

South Staffordshire Water PLC

Preliminary Results Announcement

For the Year Ended 31 March 2013

Highlights

- Levels of service continue at the highest levels in the UK Water Industry.
- £31.3m of planned capital investment successfully completed.
- 64km of mains replaced.
- Third lowest domestic charges in England and Wales at an average of £140 per annum in 2012-13, 23% below the national average.
- Water resource position remains healthy.
- Challenging and demanding targets for leakage met.

	2013	2012
Turnover	£94.7m	£91.1m
Operating Profit	£24.6m	£22.2m

Keith Marshall, Acting Managing Director, commented:

“The Company has the customer at its heart and its long term strategic focus continues to be based on delivering exceptional customer service, maximising business efficiency through controlling costs and reducing carbon footprint by further enhancing energy efficiency and promoting water efficiency with its customers.”

9 July 2013

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Operational Review

The Company has the customer at its heart and its long term strategic focus continues to be based on delivering exceptional customer service, maximising business efficiency through controlling costs and reducing carbon footprint by further enhancing energy efficiency and promoting water efficiency with its customers.

The Company is very conscious of the impact the business can have on society. Affordability issues are key to its customers, even more so during the current economic climate. The Company continues to ensure it strikes the balance of achieving excellent customer service in the supply of a resource which is imperative to life and wellbeing as well as the supply chain for business customers and therefore aims to deliver a service to meet customer needs whilst keeping bills low, and offering help for those in need.

To this end, significant moves forward have been made in the Service Incentive Mechanism (SIM) score for the year, and customer engagement has become a major part of the business plan for PR14.

In January 2013, Adrian Page was appointed Executive Chairman of South Staffs Water. At the end of March 2013, Jeremy Pelczer resigned as a Non-executive Director and the Company thanks him for his excellent contribution and wishes him every success in the future.

Following South Staffordshire Plc's acquisition of Cambridge Water, the Competition Commission cleared the merger with Cambridge Water on 31 May 2012, without imposing any conditions. Subsequently, Ofwat progressed the unification of the licences to incorporate the Cambridge area into the licence of South Staffordshire Water PLC in April 2013, when also the business, assets and liabilities of Cambridge Water were transferred to the Company by way of a transfer scheme in accordance with Schedule 2 of the Water Industry Act 1991. The integration of the two companies is progressing well, incorporating best practice from two very efficient customer focused businesses.

The Company is proud of its achievements and is determined to remain one of the best performing companies in the industry, which will only be possible through the continued hard work and support of employees, suppliers and contractors.

Customers continue to pay the third lowest water bills in England and Wales with the average bill of £140 in 2012/13 being 23% lower than the industry average. This is just one of the key drivers for the Company, along with providing a constant supply of safe, clean water with a service that exceeds customer expectations.

Ofwat recognises the Company as highly efficient; ranked with the best in the industry. The Company is committed to maintaining this position. However, it is not immune from the economic climate which is posing a significant challenge to collection of customer water bills, but through improved processes to assist customers in need, the position is stable. Demand from non-domestic consumers is also lower, reflecting the general state of the economy.

Since the introduction by Ofwat of the Service Incentive Mechanism (SIM), a great deal of work has been undertaken to improve processes and systems, in order to enhance the experience of the customer when they have contact regarding billing and operational matters. The Company has significantly improved performance in the year, achieving (joint) 1st position for customer satisfaction compared to 9th during 2011/12. The remaining elements of the SIM measure, and the ranking within the industry, will be known during early summer 2013.

A significant project to improve IT capabilities was implemented during the year to ensure the Company can continue to be efficient in its operations and meet customers' rising service expectations now and into the future. The project delivered the following service improvements to:

- Allow customers to have improved response times after contacting us
- Gain better information for customers regarding operational job activities
- Improve business capabilities to schedule jobs for customers directly
- Improve response times for operational activities
- Sustain high operational efficiency

The year started with several companies continuing to impose water use restrictions on their customers. The resource position remained healthy due to very effective management of resources and there were no temporary use bans implemented. The summer ultimately became the wettest on record and the drought position was naturally resolved.

Since the extreme weather impacts during the winters of 2009/10 and 2010/11, which increased leakage levels and the number of mains bursts during these years, the Company has experienced two years with relatively benign winter weather. Also, following the previous dry summers, additional leakage reduction works were carried out in support of drought management activities. As a result of this previously increased level of activity and the reduced weather impact, the average level of leakage over the last year was the lowest on record, while the number of burst mains also reduced to the lowest level in over 18 years.

Operationally, the Company continued to supply safe, clean, drinking water and during the period complied with 99.91% of all tests carried out on drinking water supplies.

Preparations commenced for the 2014 Price Review and a Customer Challenge Group was established with Dame Yve Buckland as the independent chair. The Group has good customer and stakeholder representation and has been extremely useful in guiding customer engagement strands and proposed outcomes for PR14.

As part of the business planning process, the Water Resources Management Plan was submitted to Defra. The plan shows a healthy resource position for the 25 year planning horizon with no new resource development required.

The Final Drought Plan 2013 was also submitted to Defra and was approved for publication earlier in the year. This was placed on the Company website at the end of February.

There is a culture of strong employee engagement with employee safety being paramount to the business and there has been greater focus on accident and near miss reporting as well as staff absence. Personnel protection has been enhanced with the introduction of a Lone Worker buddy scheme to safeguard those employees who work alone.

Financial Review

Turnover for the Company has increased by 4.0% to £94.7m (2012: £91.1m) primarily due to the price increase allowed by Ofwat of 7.1% partly offset by reduced consumption from metered customers due to the very wet summer and weak economy. Operating profit was £24.6m (2012: £22.2m) with higher charges allowed by Ofwat, partly offset by higher costs representing the effect of the expected inflationary pressures, an increase in power costs following the introduction of the carbon tax and additional resources to ensure challenging service targets are achieved net of further operational efficiencies that have been generated.

The current tax charge in respect of the year to March 2013 amounted to £3.6m, representing 24.6% of profit before tax. The Company's tax charge reflects the ongoing capital investment programme which gives rise to tax capital allowance deductions earlier than the corresponding accounting charges, in particular for infrastructure investment. The Company's borrowings give rise to external finance charges with third parties which attract full tax deductions. The total tax charge of £2.6m incorporates a £0.8m deferred tax credit resulting from the 1% reduction in corporation tax rates to 23% for 2013/14.

Dividends of £8.1m have been paid in respect of 2012-13 (dividends paid in 2011-12: £10.3m) In addition, a final dividend of £4.9m was paid and proposed in the year reflecting better than expected cash flows and levels of debt in 2011-12.

Overall, the book value of net debt amounted to £205.8m at 31 March 2013 (2012: £196.3m). 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 £192.4m (2012: £182.8m) which excludes unamortised premium and costs and uses actual inflation at the relevant dates as opposed to the long-term inflation assumption used in the book value of index-linked debt. This represents 73.0% (2012: 72.4%) of the Company's Regulated Asset Value (RAV) of £263.4m (2012: £252.5m) being the Final Determination RAV uplifted for inflation. The Company's dividend policy is to pay dividends up to 77% of net debt/RAV and was impacted by the cash flow outperformance in the year and a higher than expected year end RPI of 3.3%. The Company maintains significant headroom in respect of all

borrowing covenants and has significant undrawn borrowing facilities available (£15.9m at March 2013) for liquidity.

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

9 July 2013

South Staffordshire Water PLC

Profit and Loss Account for the Year Ended 31 March 2013

	2013	2012
	£'000	£'000
Turnover	94,732	91,060
Operating costs (net)	(70,134)	(68,885)
Operating profit	24,598	22,175
Finance charges (net)	(9,928)	(9,553)
Profit on ordinary activities before taxation	14,670	12,622
Taxation on profit on ordinary activities	(2,610)	(3,178)
Profit on ordinary activities after taxation	12,060	9,444
Earnings per share		
Basic	568.0p	444.8p
Diluted	568.0p	444.8p

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Balance Sheet at 31 March 2013

	2013	2012
	£'000	£'000
Fixed Assets		
Tangible assets	209,659	199,447
Current Assets		
Stocks	1,488	1,574
Debtors - amounts recoverable within one year	15,704	13,972
Debtors - amounts recoverable in more than one year	44,193	44,320
Cash at bank and in hand	1,499	2,221
	62,884	62,087
Creditors - amounts falling due within one year	(41,887)	(34,745)
Net current assets	20,997	27,342
Total assets less current liabilities	230,656	226,789
Creditors - amounts falling due after more than one year	(208,272)	(203,538)
Accruals and deferred income	(7,732)	(7,315)
Provisions for liabilities	(11,661)	(12,087)
Net Assets	2,991	3,849
Capital and Reserves		
Called-up share capital	2,123	2,123
Share premium account	495	495
Hedging reserve	(5,133)	(5,215)
Capital redemption reserve	4,450	4,450
Profit and loss account	1,056	1,996
Shareholders' Funds	2,991	3,849

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Cash Flow Statement for the Year Ended 31 March 2013

	2013 £'000	2012 £'000
Net Cash Inflow from Operating Activities	46,413	41,908
Returns on Investments and Servicing of Finance:		
Interest received	2,873	2,806
Interest paid	(7,283)	(6,884)
Interest element of finance lease rentals	(133)	(150)
Net cash outflow from returns on investments and servicing of finance	(4,543)	(4,228)
Taxation:		
Corporation tax paid	(1,841)	(3,639)
Capital Expenditure and Financial Investment:		
Purchase of tangible fixed assets	(34,203)	(30,187)
Proceeds from sale of tangible fixed assets	183	1,873
Capital contributions received	3,307	4,828
Net cash outflow from capital expenditure and financial investment	(30,713)	(23,486)
Free Cash Flow	9,316	10,555
Equity Dividends Paid	(13,000)	(10,300)
Financing:		
Capital element of finance lease rental payments	(414)	(370)
Net cash outflow from financing	(414)	(370)
Decrease in Net Cash	(4,098)	(115)

South Staffordshire Water PLC

Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2013

	2013	2012
	£'000	£'000
Profit on ordinary activities after taxation	12,060	9,444
Movement in hedging reserve (net of deferred tax)	82	(136)
Total recognised gains and losses relating to the year	12,142	9,308

1. Financial Reporting

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

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2013 or 2012.