax liabilities.

3. In accordance with the relevant accounting standard (FRS 19), the Company previously elected to apply discounting to its net deferred tax liability over a period of up to 80 years. FRS102 does not permit discounting of deferred tax and so on transition the deferred tax liability is increased by the removal of the discount. Previously, the annual movement in the discount was a profit and loss account item each year. With no discount recognised in the balance sheet under FRS 102, this profit and loss account entry is no longer recognised.

4. Deferred tax was not previously recognised in relation to certain infrastructure assets to which renewals accounting applied. Under FRS102 a timing difference and therefore a deferred tax liability is now recognised for these assets, based on the difference between the restated book value of the relevant assets and the amounts for which future tax relief is available.

5. FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee services are received. This has resulted in the Company recognising a liability for unused but accrued holiday pay on transition to FRS102.

Previously holiday pay accruals were not recognised as a balance sheet liability and holiday pay was charged to the profit and loss account as it was paid.

29. 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 UK 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 Staffs Water

incorporating

CAMBRIDGE WATER COMPANY

Annual Performance Report

Year Ended 31 March 2016

Introduction

The Annual Performance Report (APR) is published each year and comprises information for the Company's appointed business. It is split into four sections:

1. Regulatory financial reporting

2. Price control and additional segmental reporting

3. Outcome Performance summary

4. Additional regulatory information

Statutory accounts on their own are insufficient to assess the performance of vertically integrated, price-controlled monopolies. This is particularly relevant in a water sector with long-life assets and where there is an absence of competitive markets for different parts of the value chain. The regulatory accounting statements will use audited information and comply with Ofwat's published Regulatory Accounting Guidelines (RAGs) that can be found on their website at www.Ofwat.gov.uk

Performance Commitments

In December 2014, Ofwat finalised the measures of success that the Company will use to report on performance from 2015 to 2020. The performance against these commitments for the year ended 31 March 2016 is set out in Table 3A of this report.

The Company has also published a separate performance report on our website and this can be found at the following link:

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

Regulatory accounts primary statements

1A - Income statement

For the 12 months ended 31 March 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Revenue	123.876	-	3.869	(3.869)	120.007
Operating costs	(90.184)	-	(2.202)	2.202	(87.982)
Other operating income	1.587	4.047	5.608	(1.561)	0.026
Operating profit	35.279	4.047	7.275	(3.228)	32.051
Other income	4.590	(4.047)	0.294	(4.341)	0.249
Interest income	2.678	-	0.007	(0.007)	2.671
Interest expense	(14.366)	-	-	-	(14.366)
Other interest expense	(0.184)	-	-	-	(0.184)
Profit before tax and fair value movements	27.997	-	7.576	(7.576)	20.421
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	27.997	-	7.576	(7.576)	20.421
UK Corporation tax	(5.924)	-	(1.515)	1.515	(4.409)
Deferred tax	4.601	-	-	-	4.601
Profit for the year	26.674	-	6.061	(6.061)	20.613

Differences between statutory and RAG definitions

In the statutory accounts the Company classifies certain income such as rental income as operating income. RAG definitions state that this should be classified as other income which is below the operating profit line. Profit before interest is unaffected by this reclassification.

In the statutory accounts, exceptional items are classified below operating profit. RAG definitions state that this should be classified as other operating income within operating profit. Profit before interest is unaffected by this reclassification. This exceptional income was not part of the appointed business.

Reconciliation of appointed current taxation to standard tax rate

Below is a reconciliation of the appointed current tax charge resulting from applying the standard tax rate to the profit and loss on ordinary activities before tax.

	2016 £m
Profit on ordinary activities before tax	20.420
Profit on ordinary activies multiplied by standard UK corporation tax rate of 20% (2015: 21%)	4.084
Expenses not deductible for tax purposes	0.027
Capital allowances in advance of depreciation	(0.085)
Other timing differences	0.545
Adjustments in respect of prior years	(0.162)
Total tax charge	4.409

Tax charge for the year compared to allowed in price limits

The tax charge for the year of £4.4m was £0.9m higher than that allowed in price limits. The additional charge predominantly relates to tax on interest income that the Company has to pay that was not funded in the Final Determination.

1B - Statement of comprehensive income

For the 12 months ended 31 March 2016

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	26.674	-	6.062	(6.062)	20.612
Actuarial gains/(losses) on post employment plans	-	-	-	-	-
Other comprehensive income	(1.637)	-	-	-	(1.637)
Total Comprehensive income for the year	25.037	-	6.062	(6.062)	18.975

1C - Statement of financial position

As at 31 March 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	475.542	-	1.529	(1.529)	474.013
Intangible assets	-	-	-	-	-
Investments - loans to group companies	-	40.000	-	40.000	40.000
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-
Total non-current assets	475.542	40.000	1.529	38.471	514.013
Current assets					
Inventories	1.554	-	0.071	(0.071)	1.483
Trade & other receivables	72.906	(36.910)	2.020	(38.930)	33.976
Financial instruments	-	-	-	-	-
Cash & cash equivalents	11.378	-	1.214	(1.214)	10.164
Total current assets	85.838	(36.910)	3.305	(40.215)	45.624
Current liabilities					
Trade & other payables	(46.205)	(3.090)	4.254	(7.344)	(53.549)
Capex creditor	(2.770)	-	-	-	(2.770)
Borrowings	(0.392)	-	-	-	(0.392)
Financial instruments	-	-	-	-	-
Current tax liabilities	(5.317)	-	(1.515)	1.515	(3.802)
Provisions	-	-	-	-	-
Total current liabilities	(54.685)	(3.090)	2.739	(5.829)	(60.513)
Net current assets / (liabilities)	31.154	(40.000)	6.044	(46.044)	(14.890)
Non-Current liabilities					
Trade & other payables	(30.907)	-	(0.387)	0.387	(30.520)
Borrowings	(243.481)	-	-	-	(243.481)
Financial instruments	(2.344)	-	-	-	(2.344)
Retirement benefit obligations	-	-	-	-	-
Provisions	-	-	-	-	-
Deferred income - G&C's	(134.353)	-	(0.007)	0.007	(134.346)
Preference share capital	-	-	-	-	-
Deferred tax	(34.531)	-	-	-	(34.531)
Total non-current liabilities	(445.616)	-	(0.394)	0.394	(445.222)
Net assets	61.080	-	7.179	(7.179)	53.901
Equity					
Called up share capital	2.123	-	-	-	2.123
Retained earnings & other reserves	58.957	-	7.179	(7.179)	51.778
Total Equity	61.080	-	7.179	(7.179)	53.901

Differences between statutory and RAG definitions

In the statutory accounts a long term group debtor of £40.000m is disclosed within debtors due after more than one year. The RAGs state that this should be classified as an investment.

Due to the requirement to present appointed and non appointed business separately, the netting down of debtors and creditors is different. Overall, net current liabilities are unaffected.

1D - Statement of cash flows

For the 12 months ended 31 March 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Statement of cashflows					
Operating profit	35.279	4.047	7.276	(3.228)	32.050
Other income	-	0.543	0.294	0.249	0.249
Depreciation	21.349	-	0.054	(0.054)	21.295
Amortisation - G&C's	(2.282)	-	-	-	(2.282)
Changes in working capital	1.356	-	(0.469)	0.469	1.825
Pension contributions	-	-	-	-	-
Movement in provisions	-	-	-	-	-
Profit on sale of fixed assets	(1.011)	(4.590)	(5.618)	1.028	0.017
Cash generated from operations	54.690	-	1.537	(1.537)	53.153
	-	-	-	-	-
Net interest paid	(6.661)	-	0.007	(0.007)	(6.667)
Tax paid	(3.841)	-	(0.527)	0.527	(3.314)
Net cash generated from operating activities	44.189	-	1.017	(1.017)	43.172
	-	-	-	-	-
Investing activities	-	-	-	-	-
Capital expenditure	(29.638)	-	(0.355)	0.355	(29.283)
Grants & Contributions	5.413	-	-	-	5.413
Disposal of fixed assets	5.677	-	5.668	(5.668)	0.009
Other	(8.075)	-	-	-	(8.075)
Net cash used in investing activities	(26.624)	-	5.313	(5.313)	(31.937)
Net cash generated before financing activities	17.565	-	6.330	(6.330)	11.235
	-	-	-	-	-
Cashflows from financing activities	-	-	-	-	-
Equity dividends paid	(12.120)	-	(6.062)	6.062	(6.058)
Net loans received	3.500	-	-	-	3.500
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(8.620)	-	(6.062)	6.062	(2.558)
Increase (decrease) in net cash	8.945	-	0.268	(0.268)	8.677

Differences between statutory and RAG definitions

In the statutory accounts the Company classifies certain income such as rental income as operating income. RAG definitions state that this should be classified as other income which is below the operating profit line.

In the statutory accounts, exceptional items are classified below operating profit. RAG definitions state that this should be classified as other operating income within operating profit.

Pension contributions (included pension deficit contributions) of £3.1m are included as a cash cost within operating profit.

1E - Net debt analysis at 31 March

As at 31 March 2016	Interest rate risk profile			
	Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding preference shares)	31.827	-	212.046	243.873
Preference share capital				-
Total borrowings				243.873
Cash				(11.379)
Short term deposits				-
Net Debt				232.494
Gearing	-	-	-	70.0%
Adjusted gearing				64.3%
Full year equivalent nominal interest cost	0.912	-	12.906	13.818
Full year equivalent cash interest payment	0.912	-	6.434	7.346
Indicative weighted average nominal interest rate	2.85%		6.70%	6.15%
Indicative weighted average cash interest rate	2.85%		3.34%	3.27%

Net debt represents the value used for covenant reporting purposes including £1.2m of cash for the non-appointed business.

The adjusted gearing of 64.3% is based on the Company's covenant debt of £224.8m which differs to the book debt of £243.9m. Of the difference, £12.6m relates to the unamortised premium and costs on issuance of the Company's index linked debt.

The remaining £6.5m mainly relates to the difference in the long-term inflation assumption to maturity used for the book value of index-linked debt of 3.25% compared to the lower actual inflation rate used for covenant reporting.

Addendum:

The borrowings have been amended since the version published on the 15 July. The impact on the above table is as follows:

	Original	Amended
Fixed rate borrowings : Unamortised bank facility issue costs that are debited within the book value but are excluded from the covenant value.	32.044	31.827
Index-linked borrowings : Restated to show book debt rather than covenant debt	192.706	212.046
Gearing : Restated to show gearing based on book debt	64.3%	70.0%
Adjusted Gearing : Included to show gearing based on covenant debt	-	64.3%

Accounting Policies

1. Accounting policy for price control segments

The Regulatory accounts have been drawn up in accordance with RAG 2 (Guideline for the classification of costs across price controls) and follow the Company's accounting separation methodology statement. This statement is available on the Company's website at the link below:

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

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. Account codes are used to classify the expenditure within the correct cost lines within the relevant tables in section 2 and section 4 of the APR . 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. 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. Where a property 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.

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 2016 was £14.6m compared to £11.9m in the previous year. The increase in accrual is partly due to a change in the billing cycle from quarterly to six monthly.

The measured income accrual at March 2015 was £11.9m. Following comparison to the income actually billed for these customers in the year, there are no significant differences to report.

3. 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.

4. Bad Debt policy

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.

Price Review and Segmental reporting

2A - Segmental income statement

For the 12 months ended 31 March 2016

	Retail		Wholesale	
	Household	Non-Household	Water	Total
	£m	£m	£m	£m
Revenue - price control	14.934	3.022	100.225	118.181
Revenue - non price control	-	-	1.826	1.826
Operating costs	(13.076)	(1.386)	(73.520)	(87.982)
Other operating income	-	-	0.026	0.026
Operating profit before recharges	1.858	1.637	28.557	32.051
Recharges from other segments	0.028	0.007	-	0.035
Recharges to other segments	-	-	(0.035)	(0.035)
Operating profit	1.886	1.643	28.522	32.051

2B - Totex analysis - wholesale

For the 12 months ended 31 March 2016	£m
Operating expenditure	
Power	10.491
Income treated as negative expenditure	-
Service charges/ discharge consents	3.110
Bulk supply/ Bulk discharge	0.037
Other operating expenditure	34.873
Local authority rates	5.597
Total operating expenditure excluding third party services	54.108
Third party services	1.570
Total operating expenditure	55.678
Capital Expenditure	
Maintaining the long term capability of the assets - infra	-
Maintaining the long term capability of the assets - non- infra	15.781
Other capital expenditure - infra	2.837
Other capital expenditure - non-infra	5.233
Total gross capital expenditure excluding third party services	23.851
Third party services	6.047
Total gross capital expenditure	29.898
Grants and contributions (price control)	4.852
Totex	80.724
Cash Expenditure	
Pension deficit recovery payments	-
Other cash items	-
Total	
Totex including cash items	80.724

Pension deficit recovery payments of £2.194m are included within the totex lines within operating and capital expenditure.

Third party operating expenditure includes the costs of providing bulk supplies and other rechargeable works.

Third party capital expenditure predominantly includes expenditure in relation to developer connections and mains requisitions.

2C - Operating cost analysis - retail

For the 12 months ended 31 March 2016

	Household	Non-household	Total
Operating expenditure	**£m**	**£m**	**£m**
Customer services	4.096	0.313	4.409
Debt management	1.011	0.141	1.152
Doubtful debts	2.048	0.365	2.413
Meter reading	0.710	0.109	0.819
Services to developers	-	-	-
Other operating expenditure	4.082	0.389	4.471
Total operating expenditure excluding third party services	11.947	1.317	13.264
Third party services operating expenditure	-	0.008	0.008
Total operating expenditure	11.947	1.325	13.272
Depreciation	1.129	0.061	1.190
Total operating costs	13.076	1.386	14.462
Debt written off	0.313	0.104	0.418

Total retail operating costs (before depreciation charges) of £13.2m were £2.5m lower than that allowed in price limits for the year. Doubtful debt costs were £1.1m lower due to improved collections performance in the year. Efficiency savings have also been made this year through transferring some non-voice back office functions offshore, the merging of the Cambridge customer contact centre operations with those in the South Staffs region and further changes to metering operations. The Company has also successfully transferred all Cambridge region customers to the same billing system as the South Staffs region, providing a platform for further long term sustainable efficiencies and improvements in customer service.

2D - Historic cost analysis of fixed assets - wholesale & retail

For the 12 months ended 31 March 2016

	Wholesale	Retail		Total
	Water	Household	Non-Household	
Cost	£m	£m	£m	£m
At 1 April 2015	799.445	9.372	0.512	809.329
Disposals	(0.611)	-	-	(0.611)
Additions	29.897	0.785	0.041	30.724
At 31 March 2016	828.731	10.157	0.553	839.441
Depreciation	-	-	-	-
At 1 April 2015	(338.996)	(5.239)	(0.291)	(344.526)
Disposals	0.393	-	-	0.393
Charge for the year	(20.105)	(1.129)	(0.061)	(21.295)
At 31 March 2016	(358.707)	(6.368)	(0.352)	(365.428)
Net book amount at 31 March 2016	470.024	3.789	0.201	474.013
Net book amount at 1 April 2015	460.449	4.132	0.221	464.802

2E - Analysis of capital contributions and land sales - wholesale

	Fully recognised in income statement £m	Capitalised and amortised against depreciation £m	Fully netted off capex £m	Total £m
Grants and contributions - water				
Connection charges (s45)	-	2.605	-	2.605
Infrastructure charge receipts (s146)	-	1.568	-	1.568
Requisitioned mains (s43, s55 & s56)	-	0.679	-	0.679
Diversions (s185)	0.549	-	-	0.549
Other Contributions	-	0.561	-	0.561
Total	0.549	5.413	-	5.962
Balance sheet		-		
Brought forward		131.222		
Capitalised in year		5.413		
Amortisation (in income statement)		(2.282)		
Carried forward		134.353		
Land sales		-		
Proceeds from disposals of protected land		-		

2F - Household - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer £
Unmeasured water only customer	46.536	8.871	55.407	385.589	23.01
Unmeasured wastewater only customer	-	-	-	-	-
Unmeasured water and wastewater customer	-	-	-	-	-
Measured water only customer	27.936	6.063	33.999	273.771	22.15
Measured wastewater only customer	-	-	-	-	-
Measured water and wastewater customer	-	-	-	-	-
Total	74.472	14.934	89.406	659.360	22.65

2G - Non-household water - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (nr)	Average non-household retail revenue per customer £
Non-Default tariffs					
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Unmeasured - South Staffs Region	0.988	0.186	1.174	2,988	62.26
Measured <50 Ml/yr - South Staffs Region	14.341	1.941	16.282	27,368	70.91
Medium User >=50 Ml/yr - South Staffs Region	1.919	0.091	2.010	26	3,515.87
Large User Up to 350 Ml/yr - South Staffs Region	1.077	0.081	1.158	13	6,242.67
Large User Over 350 Ml/yr - South Staffs Region	0.833	0.063	0.896	3	21,099.75
Measured >=150 Ml/yr - Cambridge region	0.534	0.014	0.548	2	6,909.71
Measured <150 Ml/yr - Cambridge region	5.613	0.598	6.212	9,515	62.88
Unmeasured BRV - Cambridge region	0.237	0.038	0.275	668	56.56
Unmeasured student rooms - Cambridge region	0.208	0.007	0.215	40	166.40
Unmeasured zero RV - Cambridge region	0.003	0.003	0.006	92	33.93
Total default tariffs	25.753	3.022	28.775	40,715	74.23
Total	25.753	3.022	28.775	40,715	74.23

2I - Revenue analysis & wholesale control reconciliation

	Household	Non-household	Total
Wholesale charge - water	**£m**	**£m**	**£m**
Unmeasured	46.536	1.436	47.972
Measured	27.936	24.317	52.253
Third party revenue	-	-	-
Wholesale Total	74.472	25.753	100.225
Retail revenue			
Unmeasured	8.871	0.233	9.104
Measured	6.063	2.789	8.852
Retail third party revenue	-	-	-
Retail total	14.934	3.022	17.956
Third party revenue - non-price control			
Bulk Supplies			0.404
Other third party revenue			0.745
Other appointed revenue			0.677
Total appointed revenue			120.007

	Water
	£m
Wholesale revenue governed by price control	100.225
Grants & contributions	4.852
Total revenue governed by wholesale price control	105.077
Amount assumed in wholesale determination	101.991
Difference	3.086

Wholesale revenues were £3.1m higher than that assumed in the wholesale price control. £0.2m was in relation to higher wholesale revenue from water customers. The remaining £2.9m was a result of higher contributions from developer charges predominantly reflecting higher costs incurred by the Company for a significant number of non-standard connections on brownfield sites and infill of smaller developments. The wholesale control assumed that all connections were large housing developments in greenfield sites.

The £0.2m over recovery of wholesale revenue from customers will be adjusted through the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) when setting wholesale charges for 2017-18.

As the Company has had no net benefit from the higher capital contributions from developers, as a result of the higher costs incurred, the treatment of this will be discussed with Ofwat.

Performance summary

3A - Outcome performance table

Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	2015-16 reward or penalty (in-period ODIs)	2015-16 reward or penalty (in-period ODIs) £m	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast
1.1: Mean zonal compliance	%	99.9849	99.8838	No	No	N/A	Penalty	0.162	Penalty	0.162
1.2: Acceptability of water to customers	nr	1.51	1.9576	No	No	N/A	Penalty	0.203	Penalty	0.203
2.1: Interruptions to supply	time	8.3	4.233	Yes	No	N/A	Reward	0.906	Reward	0.906
2.2: Serviceability infrastructure	category	Stable	Stable	Yes	No	N/A	blank	N/A	blank	N/A
2.3: Serviceability non-infrastructure	category	Stable	Stable	Yes	No	N/A	blank	N/A	blank	N/A
4.1: Leakage (South Staffordshire region)	nr	69.2	69.88	Yes	No	N/A	Reward deadband	N/A	Reward deadband	N/A
4.2: Leakage (Cambridge region)	nr	13.5	13.24	Yes	No	N/A	Reward deadband	N/A	Reward deadband	N/A
4.3: Water efficiency	nr	129.25	129.59	Yes	No	N/A	Not applicable	N/A	Not applicable	N/A
4.4: Biodiversity	nr	65.2	76.2	Yes	No	N/A	Not applicable	N/A	Not applicable	N/A
4.5: Carbon emissions from power consumption	nr	Baseline year = 0	178	No	No	N/A	Not applicable	N/A	Not applicable	N/A
5.1: Customer surveys of affordability	%	Not reported	93	Yes	No	N/A	Not applicable	N/A	Not applicable	N/A
5.2: Support for customers in debt	nr	17866	19621	Yes	No	N/A	Not applicable	N/A	Not applicable	N/A
3.1: Service incentive mechanism (SIM)	score	85	86.3	No	No	N/A	Not applicable	N/A	Not applicable	N/A
3.2: Customer satisfaction surveys	%	Not reported	98	Yes	No	N/A	Not applicable	N/A	Not applicable	N/A
3.3: Community engagement	nr	Not reported	256.5	No	No	N/A	Not applicable	N/A	Not applicable	N/A

The information published in the table has been set out on in a separate performance report published on the Company's website at the following link:

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

This was also presented and discussed at a meeting of the Customer Panel in July 2016.

Additional Regulatory Information

4A - Non-financial information

Retail - household	Unmeasured	Measured
Number of households billed ('000s)		
Water only connections	385.589	273.771
Wastewater only connections	0.000	0.000
Water and wastewater connections	0.000	0.000
Total	385.589	273.771
Number of void households	13.105	4.963
Per capita consumption (excluding supply pipe leakage) l/h/d	135.91	119.64

Wholesale volume (Ml/d)		
Bulk supply export	34.730	0.000
Bulk supply import	0.142	0.000
Distribution input	370.730	0.000

4B - Wholesale totex analysis

	£m
Actual totex	
Menu totex	77.512
Items excluded from the menu	
Pension deficit recovery payments	1.642
Third party costs	1.570
Other adjustments	0.000
Total costs excluded from the menu	3.212
Actual totex	80.724
Actual totex base year prices	76.131
Allowed totex base year prices	79.803

The Company's totex of £76.1m was £3.7m lower than allowed in price limits for 2015-16.

Actual wholesale operating costs per the regulatory accounts in 2015/16 are £7.2m lower than the fast money from the Final Determination (FD). Ofwat adjusted the Pay As You Go (PAYG) rate in the FD to smooth bills in the period to 2020. The impact was to have a FD PAYG rate of 73.9% in 2015/16 compared to the average in the FD of 68.2%, which was in line with its expected allocation between capital and operating expenditure. This smoothing by Ofwat accelerated £4.8m of fast money into the FD for 2015/16 year from slow money and adjusted subsequent years to offset this. In addition, actual infrastructure renewals expenditure (IRE – which is included in both operating expenditure in the regulatory accounts and fast money in the FD) was £4.2m lower than the FD in 2015/16 following a decision to move some expenditure from infrastructure renewals to capital expenditure over the AMP period while maintaining the total level of expenditure across these two areas.

Wholesale capital expenditure was £3.0m over the Final Determination reflecting increased spend on water production assets.

4C - Forecast impact of performance on RCV

	£m
RCV determined at FD	332.028
RCV element of Totex over/underspend	(1.023)
Allowance (Rewards/penalties - ODI)	-
Projected 'shadow' RCV	331.005

The RCV element of totex underspend has been calculated based on the underspend on totex as shown in table 4B and multiplied by the percentage of totex classed as capital expenditure for 2015-16.

The Company has no Outcome Delivery Incentive rewards that impact on the RCV.

4D - Wholesale totex analysis - water

	Water resources		Raw water distribution				
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
Operating expenditure	£m	£m	£m	£m	£m	£m	£m
Power	-	2.047	0.037	0.010	5.771	2.625	10.491
Income treated as negative expenditure	-	-	-	-	-	-	-
Service charges/ discharge consents	2.846	0.142	-	-	0.051	0.071	3.110
Bulk supply/ Bulk discharge	-	0.021	-	-	0.015	0.001	0.037
Other operating expenditure	0.269	2.648	0.533	0.022	6.202	25.200	34.873
Local authority rates	-	0.204	0.305	-	0.308	4.780	5.597
Total operating expenditure excluding third party services	3.115	5.062	0.875	0.032	12.347	32.678	54.109
Third party services	-	0.023	0.001	0.000	0.555	0.992	1.570
Total operating expenditure	3.115	5.084	0.876	0.032	12.902	33.670	55.678
Capital Expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	-	-	-
Maintaining the long term capability of the assets - non-inf	1.503	-	-	-	4.584	9.694	15.781
Other capital expenditure - infra	0.001	-	-	-	0.003	2.833	2.837
Other capital expenditure - non-infra	0.069	-	-	-	3.222	1.941	5.233
Total gross capital expenditure excluding third party servic	1.573	-	-	-	7.810	14.468	23.851
Third party services	0.105	-	-	-	0.820	5.121	6.046
Total gross capital expenditure	1.678	-	-	-	8.631	19.589	29.898
Grants and contributions (price control)	(0.000)	-	-	-	0.000	4.852	4.852
Totex	4.792	5.084	0.876	0.032	21.532	48.407	80.724
Cash Expenditure							
Pension deficit recovery payments	-	-	-	-	-	-	-
Other cash items	-	-	-	-	-	-	-
Totex including cash items	4.792	5.084	0.876	0.032	21.532	48.407	80.724
Unit cost information (operating expenditure)							
Licenced volume available	230,121.600	-	-	-	-	-	-
Volume abstracted	-	160,411.800	-	-	-	-	-
Volume transported	-	-	27,927.910	-	-	-	-
Average volume stored	-	-	-	2,871.486	-	-	-
Distribution input from water treatment	-	-	-	-	135,687.200	-	-
Distribution input treated water	-	-	-	-	-	135,687.200	-
Unit cost	13.535	31.694	31.375	11.154	95.085	248.141	-

4F - Operating cost analysis - household retail

	Household unmeasured £m	Household measured £m	Total £m
Operating expenditure			
Customer services	2.180	1.916	4.096
Debt management	0.659	0.351	1.011
Doubtful debts	1.272	0.776	2.048
Meter reading	-	0.710	0.710
Other operating expenditure	2.420	1.663	4.083
Total operating expenditure excluding third party services	6.531	5.416	11.947
Depreciation	0.660	0.469	1.129
Total operating costs excluding third party services	7.191	5.885	13.076
	-	-	-
Other operating expenditure - breakdown	-	-	-
Demand-side water efficiency - gross expenditure	-	-	0.010
Demand-side water efficiency - expenditure funded by wholesale	-	-	-
Demand-side water efficiency - net retail expenditure	-	-	0.010
Customer-side leak repairs - gross expenditure	-	-	0.403
Customer-side leak repairs - expenditure funded by wholesale	-	-	0.403
Customer-side leak repairs - net retail expenditure	-	-	-

4G - Wholesale current cost financial performance

	£m
Revenue	102.051
Operating expenditure	(55.678)
Capital maintenance charges	(21.843)
Other operating income	0.026
Current cost operating profit	24.556
Other income	0.249
Interest income	2.671
Interest expense	(14.366)
Interest expense related to the unwinding of discounted liabilities	(0.184)
Profit before tax and fair value movements	12.926
Fair value gains/(losses) on financial instruments	-
Profit before tax	12.926

Note: Capital maintenance charges represent Current Cost Depreciation

4H - Financial metrics

	Units	Metric
Net debt	£m	232.494
Regulated equity	£m	99.533
Regulated gearing	%	70.02
Post tax return on regulated equity (Book Debt)	%	16.49%
Adjusted post tax return on regulated equity (Covenant Debt)	%	14.01%
RORE (return on regulated equity)	%	8.08%
Dividend yield	%	3.39%
Retail profit margin - Household	%	3.34%
Retail profit margin - Non household	%	5.9%
Credit rating	n/a	Baa2
Return on RCV	%	8.5%
Dividend cover	dec	5.12
Funds from operations (FFO)	£m	41.347
Interest cover (cash)	dec	5.49
Adjusted interest cover (cash)	dec	3.24
FFO/Debt	dec	0.19
Effective tax rate	%	21.59%
Free cash flow (RCF)	£m	35.289
RCF/capex	dec	1.21
Revenue (actual)	£m	118.181
EBITDA (actual)	£m	53.776
Proportion of borrowings which are fixed rate	%	13.05%
Proportion of borrowings which are floating rate	%	0.00%
Proportion of borrowings which are index linked	%	86.95%
Proportion of borrowings due within 1 year or less	%	0.16%
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	12.30%
Proportion of borrowings due in more than 5 years but no more than 20 years	%	0.00%
Proportion of borrowings due in more than 20 years	%	87.54%

In accordance with Ofwat reporting requirements, the dividend yield and dividend cover metrics are calculated after deducting £2.036m (net of tax) of dividends paid to the Company's holding company to enable them to pay intra group loan interest to the Company.

Addendum:

The following metrics have been amended since the version published on the 15 July. The impact on the above table is as follows:

	Original	Amended
Net Debt : Restated to show book debt rather than covenant debt	213.371	232.494
Regulated Equity : Restated using book debt rather than covenant debt	118.657	99.533
Regulated Gearing : Restated to show gearing based on book debt	64.26%	70.02%
Post tax return on Regulated Equity (Book Debt): Restated using book debt rather than covenant debt	14.01%	16.49%
Post tax return on Regulated Equity (Covenant Debt): Included using covenant debt	-	14.01%
RORE based on notional gearing- Updated to base the financial performance on the notional level of debt rather than the actual level of debt.	7.89%	8.08%
Proportion of borrowings - Restated to show the split of book debt rather than covenant debt:		
Proportion of borrowings which are fixed rate	14.26%	13.05%
Proportion of borrowings which are index linked	85.74%	86.95%
Proportion of borrowings due within 1 year or less	0.17%	0.16%
Proportion of borrowings due in more than 2 years but but no more than 5 years	13.35%	12.30%
Proportion of borrowings due in more than 20 years	86.48%	87.54%

4I - Financial derivatives

		Nominal value by maturity (net)			Total value				Interest rate (weighted average)	
		1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	Total accretion £m	Units	Payable	Receivable
Derivative type										
Interest rate swap (sterling)										
Floating to/from fixed rate	£m	-	-	30.000	30.000	(2.344)	(2.344)	%	2.14	0.55
Floating to/from index linked	£m	-	-	-	-	-	-	%	0	0
Fixed to/from index-linked	£m	-	-	-	-	-	-	%	0	0
Total	£m	-	-	30.000	30.000	(2.344)	(2.344)		0	0
Foreign Exchange										
Cross currency swap USD	£m	-	-	-		-		%	0	0
Cross currency swap EUR	£m	-	-	-	-	-	-	%	0	0
Cross currency swap YEN	£m	-	-	-	-	-	-	%	0	0
Cross currency swap Other	£m	-	-	-	-	-	-	%	0	0
Total	£m	-	-	-	-	-	-		0	0
Currency interest rate										
Currency interest rate swaps USD	£m	-	-	-	-	-	-	%	0	0
Currency interest rate swaps EUR	£m	-	-	-	-	-	-	%	0	0
Currency interest rate swaps YEN	£m	-	-	-	-	-	-	%	0	0
Currency interest rate swaps Other	£m	-	-	-	-	-	-	%	0	0
Total	£m	-	-	-	-	-	-		0	0
Forward currency contracts										
Forward currency contracts USD	£m	-	-	-	-	-	-	£m	0	0
Forward currency contracts EUR	£m	-	-	-	-	-	-	£m	0	0
Forward currency contracts YEN	£m	-	-	-	-	-	-	£m	0	0
Forward currency contracts Other	£m	-	-	-	-	-	-	£m	0	0
Total	£m	-	-	-	-	-	-		0	0
Total	£m	-	-	30.000	30.000	(2.344)	(2.344)		0	0

Nominal values (net) above represents the nominal value of the interest rate swap of £30.0m that hedges the interest rate payments on £30.0m of bank loans. This does not equal the value reflected in total financial instruments in table 1C of £2.344m as the balance sheet value of the swap is recorded at mark to market value as described above.

Accounting Disclosures

Relationship between Director's 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.

Mr P Newland, as an Executive Director of the Company received the following remuneration during the year:

	£'000
Salary	148
Bonus Accrual 2015/16	68
Car and Other Benefits	14
	230
Money purchase pension contributions	21
Total Remuneration	**251**

During the year ended 31 March 2016, 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)

Achievement of ODI targets (As reported in Table 3A of the APR)

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 Executive Director has a number of personal targets to achieve for the year, primarily focused on the water quality enhancements at key sites and preparations for Open Water, in total worth 20% of which 19% is proposed to be paid.

The following performance against target was achieved during the year:

Standard of performance	**Target**	**Actual**	**Average % of salary awarded**
Customer Service	Maintain high SIM performance	Target achieved	5%
Outcome Delivery Incentives	Achieve target	Target exceeded	5%
Profitibilty	Budget	Target achieved	7.5%
Operating costs	Below Budget	Target not achieved	Nil
Cash Generation	Budget	Target exceeded	10%

Mr P Newland, as an Executive Director of the Company is due a bonus in respect of the above performance and individual targets in respect of the year ended 31 March 2016 accrued at £67,500 reflecting the strong performance of the business in the year. This 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 £30,000 specifically linked to the performance of the Company including delivery of ODI targets.

Disclosure of information to auditors

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.

Dividend policy

Dividends of £6.1m were paid during the year for the appointed business (2014-15: £11.8m).

At 31 March 2016 the Company's ratio of net debt/RCV was 64.3% (2015: 63.3%) of its Regulated Capital Value (RCV) of £332.0m (2015: £342.8m) being the PR14 Final Determination RCV uplifted for inflation. This ratio reflects the impact of better than expected free cash generation in the year and inflation (RPI) at March 2016 of 1.6% (March 2015: 0.9%), which is used to inflate RCV, whereas the majority of index-linked debt was inflated using RPI at July 2015 which was lower at 1.0% (July 2014: 2.5%). Going forward, the Board is targeting a net debt/RCV ratio in the region of 66%.

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 2016.

Long term viability statement

The long term viability statement for the Company is set out on pages 12 to 13 of the Strategic report.

Statement of Director's responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the directors to:

- Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months.
- Confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company.
- Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker.
- Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities.
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length.
- Keep proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements.

Diversification and protection of the core business (F6a certificate)

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 2016-17 and the investment programme;
b) The Final Determination for 2015-20 and the Company's plan in relation to it;
c) The investment grade credit rating in the 'BBB+' band;
d) The committed borrowing facilities available to the Company;
e) The depth of the management team and the succession planning in place;
f) The contracts in place with Associated Companies;
g) The Company's internal control process which identifies evaluates and manages risks faced by the Company.

P. Newland
15 July 2016

Statement on risk and compliance

The Board of South Staffordshire Water PLC can confirm that there are sufficient processes and internal systems of control to meet the statutory, license and regulatory obligations.

At a meeting of Directors held on 30 June 2016 the Board confirmed, under license condition F6a, that South Staffordshire Water has adequate:

a) financial resources and facilities;
b) management resources; and
c) systems of internal control (including those needed to manage risk)

to enable it to carry out its Regulated Activities (including the investment programme necessary to fulfil its obligations under the Appointment).

South Staffordshire Water has maintained an investment grade rating from both Moody's and Standard and Poor's.

The Board can confirm that there are sufficient rights and assets available to enable a special administrator to run the business.

Executive Directors' remuneration packages are linked to the performance of the business, taking account of both financial and service performance.

Each Director has confirmed that, in accordance with the Companies Act 2006, as far as they are aware, there is no relevant audit information of which South Staffordshire Water's auditors are unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that South Staffordshire Water's auditors are aware of that information.

The Board can confirm South Staffordshire Water's compliance with Condition F of its license. The Board can also confirm South Staffordshire Water's compliance with the objectives and principles of RAG 5.06, namely that transactions with associate companies are at arm's length and that cross subsidy is not occurring.

This statement was approved at a meeting of Directors held on 30 June 2016 and duly signed on their behalf:

....
Adrian Page
Chairman
South Staffordshire Water PLC

....
Sir James Perowne
Senior Independent Non-Executive Director
South Staffordshire Water PLC

Transactions between the appointee and associated companies

The Company's licence conditions require that all transactions between the appointee and its associated companies must be disclosed. The following transactions occurred during the 12 months to March 2016:

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Integrated Water Services Limited	55.0	Mainlaying and repair of water mains	8.3	Competitive tendering
		Mains Rehabilitation	3.0	Competitive tendering
		Minor Civils	0.7	Competitive tendering
		Metering	1.3	Competitive tendering
		Water Treatment	0.6	Cost
		Pump Refurbishment	0.4	Cost
		Minor Capital Works	7.8	Competitive tendering
SSI services UK Limited	2.3	Motor vehicle repair and maintenance	0.6	Cost
Hydrosave	17.5	Leakage detection	0.2	Cost
Echo Managed Services Limited	32.0	Customer Services	6.9	Cost
		Billing Software	0.7	Cost
South Staffordshire Plc	nil	Management services	3.0	Cost
		Parent company services	1.7	Cost

Data assurance summary

In April 2016 we published our final assurance plan (https://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework) which was the culmination of a period of consultation in which we developed an assurance framework, consulted with our stakeholders and developed our final plan for how we will undertake assurance on the year end reporting.

We set out in our assurance plan that we would utilise Deloitte, who are our statutory financial auditor, for the assurance of the statutory and regulatory accounts. Deloitte have worked alongside Ofwat in developing the audit opinion, which covers sections 1 and 2 of the APR. The Board have had extensive involvement in the audit process, through the audit committee and with oversight from the internal audit function of our parent company. The audit opinion has been presented to the audit committee and subsequently to the full Board.

We also set out in our assurance plan that we would undertake additional agreed upon procedures on our cost allocation, which was one of our targeted areas arising from our assurance framework and stakeholder consultation period. We have also agreed to use Deloitte to perform specific procedures on section 4.

Section 3 of the APR sets out our ODI performance. In line with our assurance plan we have utilised Monson Engineering Ltd for the assurance of the financially incentivised ODIs.

Monson Engineering Ltd were our appointed company reporter prior to 2012 when the June Return process required a nominated reporter. They have continued to undertake assurance work for us since this time. We have had each of the financially incentivised ODIs separately audited by Monson, as well as property and population data which is required for some ODIs and for the APR. Monson have also assured the calculation of our composite asset health metric, for which the sub indicator data has been provided on Ofwat's separate spreadsheet. As well as the audit of the ODI performance, Monson have also assured our calculation of reward and penalty incentives. The audit reports from Monson have been made available to the Board. There were no material issues arising from these audits.

Our internal audit function is a dedicated function within our parent company who undertake audit activity across all of the companies within the group. We have utilised this function to assure the non-financially incentivised ODIs. Again, the reports from each audit were made available to the Board and there were no material issues arising from these audits.

Our Customer Panel have had sight of the ODI performance we are reporting in the APR, and of the customer friendly publication we have developed to relay our annual performance to our customers. The Customer Panel met with the lead auditor of

Monson Engineering Ltd to discuss his approach and and were satisfied that the appropriate level of expertise was used to assure this important data.

With sight of all of the above audit information, the Board has signed off the APR submission as being an accurate set of information on our 2015-16 and performance.

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

Opinion on Annual Performance Report

In our opinion, South Staffordshire Water PLC's Regulatory Accounting Statements within the Annual Performance Report:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.06, RAG2.05, RAG3.08, RAG4.05 and RAG5.06) and the accounting policies set out on pages 78 to 80 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

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. The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 72 to 87 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The tables within South Staffordshire Water PLC's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and

- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G) and the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.
We have not audited the Outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 (“Condition F”). 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 WRSA, 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 99, the directors are responsible for the preparation of the Annual Performance Report 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 Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”), except as stated in the section on ‘What an audit of the Annual Performance report involves’ 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.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report 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 Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited tables within the Annual Performance Report 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.

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 Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is 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 ISAs (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 and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2016. 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 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 Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Other matters

The nature, form and content of the Annual Performance Report is 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 WRSA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 31 March 2016, 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 Auditors
London, United Kingdom
15 July 2016