South Staffordshire Water PLC

Accounts for the Year Ended 31 March 2015

Together with the Strategic, the Directors'

And

The Independent Auditor's Reports

(Company Registration No: 2662742)

Highlights

- Final Determination received from Ofwat that will see bills fall by 4% in real terms over the next five years.

- A number of cost reduction initiatives successfully implemented to align to the new benchmark.

- Confirmation during the Price Review of first place in the industry for customer service.

- £32.0m of planned net capital investment successfully completed.

- 55 km of mains replaced.

- Second lowest domestic charges in England and Wales in 2014-15 at a combined average of £143, 24% below the national average.

- Water resource position remains healthy.

- Challenging and demanding targets for leakage met.

	2015	2014
Turnover	£126.9m	£122.5m
Operating Profit	£35.7m	£34.0m

STRATEGIC REPORT

COMPANY OVERVIEW

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

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 km of mains.

On 1 April 2013 the business, trade, assets and liabilities of Cambridge Water PLC, a fellow subsidiary undertaking of South Staffordshire Plc were transferred to the Company by way of a Transfer Scheme in accordance with Schedule 2 of the Water Industry Act 1991. Both businesses now operate under one single water 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 from Cambridge Water PLC) is a water only company and as such does not supply sewerage services. However, it does bill customers for these services on behalf of Severn Trent Water and Anglian Water Services.

MANAGING DIRECTOR’S REVIEW

A period of change

This has been a year of challenge and change for South Staffs and Cambridge Water. Set against a backdrop of the Final Determination the business has maintained its firm focus on delivering both high quality service and value for money.

In December we received our Final Determination from Ofwat, representing the culmination of the regulatory price review for the period 2015 to 2020. This will see bills reduce by 4% in real terms over the five year period with customers continuing to enjoy the benefits of one of the lowest bills in the industry. Levels of service in a number of areas will also increase as well as the Company's commitment to the community and affordability assistance for customers in need. We believe this is all good news for customers. In order to provide these important benefits to customers the business has during the course of the year had to make a number of difficult decisions as we sought to align our costs and performance with the new benchmark. These changes have included a reduction in manpower, the closure of the defined benefit pension scheme to future accruals as well as a variety of other changes to improve efficiency.

We are especially grateful for the dedication of our staff as they have continued to seamlessly provide the vital 24/7 service to our 1.61 million customers in South Staffordshire and Cambridge throughout these challenging times.

During the year to 31 December 2014, the Cambridge region met the required water quality standard on 100% of all tests carried out on drinking water supplies, with South Staffs region achieving a compliance rate of 99.98%. Both regions have shown consistency in this measure from the previous year. It has though become clear that the water quality performance over recent years at the Seedy Mill treatment works gives rise to concern. The Company is committed to responding to the Drinking Water Inspectorate's legitimate criticisms about Seedy Mill and has already put in place a number of tactical mitigating actions ahead of agreeing a more strategic investment with the DWI which will restore the asset's performance to the expected level and remove any immediate risk of quality failures. Similar investment is being actively considered in relation to the Hampton Loade treatment works. We will work tirelessly to ensure customer interests continue to be protected in this key area of our operation.

The last 12 months has seen the completion of our new nitrate treatment works at Fleam Dyke in Cambridge. This new plant will provide compliance with the regulatory standards for nitrate concentration through to 2035.

An unusually dry autumn period brought some challenge to the water resource position but this was managed effectively and resulted in no customer impact. In both regions consistent focus on leakage ensured that the business outperformed its regulatory target.

During the year it was confirmed for the period 2011/2012 to 2013/2014 we were top in the industry for SIM, the Regulator's measure of customer experience. This ranking is especially important as it acknowledges South Staffs Water and Cambridge Water as delivering the best customer experience out of the 18 companies that make up the England and Wales water industry. Whilst we are delighted with this achievement the work continues on customer service and the Board is determined to maintain the Company's leading position.

Planning is at an advanced stage on the UK's largest rainwater recycling system at the North West Cambridge development. This exciting development is being carried out in partnership with the University of Cambridge. The innovative development has two water supplies installed on the 150 hectare site – one which recycles rain and surface water to use for flushing toilets, clothes washing and garden watering, and another supplying high quality treated water for drinking, cooking and bathing. Both are designed to minimise potable water consumption at the £1 billion development which will include 3000 homes, 2000 student rooms, a supermarket, hotel and school, as well as other community facilities.

The safety of our people remains hugely important to us and it is pleasing to report a strong year which has seen a reduction in accidents across all categories.

We've finished AMP 5 investment period having delivered our plans and commitments yet remain mindful of the challenge and opportunity that AMP 6 presents. The next five years will undoubtedly require increased innovation and greater customer engagement alongside our traditional focus on operating efficiency, long term asset stewardship and excellent customer experience.

A plan for our future

The last 12 months has brought about the completion of the PR14 regulatory process. The resulting plan has been founded on one of the largest pieces of customer engagement we have undertaken to date.

This direction is expressed through 5 Outcomes and 15 specific Outcome Delivery Incentives (ODIs) that cover all aspects of our operations from excellent water quality and customer service to fair customer bills and operations that are environmentally sustainable as well as the provision of secure and reliable water supplies both now and in the future.

In addition, we've also developed further targets which will create sustained focus on employee satisfaction, health and safety and readiness for business retail competition.

Continued commitment

Excellent Water Quality now and in the future

The quality of water we deliver to customers daily is ultimately the most important thing we do. Our performance over the last 12 months to December 2014 has seen the Cambridge region comply with the standard on 100% of tests carried out and 99.98% compliance in South Staffs region.

Our customers place trust in us to ensure we supply the very best quality water, continuously whilst protecting the environment.

Not content to maintain standards, our commitment is to drive these forward by investing more in our treatment works and networks over the next five years and beyond.

- We aim to achieve 100% water quality compliance as measured through sampling across both regions.
- We are committed to improving how our customers perceive the quality of our water though its appearance, taste and odour, a particular challenge in our Midlands region.

In addition to our regulatory commitments, we have set improving the quality of our water as the preeminent target for the business moving forward. The period ahead will likely see significant investment into our key production assets in both the South Staffs and Cambridge areas of operation as we seek to improve the quality of our water for customers in the long term.

Secure and reliable supplies

Our water supply can be impacted by a range of factors. We need to protect our supplies, as our communities grow and demand increases. We are anticipating significant population growth in the Cambridge region over the coming years accompanied by an increased pressure of water resources. We will work closely with the Environment Agency to balance the needs of customers with the environment.

We are pleased to report that overall our water resources position remains healthy across both regions.

Water efficiency will continue to be a key focus and we are committed to helping all our customers change the way they value water every day.

We will continue to:

- Ensure supply interruptions are less than 10 minutes when supply is affected.
- Ensure our pipes and networks are well maintained.
- Invest in efficient pumping stations across our regions to make sure supplies are secure and reliable.
- Increase the amount of educational engagement concerning water efficiency

Excellent Customer Service to customers and the community

Providing a quality water supply is a given but so too is the service that our customers expect from us.

Having been ranked first in the water industry's league table for the 3 years to 2013-2014 we remain committed to driving our customer service and exceeding our customers' expectations. With the introduction of new SIM measures, we will continue to target being in the industry upper quartile.

We will continue to invest in the training and development of all our front line staff both in our contact centre and out in the field to ensure we deliver a seamless experience with first time resolution of customer issues where possible.

As communication channels grow and expectations change, we understand that our customers need flexibility in how they contact us. Our investment in a new website and multi-channel contact system will provide greater choice and flexibility – making it simple, flexible and accessible whatever the channel of choice.

Engaging our communities is important to us. That's why we will deliver at least 400 days of employee volunteering within our communities per year. From help with events and education programmes and school visits to biodiversity projects that will enhance the environment, we will raise our profile and develop strong and lasting partnerships.

Operations that are environmentally sustainable.

As a business, we have benefited from a series of relatively benign winters in recent years. The average level of leakage during 2014/15 was below the target set by Ofwat although higher than 2013/14. This was caused primarily by an increase in burst mains.

Our long term track record on leakage is good and we will aim to maintain this high level of performance which in turn supports our water resource and sustainability position.

We have a healthy resource position for the 25-year planning horizon with no new resource development required. We have though increased our long term focus on water resource planning in the Cambridge area as this area is more constrained than in the South Staffs region.

We want to encourage our customers to use water more wisely, so we will continue to offer free water-saving devices to help our customers use less water every day.

Our commitment to the environment will see us deliver innovative biodiversity projects across our regions, and at the same time, we aim to protect our environment and are committed to reducing our carbon emissions from the power we use to pump water around our networks.

We will continue to invite our communities to visit our sites that are open to the public and continue to promote an active education programme to support our school children in growing their knowledge of the water cycle and the environment we live in.

Energising our communities through our Corporate Social Responsibility programme has been, and remains, focused on giving something back to the communities we serve.

Fair customer bills

We know that sometimes it’s hard to make ends meet. During 2014/2015, we provided debt support to 17,866 customers across both regions.

We are committed to making sure our bills remain affordable. Our customer bills have been 24% lower than the national average, and over the next five years, we are committed to ensuring our bills will fall by 4% in real terms and will continue to support our most vulnerable customers with help when they need it most.

For customers that struggle with bills, we have a range of solutions including our Charitable Trust, Water Direct and WaterSure. The year ahead will see us develop our strategy on affordability and shape our approach to offering a social tariff for customers that need additional financial support. We expect to launch our social tariff in April 2016.

Over the next five years, we will engage each year with 30,000 customers in debt, helping them manage their water accounts and take control of their water consumption through metering.

Many customers are better off on a meter, particularly if they combine this with water efficiencies in the home, garden and at work. We will continue working to support customers switching to a meter where they choose to or it is in their interests.

Our people are our business

The outstanding commitment of our employees is recognised by our Board. There has been an even greater focus on employee safety and this is endorsed by our target to reduce accidents within the workplace by a further 10% over the next 12 months.

We are also committed to making South Staffs Water a great place to work. Our employee survey has played an important role in us understanding the feelings and motivations of our people and we will continue to use this measure to develop training programmes that will enable people to stretch themselves and develop new skills.

Retail readiness

As the blueprint for competition within the non-household sector is now almost complete, we are preparing systems, processes and organisational structures to accommodate this shifting landscape. We fully understand the proposed direction and welcome the prospects that retail will bring to our industry and how it will shape and transform our business.

The year ahead

The Company remains focused on delivering its primary objective of supplying excellent water quality consistently to customers as well as achieving our broad range of other performance commitments. We see our commitment to stakeholder engagement, customer challenge and transparency increasing still further. We will continue to provide our people with a safe and rewarding working environment.

As we begin the next five year regulatory cycle we are focused on ensuring that the predicted benefits of investing £480 million are realised to their full extent.

CAPITAL INVESTMENT

The Company has made good progress in delivering its capital programme, to ensure that its assets remain in good condition, maintain stable asset serviceability and good quality, reliable supplies to customers. Capital expenditure for the year of £32.0m (net of contributions), leaving the overall 5-year cumulative AMP 5 expenditure (for the two regions of South Staffs and Cambridge) of £168.1m in line with Ofwat's Final Determination.

FINANCIAL

Turnover in South Staffs Water increased by £4.4m to £126.9m, largely due to the price increase on water bills allowed by Ofwat of 2.0%, being an increase in the Retail Price Index of 2.6% and a “k” factor for the year of -0.6%, and also an increase in water consumption compared to the previous year. Operating profit of £35.7m was higher than 2013/14 and reflects the turnover growth detailed above, further operating costs efficiencies achieved in the business during the year, but partly offset by some specific cost increases, including energy related costs and non-recurring charges including those related to the necessary restructuring of the business in preparation for the new 5-year AMP 6 period which commenced in April 2015.

Finance charges increased by £0.2m to £11.5m largely due to higher charges associated with the Company’s index-linked debt in the year.

The current tax charge in respect of the year to March 2015 increased by £1.2m to £6.0m, (representing 24.6% of profit before tax), partly reflecting higher pre-tax profits. The Company’s borrowings (as noted below) give rise to finance charges with third parties which give rise to tax deductions. The total tax charge for the year increased to £8.2m (2014: £1.5m) largely due to the charge in 2013/14 being reduced by a non-cash credit to deferred tax in respect of a reduction to future tax rates (£3.3m) and also the non-cash deferred tax impact of a reduction in discount rates at 31 March 2015 compared to the previous year, which have increased the Company’s discounted deferred tax liabilities.

Dividends paid during the year reduced to £13.8m (2013-14: £14.2m). The dividends include a final dividend of £0.3m paid in the year in respect of 2013-14 and £13.5m dividends paid in respect of 2014-15. The post-tax return of the appointed activities was 6.3% (2013-14: 6.1%) of RCV

Overall, the book value of net debt amounted to £232.2m at 31 March 2015 (2014: £234.1m). Net debt includes index-linked debt, debenture stock, finance leases, bank loans and overdraft less cash. This differs from the value used for covenant reporting purposes of £217.0m (2014: £220.6m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt. This represents 63.3% (2014: 64.4%) of its Regulated Capital Value (RCV) of £342.8m (2014: £342.5m) being the PR09 Final Determination RCV uplifted for inflation. This ratio reflects the net impact of better than expected free cash generation in the year and inflation (RPI) at March 2015 of 0.9% (March 2014: 2.5%), which is used to inflate RCV, whereas the majority of index-linked debt was inflated using RPI at July 2014 which was higher at 2.5% (July 2013: 3.1%). 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.

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

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 its sections of the Water Companies Pension Scheme of £2.2m per annum plus inflation will continue to be paid.

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. There has been no change in these accounting policies during the year. With respect to depreciable fixed assets, the estimated useful lives adopted are based on engineering judgement by the Company's asset management team based on their experience and expertise. The asset lives adopted are similar to the rest of the water industry.

Principal Risks and Uncertainties

There is an established risk management and internal control framework in place within the Company. The Directors believe the most significant risks and uncertainties that are required to be managed include, but are not limited to, health and safety, water resources and quality and market reform.

The Directors' assessment of the most significant financial risks faced by the Company and how these are managed are detailed in note 25 to the accounts.

Financial Covenants and Key Performance Indicators (KPIs)

There are two financial covenants relating to the Company's borrowings. These are set out below along with the actual ratios for the year and previous year show that there is significant headroom in both covenants.

	Covenant Ratio	Actual Ratio 31 March 2015	Actual Ratio 31 March 2014
Historic net cashflow less current cost depreciation & infrastructure renewals / Historic cost debt service	>1.0:1	3.4	3.3
Net Debt / Regulated Asset Value	<0.90	0.63	0.64

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
- Cashflow
- Net capital expenditure
- Trade debtors and associated collection rates

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

Drinking Water Quality Measures and Outputs

During the year to 31 December 2014, the Cambridge region met the required water quality standard on 100% of all tests carried out on drinking water supplies, with South Staffs region achieving a compliance rate of 99.98%. Both regions have shown consistency in this measure from the previous year.

SIM

During the year it was confirmed for the period 2011/2012 to 2013/2014 we were top in the industry for SIM, the Regulator's measure of customer experience. This ranking is especially important as it acknowledges South Staffs Water and Cambridge Water as delivering the best customer experience out of the 18 companies that make up the England and Wales water industry. Whilst we are delighted with this achievement the work continues. The early indications from the qualitative sampling under the revised measure implemented in April 2014 suggest renewed focus is needed to restore the Company's leading position

In addition to the above, Ofwat has introduced a number of financial and non-financial KPIs which replace the annual 'June Return' submission. These KPIs are available on the Company's website.

The Strategic Report on pages 1 to 11 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
10 July 2015

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and accounts for the year ended 31 March 2015. 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 2015, 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		11/11
Phillip Newland	Executive Director - Managing Director	01/04/2014		11/11
Jesús Olmos	Non-Executive Director	30/07/2013		5/11
Ram Kumar	Non-Executive Director	30/07/2013		9/11
Sir James Perowne	Senior Independent Non-Executive Director	01/01/2011		10/11
Michael Hughes	Independent Non-Executive Director	21/12/2004	02/04/2015	10/11
Keith Harris	Independent Non-Executive Director	30/04/2015		0/0
Stephen Kay	Independent Non-Executive Director	01/04/2013		11/11

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 30 and in pages 8 and 10 of the Strategic Report.

Dividends of £13.8m were paid during the year (2013-14: £14.2m).

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 2015 represent 50 days (2014: 36 days) of purchases. The increase over the previous year is as a result of the high level of capital expenditure in March 2015 compared to March 2014. 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, well-being 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 5 and 7.

Corporate Governance

A detailed report on Corporate Governance is set out on pages 15 to 26.

Financial Risk Management

The Company's practices in respect of financial risk management are provided on page 51 and 52.

Post Balance Sheet Event

On 1 April 2015, the South Staffordshire section of the Water Companies Pension Scheme was closed to future accrual following consultation with its members and the Trustees of the Scheme. Pension benefits under the scheme will be based on pensionable pay and accrued service to 1 April 2015 with the Company and members contributing to a new defined contribution pension scheme from 1 April 2015 which will provide additional pension benefits.

Going Concern

The Company's statement on Going Concern and the basis for the Going Concern assumption is provided on page 26.

Independent Auditor

In accordance with the provisions of s418 of the Companies Act 2006, the Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A resolution proposing the reappointment of Deloitte LLP as independent auditor will be put to the Annual General Meeting.

By Order of the Board

J. R. Goodwin
Company Secretary
10 July 2015
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 and how it delivers its strategy are provided in the Strategic Report.

There have been no material changes to the Company's Corporate Governance arrangements during the year.

Group Structure

The Company is owned by the Global Infrastructure Fund of the investment business Kohlberg Kravis Roberts & Co. L.P. (KKR), which is quoted on the New York Stock Exchange, which holds a majority stake in the Company, together with infrastructure funds of certain co-investors of KKR. The KKR infrastructure 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 three 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 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 business. 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 2015 were Jesús Olmos and Ram Kumar, both of whom are also Directors of the Company's immediate parent, South Staffordshire Plc, and of certain holding companies above South Staffordshire Plc in the Group structure. Adrian Page is also an Executive Director of the immediate parent and all 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 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.

The Board is aware that, 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 has sought a suitable replacement and Mike Hughes was replaced by Keith Harris as an Independent Non-Executive Director.

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 eleven Board meetings during the year ended 31 March 2015.

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.

Historically, the Board carried out an informal evaluation of its own performance, the performance of individual Directors and various Committees. In accordance with the SSW code, a more formal evaluation of Board performance is now 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 incentives are designed to encourage and reward continuing improvement in the Company's performance over the longer term. Annual salary, benefits and annual bonus awards are normally pensionable whereas deferred bonuses are not normally pensionable.

Board Committees

– Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy 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. From the year ending 31 March 2015, a separate Remuneration Committee specific to the Company was established. 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.

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, Sir James Perowne and also Ram Kumar. The majority of the Committee is Independent Non-Executive Directors and is chaired by an Independent Non-Executive. Deloitte LLP, the Company's external independent auditor, the Finance Director, the Company Secretary and the Internal Audit manager are also invited to the meetings. During the year ended 31 March 2015, the committee met twice and all Independent Non-Executive Directors attended both meetings.

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

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

The key terms of reference for the Committee are to:

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

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

- 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 judgement for the Committee are recoverability of receivables, capitalisation of fixed assets, revenue recognition and management override of controls.

– 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. 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 2015, 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 investment proposals for the Company have been formally prepared, reviewed and approved by the Board. These include profit and loss and cash flow forecasts. Actual financial results and cash flows, including a comparison with budgets and forecasts, are reported to the Board monthly with variances being identified and used to initiate any action deemed appropriate.

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

– Internal Control

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

There is an established internal control framework that is continually reviewed and updated taking into account the nature of the Company's operations. This process includes the identification, evaluation and management of the significant risks faced by the Company.

- Internal Audit

There is 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 and appropriate Corporate Governance.

A formal annual Internal Audit Plan for South Staffordshire Water PLC is presented to and approved by the Audit Committee. The Plan combines the need for regulatory assurance, financial reporting assurance and risk management and control with the desire to provide independent resource to improve the Company's operations 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 on a regular basis. The Company's senior management are required to monitor risk and its management with any significant changes in business risk and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit Committee.

– External Independent Auditor

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

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

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

Regulatory Reporting

South Staffordshire Water PLC makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate and is supported by suitable systems and procedures. The Board, including Independent Non-Executive Directors, are involved in the approval process for key regulatory information, and this process supports the governance in place and the review of information by an independent engineering assessor (Monson Engineering) and the audit work and certain agreed upon procedures in respect of the extraction of specific information performed by the external independent auditor (Deloitte LLP). Where considered appropriate, the Group's internal audit function will also review processes and data in this area.

The Company places great emphasis on regulatory reporting to ensure that it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat and other regulators. It is important to the Company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business and make appropriate decisions with reference to this data.

The Company's Regulatory Accounts are set out on pages 57 to 93.

Going Concern and Basis for Assumption

The Directors consider that it is appropriate to prepare the accounts on a going concern basis. This is based upon a review of the Company's budget for the year ending 31 March 2016, and the 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 their covenants and its access to capital markets. In addition, the Directors are required to certify to Ofwat under Condition F of its Instrument of Appointment that sufficient financial resources are available for at least the next 12 months.

The Company's business activities, together with the factors likely to affect its future development, are set out in the Strategic Report on pages 1 to 11. 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 31 and in note 25 to the accounts, which includes the Company's objectives for managing its financial risks, details of its financial instruments and hedging activities and its exposure to interest, credit and liquidity risk. The Company has a large number of both domestic and commercial customers, none of which make up a significant proportion of the businesses turnover. The Company has significant undrawn borrowing facilities in addition to its cash balances and has significant headroom in respect of all of its borrowing covenants, both on a historic and forward looking basis.

DIRECTORS' RESPONSIBILITIES STATEMENT

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, set out on pages 28 and 29, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the accounts.

The Directors are required by Company Law, and under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, as a water undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year. Under Company Law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing the accounts the Directors are required to:

- Select suitable accounting policies (see pages 33 to 36) and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which will enable them to ensure that the accounts comply with the Companies Act 2006. The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to detect and prevent fraud and other irregularities. The Directors, having prepared the accounts, are required to provide to the auditor with such information and explanations as the auditor thinks necessary for the performance of its duties. The Directors have the responsibility for the maintenance and integrity of the Company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

We have audited the financial statements of South Staffordshire Water PLC for the year ended 31 March 2015 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Hall, FCA

David Hall FCA

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, UK

15 July 2015

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2015

	Note	**2015** £'000	2014 £'000
Turnover	2	126,930	122,504
Operating costs (net)	3	(91,209)	(88,459)
Operating profit		**35,721**	34,045
Finance charges (net)	7	**(11,487)**	(11,262)
Profit on ordinary activities before taxation		**24,234**	22,783
Taxation on profit on ordinary activities	8	**(8,180)**	(1,468)
Profit on ordinary activities after taxation	22	**16,054**	21,315
Earnings per share			
Basic	10	**756.1p**	**1,003.9p**
Diluted	10	**756.1p**	**1,003.9p**

The results above are derived from continuing operations.

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

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

BALANCE SHEET

As at 31 March 2015

	Note	2015	2014
		£'000	£'000
Fixed Assets			
Tangible assets	11	**283,179**	276,428
Current Assets			
Stocks	14	**1,590**	1,855
Debtors - amounts recoverable within one year	15	**25,732**	22,727
Debtors - amounts recoverable in more than one year	15	**43,940**	44,065
Investments	16	**2**	2
Cash at bank and in hand		**2,432**	1,318
		73,696	69,967
Creditors - amounts falling due within one year	17	**(76,241)**	(47,830)
Net current (liabilities) / assets		**(2,545)**	22,137
Total assets less current liabilities		**280,634**	298,565
Creditors - amounts falling due after more than one year	18	**(244,780)**	(267,437)
Accruals and deferred income	13	**(8,656)**	(8,854)
Provisions for liabilities	20	**(14,119)**	(11,808)
Net Assets		**13,079**	10,466
Capital and Reserves			
Called-up share capital	21	**2,123**	2,123
Share premium account	22	**495**	495
Hedging reserve	22	**(4,358)**	(4,739)
Capital redemption reserve	22	**4,450**	4,450
Profit and loss account	22	**10,369**	8,137
Shareholders' Funds	23	**13,079**	10,466

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

The financial statements of South Staffordshire Water PLC (Company number 2662742) were approved by the Board of Directors and authorised for issue on 10 July 2015.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2015

	Note	2015	2014
		£'000	£'000
Profit on ordinary activities after taxation		**16,054**	21,315
Movement in hedging reserve (net of deferred tax)	22	**381**	394
Total recognised gains and losses relating to the year		**16,435**	21,709

1. Statement of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of Accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards on a going concern basis as stated in the Corporate Governance Report on page 26 and 27. In order to show a true and fair view, the Company has departed from the Companies Act 2006 in respect of accounting for capital contributions. Further details are provided in (d) below.

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 68 and 69 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 that, as a whole, is intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of its components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks and on maintaining the operating capability of the network in accordance with defined standards of service is treated as additions which are capitalised at cost.

The depreciation charge for infrastructure assets is the average level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

Operational Structures and Other Fixed Assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. The estimated useful lives of the assets are as follows:

Buildings and Service Reservoirs	50-80 years
Boreholes	100 years
Fixed Plant	20-30 years
Meters	15 years
Mobile Plant	5 years
Motor Vehicles	3-7 years
Office Equipment	5-7 years

d) Capital Contributions

Capital contributions are treated as deferred income and amortised over the useful lives of the assets concerned, except in the case of contributions towards the cost of infrastructure assets, which are not amortised. This departure from the requirements of the Companies Act 2006 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view, as it is not possible to amortise contributions to the profit and loss account over the lives of the fixed assets concerned, as infrastructure assets do not have determinable finite lives.

e) Leased Assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the Company, are included within fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding.

f) Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes materials and an appropriate element of overheads.

Provision is made for obsolete, slow-moving or defective items where appropriate.

g) Pensions

The Company is required to account for pension schemes in accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17). For the defined contribution scheme the amount charged to the profit and loss account is the contributions payable in the year. The defined benefit scheme is a multi-employer scheme and the Company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis. Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with the amount charged to the profit and loss account being the contributions payable in the year.

h) Research and Development

Research and development is charged to the profit and loss account in the year in which it is incurred.

i) Taxation

Current tax is charged on taxable profits at the current rate.

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation changing rates enacted or substantially enacted at the balance sheet date. The liability or asset is discounted, using the yield to maturity on government gilts, to reflect the time value of money over the period between the balance sheet date and the date on which the timing differences are expected to reverse.

j) Financial Instruments

Financial Assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable are categorised as "loans and receivables" which are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Financial Liabilities

Financial liabilities are all categorised as "other financial liabilities" which are initially measured at fair value and subsequently measured at amortised cost. The premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument which is included in finance charges (net) in the profit and loss account.

k) Hedge Accounting

The Company designates certain hedging instruments as cash flow hedges. At inception of the hedge relationships, the Company documents the relationships between the hedging instruments and the hedged items along with the Company's risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the Company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity in a hedging reserve. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. Hedge accounting is discontinued when the Company de-designates the hedging relationships, the hedging instruments expire, are terminated or are sold or they no longer qualify for hedge accounting. The amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

l) Cash Flow Statement

Under the provisions of Financial Reporting Standard Number One, the Company has not prepared a cash flow statement because its immediate parent company, South Staffordshire Plc, which holds more than 90% of the Company's share capital, has prepared consolidated accounts which include the accounts of the Company for the year ended 31 March 2015, which contain a consolidated cash flow statement and which are publicly available.

m) Dividends

Dividends are recognised in the profit and loss account if they have been paid or if they have been approved by the Company's Board and shareholders before the period end.

2. Segmental Information

The Directors consider that the Company operates substantially in the UK in one class of business, that being water supply. No analysis of turnover, profit before tax or net assets, by geographical area or class of business, is considered necessary.

3. Operating Costs (Net)

	2015	2014
	£'000	£'000
Operating costs (net) were as follows:		
Other operating income (see note 6)	**(981)**	(980)
Raw materials and consumables	**4,338**	6,177
Staff costs (see note 4)	**22,922**	21,577
Own work capitalised	**(7,483)**	(7,459)
Depreciation : non-infrastructure assets	**16,883**	15,568
Depreciation : infrastructure assets	**8,722**	10,917
Amortisation of capital contributions	**(718)**	(692)
Other operating costs	**47,526**	43,351
	91,209	88,459

Auditor remuneration is analysed as follows:

	2015	2014
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**81**	85
Other services pursuant to legislation	**-**	5
	81	90

4. Staff Costs

	2015 £'000	2014 £'000
Wages and salaries	**16,853**	16,335
Social security costs	**1,463**	1,552
Pension costs (see note 24)	**4,606**	3,690
	22,922	21,577

	2015 Number	2014 Number
Average number of employees	**478**	511

5. Directors' Remuneration

	2015 £'000	2014 £'000
Emoluments	**307**	**839**

Contributions made by the Company to money purchase pension schemes in respect of the Directors was £19,000 (2014:£17,000).

The highest paid directly employed Director received emoluments of £227,000 (2014: £189,000 and 2013: £221,000) and was not a member of a defined benefit pension scheme and had contributions of £19,000 (2014:Nil) 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 £336,000 (2014: £621,000). No contributions were paid by the immediate parent undertaking to a money purchase pension scheme in respect of these Directors in either year. No Directors (2014: Nil) who were directly employed by the Company and held office at the end of the year were accruing benefits under a defined benefit pension scheme and 1 Director (2014: Nil) was a contributing member under a money purchase scheme at both year ends.

6. Other Operating Income

	2015 £'000	2014 £'000
Profit on disposal of fixed assets	**228**	87
Rental income	**753**	893
	981	980

7. Finance Charges (Net)

	2015 £'000	2014 £'000
Interest payable and similar charges:		
Index-linked debt (Cash)	**6,900**	6,734
Index-linked debt (Non-cash)	**5,875**	5,691
Bank loan and other interest	**1,236**	1,237
Finance charges in respect of finance leases	**33**	83
Debenture interest	**68**	72
	14,112	13,817
Interest receivable:		
Loans to parent undertakings	**(2,545)**	(2,545)
Bank and other interest receivable	**(266)**	(200)
	11,301	11,072
Other finance charges:		
Amounts recycled from hedging reserve	**186**	190
	11,487	11,262

8. Taxation on Profit on Ordinary Activities

	2015 £'000	2014 £'000
Current tax:		
Current year	**5,622**	4,984
Adjustment in respect of prior years	**343**	(258)
Total current tax charge	**5,965**	4,726
Deferred tax:		
Origination and reversal of timing differences	**297**	(207)
Decrease in discount	**2,181**	403
Adjustment in respect of prior years	**(263)**	(115)
Impact of change in future tax rates (before discount)	**-**	(3,339)
Total deferred tax charge / (credit)	**2,215**	(3,258)
Total tax on profit on ordinary activities	**8,180**	1,468

The principal differences between the current corporation tax rate based on the profit before tax and the standard rate of corporation tax are as follows:

	2015	2014
Standard rate of corporation tax	**21.0%**	23.0%
Timing differences in respect of finance charges	**2.4%**	2.8%
Capital allowances less than / (in excess) of depreciation (net)	**1.5%**	(1.0%)
Adjustments in respect of prior years	**1.4%**	(1.1%)
Other timing differences	**(0.3%)**	(1.2%)
Other permanent differences	**(1.4%)**	(1.8%)
Current corporation tax rate for the year	**24.6%**	20.7%

9. Dividends Paid

	2015	2014
	£'000	£'000
Equity interests:		
Ordinary dividends paid of 651.0p (2014: 670.4p) per share	**13,822**	14,234

10. Earnings per Share

The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the year.

The calculations of earnings per share are based on the following profits and number of shares:

	2015	2014
	£'000	£'000
Profit on ordinary activities after taxation and profit for earnings per share	**16,054**	21,315

	2015	2014
	Number of Shares	Number of Shares
Weighted average number of shares for basic and diluted earnings per share	**2,123,210**	2,123,210

11. Tangible Fixed Assets

	Specialised Operational Assets	Non Specialised Operational Assets	Infrastructure Assets	Other Tangible Assets	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2014	169,962	23,459	245,648	154,951	594,020
Additions	8,355	-	15,622	13,930	37,907
Capital Contributions	-	-	(5,369)	-	(5,369)
Disposals	(95)	-	(1,064)	(661)	(1,820)
At 31 March 2015	**178,222**	**23,459**	**254,837**	**168,220**	**624,738**
Depreciation					
At 1 April 2014	75,357	6,016	160,032	76,187	317,592
Charge for the year	6,099	392	8,722	10,392	25,605
Disposals	(92)	-	(1,064)	(482)	(1,638)
At 31 March 2015	**81,364**	**6,408**	**167,690**	**86,097**	**341,559**
Net Book Value					
At 31 March 2015					
Owned	95,944	17,051	82,920	81,222	277,137
Leased	914	0	4,227	901	6,042
	96,858	**17,051**	**87,147**	**82,123**	**283,179**
Net Book Value					
At 31 March 2014					
Owned	93,482	17,443	81,389	77,464	269,778
Leased	1,123	-	4,227	1,300	6,650
	94,605	17,443	85,616	78,764	276,428

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £12,920,000 (2014: £13,011,000) less accumulated depreciation of £6,878,000 (2014: £6,361,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £478,000 (2014: £592,000). Tangible fixed assets include freehold land of £2,199,000 (2014: £2,199,000) which is not subject to depreciation.

Infrastructure renewals expenditure and the charge to the profit and loss account have been included within infrastructure asset cost and accumulated depreciation respectively. The net book value of infrastructure assets is stated net of capital contributions. The balance of capital contributions at 31 March 2015 and movements in the year are set out in note 13 below. Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £19,795,000 at 31 March 2015 (2014: £11,022,000).

12. Commitments

Capital commitments outstanding at 31 March 2015 were £1,793,000 (2014: £2,731,000).

13. Capital Contributions

	Infrastructure Assets	Other Assets
	£'000	£'000
Balance at 1 April 2014	136,075	8,854
Capital contributions received	5,369	520
Disposals	(488)	-
Amortised in year	-	(718)
Balance at 31 March 2015	**140,956**	**8,656**

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

14. Stocks

	2015 £'000	2014 £'000
Raw materials and consumables	**1,590**	1,855

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

15. Debtors

	2015 £'000	2014 £'000
Amounts recoverable within one year:		
Trade debtors	**12,908**	11,495
Other debtors	**180**	761
Amounts due from other group undertakings	**27**	440
Amounts due from parent undertakings	**364**	364
Prepayments and accrued income	**12,253**	9,667
	25,732	22,727
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	**40,000**	40,000
Other amounts owed by parent undertakings	**3,906**	4,026
Other debtors	**34**	39
	43,940	44,065
	69,672	66,792

16. Investments

	2015 £'000	2014 £'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.

NOTES TO THE FINANCIAL STATEMENTS

17. Creditors – amount falling due within one year

	2015 £'000	2014 £'000
Bank loans and overdraft (unsecured)	**26,420**	5,947
Obligations under finance leases	**580**	935
Payments received in advance	**17,552**	16,245
Trade creditors	**18,086**	14,469
Other creditors	**4,755**	3,723
Derivative financial liabilities	**325**	-
Amounts owed to other Group undertakings	**4,956**	3,567
Corporation tax payable	**3,036**	2,393
Other taxation and social security	**531**	551
	76,241	47,830

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 gross bank loan (unsecured) of £26,500,000 (2014: £26,500,000 included in amounts falling due after more than one year) is used for covenant reporting purposes but, in accordance with FRS26, is stated above net of unamortised issue costs.

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

	2015 £'000	2014 £'000
Irredeemable debenture stock (unsecured) (note 19)	**1,633**	1,633
Perpetual debenture stock (unsecured)	**19**	45
Amounts owed to other Group undertakings	**26,364**	27,191
Obligations under finance leases:		
payable between one and two years	**45**	290
payable between two and five years	**-**	43
Other creditors	**10,741**	11,070
Derivative financial liabilities	**-**	616
Bank loan (unsecured):		
payable between one and two years	**-**	26,446
Retail Price Index-linked debt (unsecured)	**205,978**	200,103
	244,780	267,437

Derivative financial liabilities in the prior year 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 £205,978,000 (2014: £200,103,000) is stated above at amortised cost in accordance with FRS26. The indexed principal of £190,638,000 (2014: £186,517,000) is used for borrowing covenant reporting purposes.

19. Irredeemable Debenture Stock

	2015 £'000	2014 £'000
3.5%	**476**	476
4.0%	**627**	627
5.0%	**500**	500
	1,603	1,603
Net premium on irredeemable debenture stock	**30**	30
	1,633	1,633

20. Provisions for Liabilities

	2015 £'000	2014 £'000
Deferred Tax		
Deferred tax is provided as follows:		
Accelerated capital allowances	**21,860**	21,271
Timing differences in respect of finance charges	**328**	873
Timing differences in respect of hedging reserve	**(1,323)**	(1,419)
Other timing differences	**(104)**	(94)
Undiscounted provision for deferred tax	**20,761**	20,631
Discount	**(6,642)**	(8,823)
Discounted provision for deferred tax	**14,119**	11,808

	£000
Balance at 1 April 2014	**11,808**
Profit and loss account charge	**2,215**
Charge to Statement of Total Recognised Gains and Losses	**96**
Balance at 31 March 2015	**14,119**

The decrease in the discount of £2,181,000 represents the charge to profit and loss for the year. There is an unprovided deferred tax liability of £1,402,000 (2014: £1,402,000) on capital gains rolled over into other assets of the Company. This will crystallise if the Company sells the assets into which the gain has been rolled into.

21. Share Capital

	2015 £'000	2014 £'000
Authorised:		
8,800,000 Ordinary shares of £1 each	**8,800**	8,800
Allotted, called-up and fully-paid:		
2,123,210 Ordinary shares of £1 each	**2,123**	2,123

22. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000
Balance at 1 April 2014	495	4,450	8,137	(4,739)
Profit for the financial year	-	-	16,054	-
Dividends paid (note 9)	-	-	(13,822)	-
Changes in value of hedging instruments - cash flow hedges (net of deferred tax)	-	-	-	232
Amounts recycled to profit and loss (net of deferred tax)	-	-	-	149
Balance at 31 March 2015	**495**	**4,450**	**10,369**	**(4,358)**

23. Reconciliation of Movements in Shareholders' Funds

	2015 £'000	2014 £'000
Profit for the financial year	**16,054**	21,315
Dividends paid (note 9)	**(13,822)**	(14,234)
Movement on hedging reserve (net of deferred tax)	**381**	394
Net increase to shareholders' funds	**2,613**	7,475
Opening shareholders' funds	**10,466**	2,991
Closing shareholders' funds	**13,079**	10,466

24. 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, which provides benefits based on pensionable pay. In addition, the Company participates in two defined contribution Money Purchase Pension Schemes. The assets of which, are held separate from those of the Company, being invested by discretionary fund managers.

The contributions to the defined contribution schemes are charged against profits as incurred. As detailed in note 1, the defined benefit scheme is classified as a multi-employer scheme as it includes employees of other Group entities and it is not practicable to identify the Company's share of the scheme's assets and liabilities on a reasonable and consistent basis. Therefore, in accordance with FRS 17, the scheme is accounted for as if it were a defined contribution scheme with contributions charged against profits as incurred. The amount charged to the profit and loss account for the defined benefit scheme for the year ended 31 March 2015 was £3,626,000 (2014: £3,152,000) representing an employer's contribution rate of 26.2% and a fixed contribution of £1,724,000 (2014: 26.2% and a fixed contribution of £1,672,000). The employee contribution rate during the year was 9.5% (2014: 9.5%). On 1 April 2015, this section of the scheme was closed to future accrual (note 27). Total deficit contributions in respect of the Company's section of this scheme for the year ending 31 March 2016 will be £1,764,000 (2015: £1,724,000). The amount charged to the profit and loss account for the defined contribution schemes for the year ended 31 March 2015 was £980,000 (2014: £538,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS17. 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 FRS17 rather than on the actuarial basis used for funding purposes, shows a surplus before deferred tax of £15,683,000 (2014: surplus of £15,209,000). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme at the balance sheet date were:

	2015 Valuation £'000	2014 Valuation £'000	2013 Valuation £'000
Equities	**71,970**	70,195	67,949
High yield bonds / gilts and debt instruments	**108,265**	85,050	84,583
Diversified growth funds	**28,174**	25,271	24,766
Emerging markets multi-asset funds	**14,138**	13,007	14,733
(Overdraft) / Cash	**(33)**	353	(41)
Market value of assets	**222,514**	193,876	191,990
Present value of scheme liabilities	**(203,342)**	(175,439)	(174,050)
Surplus in the scheme	**19,172**	18,437	17,940
Amount not recognised due to asset limit	**(3,489)**	(3,228)	(1,718)
Surplus before deferred tax	**15,683**	15,209	16,222
Related deferred tax liability	**(3,137)**	(3,042)	(3,731)
Surplus after deferred tax	**12,546**	12,167	12,491

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

25. Financial Assets and Liabilities

The analysis of the Company's financial assets and liabilities included below includes cash, loans receivable, borrowings, trade creditors and trade debtors. Borrowings represent bank loans and overdrafts, finance lease obligations, index-linked borrowings and irredeemable and perpetual debenture stock. The main purpose of these financial instruments is to finance the Company's operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating interest rates and long and short term debt while not exposing the Company to significant risk of market movements (see below). The Company is not exposed to any material foreign exchange risk.

Interest Rate Risk Profile

Borrowings

The interest rate profile of the borrowings (stated at book value) of the Company as at 31 March 2015 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 2015	**234,675**	**28,697**	**-**	**205,978**
31 March 2014	235,442	29,392	5,947	200,103

The floating rate financial liabilities as at 31 March 2014 comprised bank loans and overdrafts that bear interest at rates based on LIBOR that are not hedged with interest rate swaps. The Company's cash balances earn interest at floating rates linked to LIBOR or the Bank of England base rate. The Company's trade debtors and trade creditors are not subject to interest unless considered to be overdue.

For all financial assets and liabilities, the book values and fair values are not materially different, except for the £111,400,000 (2014: £111,400,000) Retail Price Index-linked loan, which had a book value at 31 March 2015 of £162,718,000 (2014: £158,235,000), and a fair value of £287,735,000 (2014: £224,750,000) and the £35,000,000 (2014: £35,000,000) Retail Price Index-Linked Bond which had a book value at 31 March 2015 of £43,260,000 (2014: £41,868,000) and a fair value of £47,642,000 (2014: £38,416,000).

Fixed Rate Borrowings

	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
31 March 2015	**3.6**	**0.7**
31 March 2014	3.7	1.7

Borrowing Facilities

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2015 in respect of which all conditions precedent have been met were as follows:

	2015	2014
	£'000	£'000
Expiring in one year or less	**13,500**	-
Expiring in more than one year but not more than two years	**-**	8,200
Expiring in more than two years but not more than five years	**15,000**	15,000
	28,500	23,200

Financial Risks

The Company's activities result in it being subject to a limited number of financial risks, principally credit risk as the Company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The Company has formal principals for overall risk management as well as specific policies to manage individual risks.

1) Interest Rate Risk

Interest rate risk arises from borrowings issued at floating rates including those linked to LIBOR and the Retail Price Index (RPI) that expose the Company's earnings and cashflows to changes in LIBOR and RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of the Company's borrowings that are linked to this variable and by entering into floating to fixed rate swap contracts. Risks associated with increases in RPI are effectively hedged against the revenues and the Regulatory Asset Value of the regulated water business, both of which are also linked to RPI.

2) Credit Risk

As is market practice, the Company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers. Full details of the way this risk is managed are provided below. Credit risk also includes the risk over recovery of loans receivable. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

3) Liquidity Risk

Liquidity risk represents the risk of the Company having insufficient liquid resources to meet its obligations as they fall due. The Company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and availability of adequate banking facilities including sufficient headroom. The table above details the undrawn committed borrowing facilities available to the Company to manage this risk.

Sensitivity Analysis

The following analysis, required by the Financial Reporting Standard 29, is intended to illustrate the sensitivity to reasonably possible movements during the year, in variables affecting financial liabilities, being LIBOR and the long term forecast for the UK Retail Price Index (RPI) on the pre-tax profit and loss account of the Company for the year ended 31 March 2015. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2015	2014
	£'000	£'000
RPI +0.25%	**(476)**	(461)
RPI -0.25%	**476**	461
LIBOR +1.00%	**91**	183
LIBOR -1.00%	**(91)**	(183)

The impact on the pre-tax profit and loss account for 2015 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2014 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 2013.

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 2015 was as follows:

Borrowings	2015 £'000	2014 £'000
In one year or less or on demand	**27,080**	6,882
In more than one year, but not more than two years	**45**	26,790
In more than two years, but not more than five years	**-**	43
In more than twenty years	**192,290**	188,195
	219,415	221,910

Other Financial Liabilities		
In one year or less or on demand	**49,241**	40,948
In more than one year, but not more than two years	**408**	1,616
In more than two years, but not more than five years	**27,726**	28,482
In more than five years, but not more than twenty years	**8,971**	8,779
	305,761	301,735

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £190,638,000 (2014: £186,517,000) 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 (2014: £399,467,000) and at redemption in 2051 is £139,996,000 (2014: £139,996,000).

Debtors recoverable in more than one year of £45,433,000 (2014: £44,065,000) principally represent loans receivable from the Company's parent companies of £40,000,000 (2014: £40,000,000) with £15,000,000 (2014: £15,000,000) due to be repaid within five to twenty years and £25,000,000 having no fixed repayment date (2014: £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 2015 in respect of such provisions was £4,265,000 (2014: £3,631,000). Total trade debtors as at 31 March 2015 were £12,908,000 (2014: £11,496,000). The total amount of the provision included in the above, as at 31 March 2015 was £27,671,000 (2014: £23,459,000). 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 2015 was £178,000 (2014: £118,000), representing only 1.4% of the Company total (2014: 1.0%).

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
2015	**8,003**	**2,030**	**1,171**	**679**	**393**	**-**	**12,276**
2014	7,184	1,991	1,210	788	445	154	11,772

Non-Regulated	<1 month	1-2 months	>2months	Total
2015	**620**	**89**	**92**	**800**
2014	413	73	489	975

Non-regulated debtors that are considered to be impaired of £38,000 (2014: £27,000) 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
2015	**3,947**	**3,406**	**3,259**	**3,064**	**2,895**	**11,062**	**27,633**
2014	3,635	3,230	2,935	2,766	2,623	8,261	23,450

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 15 approximates to their fair value.

26. 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 2015 was £4,270,000 (2014: £4,389,000). 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.

27. Post Balance Sheet Event

On 1 April 2015, the South Staffordshire section of the Water Companies Pension Scheme was closed to future accrual following consultation with its members and the Trustees of the Scheme. Pension benefits under the scheme will be based on pensionable pay and accrued service to 1 April 2015 with the Company and members contributing to a new defined contribution pension scheme from 1 April 2015 which will provide additional pension benefits.

28. Ultimate Controlling Party

The immediate parent company is South Staffordshire Plc which is registered in England and Wales and is the smallest group preparing consolidated accounts that include South Staffordshire Water PLC. The ultimate parent company in the United Kingdom is Hydriades IV Limited, also registered in England and Wales which is the largest group preparing consolidated accounts that include South Staffordshire Water PLC. The consolidated accounts for both these companies can be obtained from the Company's registered office. The ultimate controlling party is KKR Infrastructure Limited.

South Staffordshire Water PLC

Regulatory Accounts

Year Ended 31 March 2015

CURRENT COST ACCOUNTS REVIEW OF THE APPOINTED BUSINESS

The operating and financial review of South Staffordshire Water PLC is set out in pages 1 to 11 of the statutory accounts.

Financial Results - Current Cost Accounts

The results of the appointed business are shown in the current cost profit and loss account on page 64. Turnover for the year has increased by 3.7% to £122.4m (2014: £118.0m), reflecting the increase in charges allowed by Ofwat of 2.0%. Current cost operating profit was £27.6m (2014: £25.0m) with higher charges allowed by Ofwat, further operating costs efficiencies achieved in addition to those achieved in 2013-14, partly offset by the unavoidable impact of inflation, some specific cost increases and higher depreciation on the Company's growing capital base as it continues to invest significant amounts in maintaining and improving its assets.

Current Cost Depreciation

The Current Cost Depreciation charge (CCD) for the year net of amortisation was £21.9m (2014: £21.5m), a year on year increase of £0.4m. This reflects the CCD on non-infrastructure asset additions in the year of £19.6m (net of contributions).

Infrastructure Renewals Charge

The Infrastructure Renewals Charge (IRC) for the year, based upon the Company's long term expectations of mains replacement for the period 2010-11 to 2024-25, was £8.9m (2014: £10.9m) and reflects the level of mains replacement to arrest rising trends in burst levels and to assist with leakage control activities. 55km of mains were replaced during the year.

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The remuneration policy of the Company continues to provide a remuneration package designed to attract, retain and motivate good quality senior executives. Remuneration comprises salary, benefits and performance related bonus. Each Director receives a base salary which does not vary in relation to business or individual performance.

During the year ended 31 March 2015, 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)
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 Price Review and the Company's response to it, in total worth 25% of salary which have been paid in full.

RELATIONSHIP BETWEEN DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE

The following performance against target was achieved during the year:

Standard of performance	Target	Actual	Average % of salary awarded
Customer Service	Maintain high SIM performance	Target not achieved	Nil
Profitibilty	Budget	Target exceeded	15%
Operating costs	Below Budget	Target achieved	5%
Cash Generation	Budget	Target exceeded	10%

Mr P Newland, as an Executive Director of the Company received a bonus in respect of the above performance and individual targets in respect of the year ended 31 March 2015 of £77,000 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 £42,500 specifically linked to the performance of the Company.

HISTORICAL COST PROFIT AND LOSS ACCOUNT

FOR THE 12 MONTHS ENDED 31 MARCH 2015

	2015									2014		
	South Staffs Region			Cambridge Region			Total Company			Total Company		
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Turnover	98.843	3.664	102.507	23.530	0.893	24.423	122.373	4.557	126.930	117.989	3.599	121.588
Operating costs	(52.942)	(2.713)	(55.655)	(10.703)	(0.072)	(10.775)	(63.645)	(2.785)	(66.430)	(60.815)	(2.743)	(63.558)
Infrastructure renewals charge	(8.097)	-	(8.097)	(0.794)	-	(0.794)	(8.891)	-	(8.891)	(10.917)	-	(10.917)
Historical cost depreciation	(14.408)	(0.025)	(14.433)	(2.436)	-	(2.436)	(16.844)	(0.025)	(16.870)	(14.937)	(0.026)	(14.963)
Operating income	0.236	-	0.236	(0.008)	-	(0.008)	0.228	-	0.228	0.058	1.485	1.544
Operating profit	23.632	0.926	24.558	9.590	0.821	10.410	33.221	1.747	34.968	31.378	2.315	33.694
Other income	-	0.549	0.549	-	0.204	0.204	-	0.753	0.753	(0.049)	0.400	0.351
Net Interest	(10.661)	0.010	(10.651)	(0.837)	-	(0.837)	(11.497)	0.010	(11.487)	(11.272)	(0.071)	(11.343)
Profit on ordinary activities before taxation	12.971	1.485	14.456	8.753	1.025	9.777	21.724	2.510	24.234	20.057	2.644	22.701
Taxation - current	(3.782)	(0.312)	(4.094)	(1.656)	(0.215)	(1.871)	(5.438)	(0.527)	(5.965)	(4.158)	(0.568)	(4.726)
Taxation - deferred	(0.978)	-	(0.978)	(1.236)	-	(1.236)	(2.215)	-	(2.215)	3.258	-	3.258
Profit on ordinary activities after taxation	8.211	1.173	9.384	5.860	0.810	6.670	14.071	1.983	16.054	19.157	2.076	21.233
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	8.211	1.173	9.384	5.860	0.810	6.670	14.071	1.983	16.054	19.157	2.076	21.233
Dividends	(7.799)	(1.173)	(8.972)	(4.040)	(0.810)	(4.850)	(11.839)	(1.983)	(13.822)	(12.922)	(1.312)	(14.234)
Retained profit for year	0.412	-	0.412	1.820	-	1.820	2.232	-	2.232	6.235	0.764	6.999

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (HISTORICAL COST ACCOUNTING) FOR THE 12 MONTHS ENDED 31 MARCH 2015 (APPOINTED BUSINESS ONLY)

	2015 South Staffs Region	2015 Cambridge Region	2015 Total Company	2014 South Staffs Region
Profit for the year	8.211	5.860	14.071	19.158
Actuarial gains/(losses) on post employment plans	-	-	-	-
Other gains and losses	0.084	0.297	0.381	0.394
Total recognised gains and (losses) for the year	8.295	6.157	14.452	19.552

HISTORIC COST BALANCE SHEET AS AT 31 MARCH 2015

	2015									2014		
	South Staffs Region			Cambridge Region			Total Company			Total Company		
	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total	Appointed	Non-appointed	Total
Fixed assets												
Tangible assets	216.641	1.289	217.929	66.092	-	66.092	282.732	1.289	284.021	276.134	1.109	277.243
Investments												
- loan to group company	40.000		40.000	-	-	-	40.000	-	40.000	40.000	-	40.000
- other	-	-		-	-							
Total fixed assets	256.641	1.289	257.929	66.092	-	66.092	322.732	1.289	324.021	316.134	1.109	317.243
Infrastructure renewals prepayment / (accrual)	-	-	-	(0.843)	-	(0.843)	(0.843)	-	(0.843)	(0.814)	-	(0.814)
Other current assets	28.377	2.419	30.796	10.393	7.729	18.121	38.770	10.148	48.917	30.357	2.010	32.367
							-	-				
Creditors: amounts falling due within one year												
Borrowings	(1.399)	-	(1.399)	(26.414)	-	(26.414)	(27.813)	-	(27.813)	(0.897)	-	(0.897)
Other creditors	(39.691)	(3.701)	(43.391)	(19.457)	(0.800)	(20.257)	(59.147)	(4.501)	(63.648)	(53.233)	3.817	(49.416)
Total creditors: amounts falling due within one year	(41.090)	(3.701)	(44.791)	(45.871)	(0.800)	(46.671)	(86.961)	(4.501)	(91.462)	(54.130)	3.817	(50.313)
Net current assets	(12.713)	(1.281)	(13.995)	(36.321)	6.929	(29.393)	(49.034)	5.647	(43.387)	(24.587)	5.827	(18.760)
Total assets less current liabilities	243.928	0.008	243.935	29.771	6.929	36.699	273.698	6.936	280.634	291.547	6.936	298.483
Creditors: amounts falling due after one year												
Borrowings	(207.554)	-	(207.554)	(0.120)	-	(0.120)	(207.675)	-	(207.675)	(228.500)	-	(228.500)
Other creditors	(10.741)	-	(10.741)	(26.364)	-	(26.364)	(37.105)	-	(37.105)	(38.936)	-	(38.936)
Total creditors: amounts falling due after one year	(218.296)	-	(218.296)	(26.484)	-	(26.484)	(244.780)	-	(244.780)	(267.436)	-	(267.436)
Provisions for liabilities and charges	(18.033)	(0.008)	(18.041)	(4.734)	-	(4.734)	(22.767)	(0.008)	(22.775)	(20.655)	(0.008)	(20.663)
Preference share capital	-	-	-	-	-	-	-	-	-	-	-	-
Net assets employed	7.598	-	7.598	(1.448)	6.929	5.481	6.150	6.929	13.079	3.455	6.928	10.383
Capital & reserves	7.598	-	7.598	(1.448)	6.929	5.481	6.150	6.929	13.079	3.455	6.928	10.383

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

RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

	Statutory UK GAAP	Regulatory South Staffs Region	Regulatory Cambridge Region	Regulatory Total Company	
Profit and loss account					
Operating profit	35.721	24.558	10.410	34.969	In the statutory accounts the Company classifies certain income such as rental income as operating income. Ofwat accounting guidelines state that this should be classified as 'other income' i.e. below the operating profit line. Profit before interest is unaffected by this reclassification
Balance sheet					
Tangible fixed assets (net book value)	283.179	217.929	66.092	284.021	In the statutory accounts the Company adopts infrastructure accounting as set out in FRS 15. Ofwat requests that, for regulatory accounting purposes, FRS15 is not applied for infrastructure renewals accounting. The infrastructure renewals accrual of £0.843m is therefore excluded from the fixed asset net book value and is recorded as a current liability.
Other Current assets	73.696	30.796	18.121	48.917	In the statutory accounts a long term group debtor of £40.000m is disclosed within debtors due after more than one year. Ofwat accounting guidelines state that this should be classified as an investment. In addition, £15.221m of group debtors have been netted down as outlined below.
Investment - loan to group company	-	40.000	-	40.000	
Creditors due less than one year (excluding infrastructure renewals accrual)	(76.241)	(44.791)	(46.671)	(91.462)	In the statutory accounts, an additional £15.221m of group debtors / creditors have been netted down. Due to the Ofwat requirement to present appointed and non-appointed separately, this netting does not occur in the regulatory accounts.

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE 12 MONTHS ENDED 31 MARCH 2015 (APPOINTED BUSINESS ONLY)

		2015			2014
		South Staffs Region	Cambridge Region	Total Company	Total Company
Turnover					
Unmeasured	- household	52.787	5.914	58.700	59.040
	- non-household	0.878	0.515	1.393	1.419
Measured	- household	24.877	10.153	35.030	31.788
	- non-household	18.736	6.731	25.468	24.135
Trade effluent		-	-	-	-
Bulk supplies/inter company payments		0.427	0.034	0.461	0.456
Other third party services (incl non-potable water)		0.625	0.183	0.808	0.717
Other sources		0.513	-	0.513	0.434
Total turnover		98.843	23.530	122.373	117.989
Current cost operating costs - wholesale		(64.111)	(12.742)	(76.853)	(75.989)
Current cost operating costs - retail		(15.706)	(2.602)	(18.308)	(17.361)
Operating income		0.216	0.009	0.224	(0.220)
Working capital adjustment		0.080	0.034	0.114	0.419
Current cost operating profit		19.322	8.229	27.551	24.838
Other income		-	-	-	0.032
Net Interest		(10.661)	(0.837)	(11.498)	(11.272)
Financing adjustment		(0.189)	0.286	0.097	0.826
Current cost profit before taxation		8.472	7.678	16.150	14.423
Net revenue movement out of tariff basket		0.355	0.057	0.412	(0.093)
Back-billing amount identified		0.127	-	0.127	0.439

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

The back billing amount identified has been calculated in accordance with information note IN 11/04, ‘Simplifying the revenue correction mechanism (RCM)’.

CURRENT COST CASH FLOW STATEMENT FOR THE 12 MONTHS ENDED 31 MARCH 2015 (APPOINTED BUSINESS ONLY)

	2015			2014
	South Staffs Region	Cambridge Region	Total Company	Total Company
Current cost operating profit	19.322	8.229	27.551	25.094
Working capital adjustment	(0.080)	(0.034)	(0.114)	(0.419)
Movement in working capital	1.807	0.004	1.811	(0.893)
Receipts from other income	-	-	-	0.032
Current cost depreciation	18.147	3.758	21.905	21.476
Current cost profit on sale of fixed assets	(0.216)	(0.009)	(0.225)	0.067
Infrastructure renewals charge	8.097	0.794	8.891	10.917
Movement in provisions	-	-	-	(0.407)
Net cash flow from operating activities	47.077	12.742	59.819	55.868
Returns on investments & servicing of finance	(4.446)	(0.778)	(5.224)	(5.897)
Taxation paid	(3.554)	(1.231)	(4.785)	(4.965)
Capital expenditure and financial investment				
Gross cost of purchase of fixed assets	(18.892)	(8.306)	(27.198)	(27.001)
Receipt of grants and contributions	3.547	1.554	5.101	5.890
Infrastructure renewals expenditure	(7.429)	(1.265)	(8.694)	(11.643)
Disposal of fixed assets	0.255	0.010	0.265	0.059
Movements on long term group loans to group companies	-	-	-	-
Net cash outflow from investing activities	(22.519)	(8.006)	(30.526)	(32.695)
Acquisitions and disposals			-	-
Equity dividends paid	(7.799)	(4.040)	(11.839)	(12.922)
Net cash flow from management of liquid resources			-	-
Net cash flow before financing	8.759	(1.313)	7.446	(0.612)
Net cash inflow from financing	(0.456)	(0.038)	(0.495)	0.920
Increase/(decrease) in cash	8.303	(1.352)	6.951	0.308

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

1 Statement of Accounting Policies

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

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

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

(a) Historic Cost Regulatory Accounts

The accounting policies used are the same as those adopted in the statutory historic cost accounts on pages 33 to 36, with the exception of infrastructure renewals which, following the instructions of the Water Services Regulation Authority set out in the letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1999/00 Reporting Requirements – RAG3.04", has been accounted for in accordance with RAG2, "Classification of Infrastructure Expenditure". RAG2 is not in accordance with Financial Reporting Standard No. 12 (FRS 12), Provisions, Contingent Liabilities and Contingent Assets or FRS 15 Tangible Fixed Assets.

(b) Basis of Current Cost Accounting

The Current Cost financial statements have been prepared for the Appointed Business of the Company in accordance with guidance issued by the Water Services Regulation Authority for modified real financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets that are valued at their current cost value to the business.

(c) Tangible Fixed Assets

Assets are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of value to the business principle. Also, no provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

Modern Equivalent Asset (MEA) valuation

A review of the MEA valuation and asset stock is undertaken as part of the Periodic Review. The revised values arising from this review provide the basis for calculating the MEA in the current cost financial statements. Between Periodic Reviews, an asset valuation using RPI is carried out on an annual basis. The current cost depreciation figures included in the current cost operating costs are based upon the revised MEA values.

Infrastructure Assets

Infrastructure assets are valued at replacement cost, determined principally on the basis of data provided by the Assets Management Plan (AMP) at 31 March 2008.

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

In accordance with instructions from the Director General of the Office of Water Services set out in his letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1999/00 Reporting Requirements – RAG 3.04", the Company has not applied FRS 12, "Provisions, Contingent Liabilities and Contingent Assets" and FRS 15 "Tangible Fixed Assets" in respect of infrastructure renewals accounting and has continued to charge infrastructure renewal costs (calculated in accordance with their Asset Management Plan) to prepayments or provisions. Expenditure during the years is applied against the prepayment or provision.

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

I. restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewal expenditure, depreciation and retirement of assets since the year ended 31 March 1989, when renewals accounting was first adopted. Accordingly, the infrastructure renewals accrual at 31 March 2015 would have been included within infrastructure fixed assets.

II. the depreciation of infrastructure assets and the inclusion of the infrastructure renewal charge as a component of the depreciation charge for the year.

Other Tangible Assets

All other tangible assets are valued periodically at depreciated replacement cost. Between periodic reviews, values are restated for inflation as measured by changes in the RPI.

Third Party Contributions

Infrastructure charges and other third party contributions received are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI over the year.

(d) Real Financial Capital Maintenance Adjustments

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

- Working Capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.
- Financing adjustment – this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

(e) Index-Linked Debt

The statutory and regulatory accounting policies for index-linked debt are consistent. Index-linked debt is carried in the balance sheet at amortised cost. The premium / discount and costs of issue are amortised over the life of the instrument with the amortisation being included in the effective interest rate of the instrument which is included in net interest in the profit and loss account.

(f) Revenue Recognition

The statutory and regulatory accounting policies for revenue recognition are consistent.

Income is based on the value of bills raised in the year. For metered consumption not yet billed, an accrual is estimated.

Where a property is unoccupied and fully furnished charges are still applicable. Charges are also applicable where a property is renovated.

Charges may be waived in special circumstances, for example hospitalisation, probate and incarceration.

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.

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

Total appointed turnover in the year of £122.4m was £0.9m behind the 2009 Final Determination expectation, expressed in 2014-15 prices. This principally reflects lower consumption from metered customers in the year and a lower level of new connections.

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

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 2015 was £11.9m compared to £9.3m 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 2014 was £9.3m. Following comparison to the income actually billed for these customers in the year, there are no significant differences to report.

(g) Bad Debt

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

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

Absconded

- Where returned mail is received on accounts, no forwarding details are available and a final account is created, and where all recovery options have been exhausted.
- Where a debt has been passed to a Trace and Collect Agency and the agency is unable to trace the customer and therefore is unable to collect the debt outstanding.
- Where the total debt is less than £50, it is uneconomic to pass for Trace and Collection and therefore the debt outstanding is unable to be collected.
- Where a customer has debt greater than 6 years and no billing activity or correspondence has been received in this period. (Statute Barred)

Bankruptcy

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

Deceased

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

Liquidation

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

Uneconomic to Collect

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

(h) Capitalisation Policy

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

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

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

(i) Accounting Separation policy

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

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

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

2. Non-Appointed Business Activities

In general, non-appointed activities are those which involve the optional use of an asset owned by the appointed business.

3. Operating cost analysis for the 12 months ended 31 March 2015 (wholesale business only)

	South Staffs Region				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	1.394	0.050	5.902	1.856	9.202
Income treated as negative expenditure	-	-	-	-	-
Service charges	2.340	-	0.031	0.013	2.384
Bulk supply imports	-	-	-	-	-
Other operating expenditure	1.923	0.410	5.838	14.410	22.581
Local authority rates	0.165	0.229	0.216	3.845	4.455
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	5.822	0.689	11.987	20.124	38.622
Capital maintenance					
Infrastructure renewals charge	-	-	-	8.097	8.097
Current cost depreciation	1.404	0.010	4.467	11.334	17.215
Recharges to other business units	-	-	-	(0.047)	(0.047)
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	(0.747)	-	(0.747)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	1.404	0.010	3.720	19.384	24.518
Third party services					
Operating expenditure	0.022	-	0.486	0.463	0.971
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	7.248	0.699	16.193	39.971	64.111

	Cambridge Region				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	0.545	-	-	0.797	1.342
Income treated as negative expenditure	-	-	-	-	-
Service charges	0.332	-	-	0.335	0.667
Bulk supply imports	0.016	-	-	-	0.016
Other operating expenditure	0.615	0.068	0.711	4.016	5.410
Local authority rates	0.032	0.047	0.086	0.844	1.009
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	1.540	0.115	0.797	5.992	8.444
Capital maintenance					
Infrastructure renewals charge	-	-	-	0.625	0.625
Current cost depreciation	0.316	-	0.790	2.516	3.622
Recharges to other business units	-	-	-	-	-
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	-	(0.023)	(0.023)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	0.316	-	0.790	3.118	4.224
Third party services					
Operating expenditure	0.005	-	0.002	0.067	0.074
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	1.861	0.115	1.589	9.177	12.742

	Total Company				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Operating expenditure					
Power	1.939	0.050	5.902	2.653	10.544
Income treated as negative expenditure	-	-	-	-	-
Service charges	2.672	-	0.031	0.348	3.051
Bulk supply imports	0.016	-	-	-	0.016
Other operating expenditure	2.538	0.478	6.549	18.426	27.991
Local authority rates	0.197	0.276	0.302	4.689	5.464
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	7.362	0.804	12.784	26.116	47.066
Capital maintenance					
Infrastructure renewals charge	-	-	-	8.722	8.722
Current cost depreciation	1.720	0.010	5.257	13.850	20.837
Recharges to other business units	-	-	-	(0.047)	(0.047)
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	-	-	(0.747)	(0.023)	(0.770)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	1.720	0.010	4.510	22.502	28.742
Third party services					
Operating expenditure	0.027	-	0.488	0.530	1.045
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	9.109	0.814	17.782	49.148	76.853

4. Operating cost analysis for the 12 months ended 31 March 2015 (retail business only)

South Staffs Region	Household	Non-household	Total
Operating expenditure			
Customer services	3.388	0.264	3.652
Debt management	0.928	0.124	1.052
Doubtful debts	3.228	0.450	3.678
Meter reading	0.710	0.119	0.829
Services to developers	-	0.006	0.006
Other operating expenditure	4.129	0.524	4.653
Local authority rates	0.096	0.005	0.101
Exceptional items	-	-	-
Total operating expenditure excluding third party services	12.479	1.492	13.971
Third party services operating expenditure	-	0.007	0.007
Total operating expenditure	12.479	1.499	13.978
Capital maintenance			
Current cost depreciation	1.467	0.214	1.681
Recharges to other business units	-	-	-
Recharges from other business units	0.038	0.009	0.047
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.505	0.223	1.728
Total operating costs	13.984	1.722	15.706
Debt written off	0.109	0.077	0.186

Cambridge Region	Household	Non-household	Total
Operating expenditure			
Customer services	0.604	0.050	0.654
Debt management	0.190	0.077	0.267
Doubtful debts	0.410	0.165	0.575
Meter reading	0.193	0.016	0.209
Services to developers	-	-	-
Other operating expenditure	0.564	0.111	0.675
Local authority rates	0.056	0.005	0.061
Exceptional items	-	-	-
Total operating expenditure excluding third party services	2.017	0.424	2.441
Third party services operating expenditure	0.001	0.001	0.002
Total operating expenditure	2.018	0.425	2.443
Capital maintenance			
Current cost depreciation	0.207	0.018	0.225
Recharges to other business units	-	-	-
Recharges from other business units	-	-	-
Amortisation of deferred credits	(0.061)	(0.005)	(0.066)
Amortisation of intangible assets	-	-	-
Total capital maintenance	0.146	0.013	0.159
Total operating costs	2.164	0.438	2.602
Debt written off	0.052	0.017	0.070

Total Company	Household	Non-household	Total
Operating expenditure			
Customer services	3.992	0.314	4.306
Debt management	1.118	0.201	1.319
Doubtful debts	3.638	0.615	4.253
Meter reading	0.903	0.135	1.038
Services to developers	-	0.006	0.006
Other operating expenditure	4.693	0.635	5.328
Local authority rates	0.152	0.010	0.162
Exceptional items	-	-	-
Total operating expenditure excluding third party services	14.496	1.916	16.412
Third party services operating expenditure	0.001	0.008	0.009
Total operating expenditure	14.497	1.924	16.421
Capital maintenance	-	-	
Current cost depreciation	1.674	0.232	1.906
Recharges to other business units	-	-	-
Recharges from other business units	0.038	0.009	0.047
Amortisation of deferred credits	(0.061)	(0.005)	(0.066)
Amortisation of intangible assets	-	-	-
Total capital maintenance	1.651	0.236	1.887
Total operating costs	16.148	2.160	18.308
Debt written off	0.161	0.094	0.255

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

	Water				
South Staffs Region	Resources	Raw water distribution	Treatment	Treated distribution	Water sub-total
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	49.451	1.527	157.030	293.241	501.249
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.445	0.014	1.413	2.639	4.511
Disposals	(0.047)	(0.001)	(0.117)	(0.657)	(0.822)
Additions	2.013	0.001	2.327	7.836	12.177
At 31 March 2015	51.862	1.541	160.653	303.059	517.115
Depreciation					
At 1 April 2014	20.996	0.646	91.223	116.774	229.639
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.189	0.006	0.821	1.051	2.067
Disposals	(0.038)	(0.001)	(0.094)	(0.532)	(0.665)
Charge for year	1.404	0.010	4.467	11.334	17.215
At 31 March 2015	22.551	0.661	96.417	128.627	248.256
Net book amount at 31 March 2015	29.311	0.880	64.236	174.432	268.859
Net book amount at 1 April 2014	28.455	0.881	65.807	176.467	271.610
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	18.435	112.075	-	1,551.701	1,682.211
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.166	1.009	-	13.965	15.140
Disposals	-	-	-	-	-
Additions	-	-	-	4.898	4.898
At 31 March 2015	18.601	113.084	-	1,570.564	1,702.249

Cambridge Region	Water				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	14.192	-	19.734	113.437	147.363
AMP adjustment	-	-	-	-	-
Reclassification adjustment	(1.079)	-	1.350	(0.122)	0.149
RPI adjustment	0.118	-	0.190	1.023	1.331
Disposals	(0.008)	-	(0.030)	(0.154)	(0.192)
Additions	0.033	-	3.807	2.686	6.526
At 31 March 2015	13.256	-	25.051	116.870	155.177
Depreciation					
At 1 April 2014	7.836	-	9.183	73.433	90.452
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.071	-	0.083	0.663	0.817
Disposals	(0.008)	-	(0.030)	(0.151)	(0.189)
Charge for year	0.316	-	0.790	2.516	3.622
At 31 March 2015	8.215	-	10.026	76.461	94.702
Net book amount at 31 March 2015	5.041	-	15.025	40.409	60.475
Net book amount at 1 April 2014	6.356	-	10.551	40.004	56.911
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	-	1.626	-	537.555	539.181
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	0.001	-	(0.032)	(0.031)
RPI adjustment	-	0.015	-	4.852	4.867
Disposals	-	-	-	-	-
Additions	-	0.003	-	1.353	1.356
At 31 March 2015	-	1.645	-	543.728	545.373

Total Company	Water				Water sub-total
	Resources	Raw water distribution	Treatment	Treated distribution	
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	63.643	1.527	176.764	406.678	648.612
AMP adjustment	-	-	-	-	-
Reclassification adjustment	(1.079)	-	1.350	(0.122)	0.149
RPI adjustment	0.563	0.014	1.603	3.662	5.842
Disposals	(0.055)	(0.001)	(0.147)	(0.811)	(1.014)
Additions	2.046	0.001	6.134	10.522	18.703
At 31 March 2015	65.118	1.541	185.704	419.929	672.292
Depreciation					
At 1 April 2014	28.832	0.646	100.406	190.207	320.091
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	0.260	0.006	0.904	1.714	2.884
Disposals	(0.046)	(0.001)	(0.124)	(0.683)	(0.854)
Charge for year	1.720	0.010	5.257	13.850	20.837
At 31 March 2015	30.766	0.661	106.443	205.088	342.958
Net book amount at 31 March 2015	34.352	0.880	79.261	214.841	329.334
Net book amount at 1 April 2014	34.811	0.881	76.358	216.471	328.521
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	18.435	113.701	-	2,089.256	2,221.392
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	0.001	-	(0.032)	(0.031)
RPI adjustment	0.166	1.024	-	18.817	20.007
Disposals	-	-	-	-	-
Additions	-	0.003	-	6.251	6.254
At 31 March 2015	18.601	114.729	-	2,114.292	2,247.622

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

South Staffs Region	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	23.915	5.103	29.018
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.215	0.046	0.261
Disposals	(0.153)	(0.036)	(0.189)
Additions	2.941	0.255	3.196
At 31 March 2015	26.918	5.368	32.286
Depreciation			
At 1 April 2014	14.334	2.466	16.800
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.129	0.022	0.151
Disposals	(0.127)	(0.030)	(0.157)
Charge for year	1.453	0.227	1.680
At 31 March 2015	15.789	2.685	18.474
Net book amount at 31 March 2015	11.129	2.683	13.812
Net book amount at 1 April 2014	9.581	2.637	12.218

Cambridge Region	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	2.864	0.251	3.115
AMP adjustment	-	-	-
Reclassification adjustment	(0.103)	(0.015)	(0.118)
RPI adjustment	0.025	0.002	0.027
Disposals	-	-	-
Additions	0.071	0.006	0.077
At 31 March 2015	2.857	0.244	3.101
Depreciation			
At 1 April 2014	1.018	0.089	1.107
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.009	0.001	0.010
Disposals	-	-	-
Charge for year	0.207	0.018	0.225
At 31 March 2015	1.234	0.108	1.342
Net book amount at 31 March 2015	1.623	0.136	1.759
Net book amount at 1 April 2014	1.846	0.162	2.008

Total Company	Household	Non-household	Total
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	26.779	5.354	32.133
AMP adjustment	-	-	-
Reclassification adjustment	(0.103)	(0.015)	(0.118)
RPI adjustment	0.240	0.048	0.288
Disposals	(0.153)	(0.036)	(0.190)
Additions	3.012	0.261	3.273
At 31 March 2015	29.775	5.612	35.386
Depreciation			
At 1 April 2014	15.352	2.555	17.907
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	0.138	0.023	0.161
Disposals	(0.127)	(0.030)	(0.157)
Charge for year	1.660	0.245	1.905
At 31 March 2015	17.023	2.793	19.816
Net book amount at 31 March 2015	12.552	2.819	15.570
Net book amount at 1 April 2014	11.427	2.799	14.226

For the purpose of the regulatory accounts, an asset revaluation using RPI is carried out on an annual basis. Revaluations arising from specific price changes are carried out once every five years to coincide with the production of the Asset Management Plan (AMP) and are based on estimated replacement values following a condition and performance assessment undertaken by the Company. The Directors believe that the policy adopted is the most appropriate methodology for the Company.

7. Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2015

	Current year									Prior year		
	South Staffs Region			**Cambridge Region**			**Total**			**Total Company**		
	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net
Capital expenditure - water												
Base												
Infrastructure Renewals Expenditure (IRE)	7.874	0.445	7.429	1.583	0.319	1.264	9.457	0.764	8.693	11.960	0.365	11.595
Maintenance non-infrastructure (MNI)	13.400	0.441	12.959	2.484	0.053	2.431	15.884	0.494	15.390	16.242	0.663	15.579
Enhancements												
Infrastructure enhancements	4.898	3.104	1.794	2.685	1.529	1.156	7.583	4.633	2.950	6.335	4.789	1.546
Non-infrastructure enhancements	1.973	-	1.973	2.790	0.030	2.759	4.763	0.030	4.732	4.142	0.362	3.781
Total capital expenditure - water	**28.145**	**3.991**	**24.154**	**9.542**	**1.931**	**7.611**	**37.687**	**5.922**	**31.765**	**38.680**	**6.179**	**32.501**
Grants and contributions - water												
Developer contributions (i.e. Enhancement requisitions, grants and contributions)		2.255			0.817			3.072			3.595	
Infrastructure charge receipts - new connections		0.849			0.712			1.562			1.379	
Other Contributions		0.887			0.402			1.289			1.205	
Total grants and contributions - water		**3.991**			**1.931**			**5.922**			**6.179**	
Total capital expenditure - water and sewerage	**28.145**	**3.991**	**24.154**	**9.542**	**1.931**	**7.611**	**37.687**	**5.922**	**31.765**	**38.680**	**6.179**	**32.501**
Land sales - Proceeds from disposals of protected land			0.209			-			0.209			-

8. Analysis of working capital

		2015 South Staffs Region	2015 Cambridge Region	2015 Total Company	2014 Total Company
Stocks		1.375	0.132	1.507	1.771
Trade debtors	- measured household	2.529	1.317	3.846	3.194
	- unmeasured household	4.129	0.996	5.125	5.373
	- measured non-household	1.065	0.506	1.571	1.341
	- unmeasured non-household	0.144	0.045	0.190	0.160
	- other	0.885	0.197	1.082	1.099
Measured income accrual		8.243	3.625	11.868	9.342
Prepayments and other debtors		6.520	0.680	7.200	0.712
Trade creditors		(9.511)	(4.235)	(13.746)	(11.384)
Deferred income – customer advance receipts		(12.047)	(3.981)	(16.029)	(14.459)
Capital creditors		(2.336)	(1.548)	(3.884)	(2.888)
Accruals and other creditors		(12.994)	(1.110)	(14.103)	(6.827)
Total working capital		(11.998)	(3.376)	(15.373)	(12.567)
Total revenue outstanding	- household	29.554	3.698	33.253	30.006
	- non-household	4.121	1.396	5.517	4.843

9. Analysis of net debt, gearing and interest costs

	Fixed rate	Floating rate	Index linked	Total
Borrowings (excluding preference shares)	28,777	0	190,638	219,415
Preference share capital	-	-	-	-
Total Borrowings	28,777	0	190,638	219,415
Cash		744		744
Short term deposits		1,700		1,700
Net Debt	28,777	(2,444)	190,638	216,971
Regulatory capital value				342,765
Gearing				63.3%
Full year equivalent nominal interest cost	941	(9)	12,769	13,701
Full year equivalent cash interest payment	941	(9)	6,367	7,298
Indicative interest rates				
Indicative weighted average nominal interest rate	3.3%	-0.4%	6.7%	
Indicative weighted average cash interest rate	3.3%	-0.4%	3.3%	
Weighted average years to maturity	7	-	32	

The table has been prepared in accordance with RAG 4.04. The weighted average years to maturity is defined as the full years to maturity of the instrument from 31 March 2009.

10. Regulatory Capital Value

	2015		
	South Staffs Region	Cambridge Region	Total Company
Opening RCV for the year	270.072	75.513	345.585
Capital Expenditure	20.618	5.294	25.911
Infrastructure Renewals Expenditure	11.424	1.667	13.090
Grants and Contributions	(3.731)	(1.471)	(5.202)
Depreciation	(18.731)	(3.618)	(22.349)
Infrastructure Renewals Charge	(11.358)	(1.746)	(13.105)
Outperformance of Regulatory Assumptions	(1.113)	(0.118)	(1.231)
Closing RCV carried forward	267.180	75.520	342.701
Average RCV	268.173	75.390	343.563

The table shows the RCV used in setting price limits for the period (2010-11 to 2014-15); the differences from the actual capital expenditure and depreciation etc will not affect price limits in the 2010-15 period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

11. Non-financial information for the 12 months ended 31 March 2015

	2015			2014
	South Staffs Region	Cambridge Region	Total Company	Total Company
Number of properties ('000s)				
Households billed	533.888	123.950	657.838	648.317
Non-households billed	30.318	10.264	40.582	39.583
Household voids	16.726	1.526	18.252	16.070
Non-household voids	4.370	0.085	4.455	4.984
Properties served by new appointee in supply area as at 1 April 2009	-	-	-	-
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	133.0	144.1		
Measured household	119.7	122.5		

Volume (Ml/d)				
Bulk supply export	30.79	0.10	30.89	33.82
Bulk supply import	0.04	0.04	0.08	0.09
Distribution input	291.90	75.11	367.01	365.37

12. Condition F

Under the provisions of Condition F, the following information is provided.

(a) Borrowing

The Company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2015 in respect of which all conditions precedent have been met were £28.5m.

(b) Dividends

Dividends of £11.8m were paid during the year for the appointed business (2013-14: £12.9m).

At 31 March 2015 the Company's ratio of net debt/RCV was 63.3%. This ratio reflects the net impact of better than expected free cash generation in the year and inflation

(RPI) at March 2015 of 0.9% (March 2014: 2.5%), which is used to inflate RCV, whereas the majority of index-linked debt was inflated using RPI at July 2014 which was higher at 2.5% (July 2013: 3.1%). While the dividend policy for South Staffs Water allows dividends to be paid up to 77% of net debt/RCV the expectation for this ratio is in the region of 66%.

(c) Other Transactions

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

(d) Associated Companies

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

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Integrated Water Services Limited	53.0	Mainlaying and repair of water mains	5.1	Competitive tendering
		Mains Rehabilitation	3.8	Competitive tendering
		Minor Civils	0.8	Competitive tendering
		Metering	1.6	Competitive tendering
		Water Treatment	0.6	Cost
		Pump Refurbishment	0.4	Cost
		Minor Capital Works	3.8	Competitive tendering
Echo Managed Services Limited	25.0	Customer Services	6.2	Cost
		Billing Software	1.1	Cost
South Staffordshire Plc	nil	Management services	1.2	Cost
		Parent company services	1.4	Cost

13. Condition K

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of its Instrument of Appointment as at 31 March 2015.

14. Auditor

The Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

F6A CERTIFICATE OF THE DIRECTORS

The Directors declare that in their opinion:

a) The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated activities (including the investment programme) necessary to fulfil the Company's obligations under its Instrument of Appointment.

b) The Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its activities and fulfil its obligations.

c) All contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

d) The Company will, for at least the next 12 months, have available for it systems of internal control which are sufficient to enable it to carry out its functions.

In making this declaration, the Directors have taken into account:-

a) The Company's budget for 2015-16 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
10 July 2015

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

We have audited the Regulatory Accounts of South Staffordshire Water PLC for the year ended 31 March 2015 on pages 57 to 92 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts and the related notes to the historical cost accounting statements including the statement of accounting policies; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water [and sewerage] undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in

Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information presented with the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 1 to the accounts and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2015, (the "Methodology Statement").We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

REPORT OF THE AUDITOR

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA, in respect of the Accounting Separation Tables the Methodology Statement, and the accounting policies set out on page 1, the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended;
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies and the Methodology statement.

Emphasis of matter - Basis of preparation

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 60 and 62 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 63.

Report of the Auditor

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

- The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.
- Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
15 July 2015