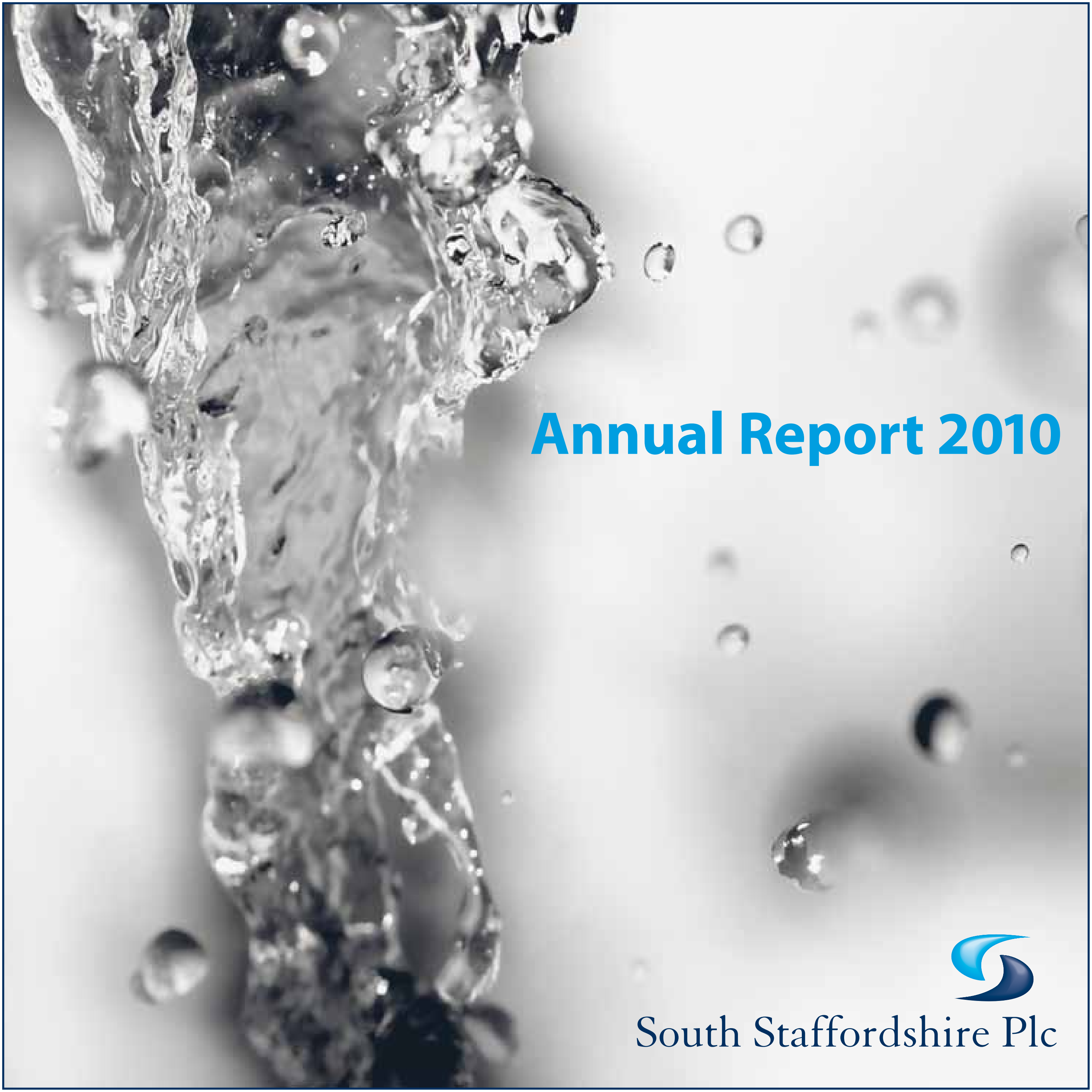


Annual Report 2010

South Staffordshire Plc

Contents:

Executive Summary:

The Group has exceeded a challenging budget, both for operating profit and cash generation.

The outcome of the last 12 months' trading was unusually hard to predict at the start of the year as the continuing effects of recession and economic uncertainty were exacerbated by the cyclical effect of the last year of AMP4, particularly in our non-regulated businesses. In the event, despite lower sales, the Group exceeded a challenging budget both for operating profit and cash generation, although the overall profitability was slightly lower than the previous year.

Group Results

In the year ended 31 March 2010, Group turnover declined slightly to £142.5m. South Staffs Water's regulated turnover grew to £82.3m due principally to the price increase allowed by Ofwat.

Non-regulated turnover declined to £60.2m, reflecting the poor economic climate and the last year of AMP4 which saw reduced expenditure by the Water and Sewerage Company (WASC) customers.

Group operating profit (before goodwill amortisation) reduced to £29.4m. Operating profit in the regulated water business remained at £21.2m mainly reflecting the price increase and further cost efficiencies, offset by the unavoidable increase in specific costs, notably power and those related to the severe winter weather. Operating profit in the non-regulated businesses reduced to £8.3m reflecting reduced turnover resulting from the difficult economic climate and the last year of AMP4. The performance of Integrated Water Services (IWS) contrasted strongly, however, with this result as its major new contracts came successfully on stream.

During the year, Group free cash flow of £19.9m was well ahead of expectations and last year and reflected good working capital management as turnover reduced, coupled with very close control in the difficult trading conditions.

Regulated Water Supply

The Final Determination, setting water pricing for the next five years, 2010/2015, was released by Ofwat in November 2009. By remaining in Band A for efficiency, South Staffs Water has benefitted in the setting of efficiency targets going forward which, whilst challenging, are achievable. However further improvements are becoming difficult. Capital expenditure allowed is close to that included in our Business Plan and should enable a continuation of our excellent service to our customers. The cost of capital of 4.9% awarded across the industry is lower than the last Determination, however after allowing for the premium for high levels of service and efficiency, South Staffs Water has the highest allowed returns in the industry.

Water & Wastewater Services

In the Water & Wastewater Services businesses, with the notable exception of IWS, the year started badly as the predominantly WASC customer base cut back on expenditure in the final year of AMP4. To counteract this difficult environment some cuts in resources were inevitable to better match capacity with demand and when, in the last quarter, demand increased substantially, the division was able to respond.

IWS had an excellent year. The Mechanical and Electrical division benefitted from the full year impact of the UK-wide service and maintenance contract with the Coal Authority, won last year, and increasing work elsewhere. The Water Hygiene division, now based throughout the UK, also did very well, winning a number of important local authority contracts.

Very sadly in August 2009, Robert Harley, the Managing Director of this division died. Robert contributed greatly over many years to the success and growth of these businesses and will be greatly missed.

Echo

Echo, which provides customer contact, billing and debt collection services for regulated organisations throughout the UK, did very well to achieve its budget. Service levels for its customer base were well maintained throughout the year and much effort was put into further developing and improving the RapidXtra billing software to ensure it remains a competitive product over the next ten years.

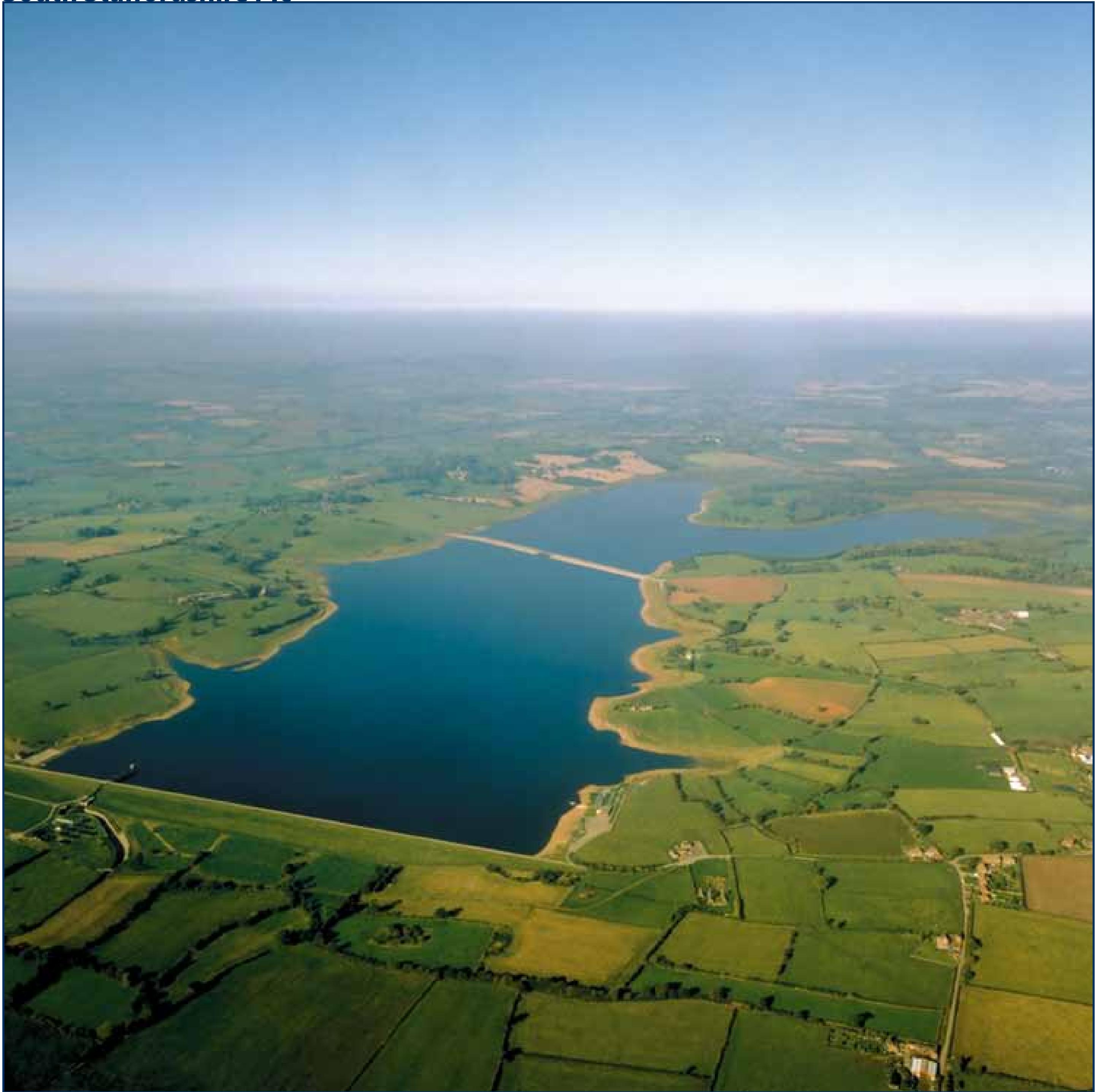
Outlook

The outlook for 2010/11 will depend in all areas on the speed of economic recovery. In South Staffs Water, cash collection and achievement of the new efficiency and leakage targets will be the prime motivators and, hopefully, commercial demand will improve further. In Water & Wastewater Services, much will depend on the speed with which the WASCs release expenditure under their new capital programmes and on our ability to compete successfully for the new framework contracts they will be awarding. Local authority and government agency budgets will also be very important. At Echo, the challenge will be to generate the planned new business.

Overall, the Group is well positioned for the coming year. Despite the obvious risks, we have reason to be confident that our businesses are able to take advantage of better conditions.

Our employees

Finally, we once again pay tribute to the hard work and dedication of our main asset, our staff. In difficult times, the pressures are inevitably greater and the problems even harder to resolve. The satisfactory outcome for the year is wholly due to their significant efforts.



Operational Review:
South Staffs Water
has a long track record of providing excellent value to its customers.

South Staffs Water is recognised as a leading company in the water sector, where the need to ensure a continuous supply of clean water, coupled with excellent value and customer service, is of key importance. This is largely based upon the business' long track record of providing excellent value to its customers, combining high levels of service and efficiency with low charges.

Consistent with the business' long-term Strategic Direction Statement, the business strategy is based on the 3Cs which summarise the three main drivers for the decisions the business makes and the policies that it adopts. The 3Cs represent:

- **Customers** – provide an excellent customer service
- **Costs** – control costs to maximise business efficiency
- **Carbon** – reduce carbon footprint

South Staffs Water's domestic customers continue to pay the third lowest water bills in England and Wales, with the average of £123 being some 24% below the industry average of £162.

The business' Overall Performance Assessment, as measured by the industry regulator Ofwat, reflected excellent levels of service, with a score of 286 in 2008/9, which remains well above the industry average. This is now the tenth consecutive year that South Staffs Water has been represented in the top five in the industry, an achievement of which the business is incredibly proud. The provisional results for 2009/10 are also excellent, but show the effects of severe weather impacting on the pipe network. Customer satisfaction scores also improved in the year to 4.72 (out of a maximum of five) with the business placed fifth in the final quarter. This is the highest position ever achieved by the business.

In addition, the business is recognised as being one of the most efficient in the sector and is ranked in the top band for efficiency by Ofwat. For operating costs, South Staffs Water was third out of 22 companies in 2008/9 and attained upper Band A efficiency status. This is the highest banding it is possible to achieve and is the seventh consecutive year of Band A status. Tight cost control has continued throughout 2009/10.

During the period, the business complied with 99.994% of all tests carried out on drinking water supplies. This result is the best ever compliance rate achieved by the business.

With increasing energy prices the drive to improve efficiency, as well as electricity procurement, in the production of water continues to be important. A full review of production costs has been undertaken in the year to ensure the efficient use of energy continues and is further enhanced. In addition, the business has secured a further 12 months of energy purchase,

taking the contract to September 2012. This provides valuable certainty for the first half of the AMP5 period.

The business has continued excellent progress in delivering its capital programme to ensure its assets remain in good condition and to maintain good quality, reliable, supplies to customers. Capital expenditure over the AMP4 period (2005/2010) of £114.1m is in line with the 2004 Ofwat Determination.

Progress has been made in replacing mains that are susceptible to bursts and leakage. Key areas of activity over the year included the completion of the AMP4 mains rehabilitation programme, with the renewal of more than 27km of mains and associated services in the year.

An early start has been made to review and optimise the water distribution network to reduce future energy and carbon costs as part of forward planning for AMP5. A significant level of activity has also been undertaken on the preparation of contract delivery frameworks for AMP5 works, including Project Bounty, enabling the integration of a number of separate works contracts into a single contract for works on the water distribution network to support more effective and efficient capital delivery going forward.

This year saw an even worse winter than 2008/9. This has not only been very severe in terms of the current level of burst mains and leakage, but its influence could also impact on the 2010/11 starting level of leakage and the operational resources required to overcome this. The operational response from staff and contractors has been excellent during a very physically demanding period, resulting in minimal impact on customers. In spite of the impact of the winter, the business has achieved the leakage target set by Ofwat.

The five-year price review for the period 2010/15 was concluded with Ofwat's announcement of the Final Determination made on 26 November 2009. Customer bills are to rise by 2.8% plus inflation over the next five years.

The capital investment for the period was set at £135.1m (in 2007/8 prices), very close to that proposed by the business with significant increases to customer metering and asset maintenance. Efficiency targets for operating costs were set at 0.25% per annum with the business being ranked in the top band (Upper Band A) for efficiency. The Cost of Capital was set at 4.9% (post tax) including a small company premium of 0.4%.

The business put significant effort into the production of robust business plans and is now in the process of converting these into operational delivery strategies to ensure that the business continues to operate efficiently and provide the service standards that customers expect.

South Staffs Water has agreed with Ofwat proposals to commence a seasonal tariff trial on selected new developments to encourage customers to use less discretionary water, principally garden watering, during the summer months. The business considers that price signals are likely to be critical in its efforts to promote water efficiency and reduce carbon use. The trial is the first step in this journey.

Over the past year, a comprehensive review of the business' current and future IT capabilities has been undertaken to ensure the business can continue to be efficient in its operations and meet customers' rising service expectations now and into the future.

The consequential, significant, further investment in systems and IT will:

- Allow customers to have improved response times when they contact us
- Gain better information for customers regarding operational job activities
- Improve the business' capabilities to schedule jobs for customers directly
- Improve response times to operational activities
- Sustain high operational efficiency

The first phase of the improvements was implemented in April 2010 with the replacement of systems used for the management of operational activities and the introduction of devices for staff out in the field to communicate more effectively with Head Office and, in turn, customers.

The business has a culture of strong employee engagement, astute financial awareness and planning and a desire to work hard to provide an excellent service to all customers. Its success is largely due to the dedication and commitment of employees.
The sector and its environment are always changing. Last year, work was undertaken to identify the training requirements to develop managers further to ensure they are equipped with the skills to move the business forward.

The business continues to play an active role in the local community and further details of activities in this area are provided in the Corporate Social Responsibility report on pages 18 to 20.

South Staffs Water is proud of its achievements and is determined to remain one of the best companies in the industry. This will only be possible through the hard work and support of its employees, suppliers and contractors.

Water & Wastewater Services provides a broad range of water related specialist services.

The Group's Water & Wastewater Services division provides a broad range of specialist services to the UK water sector and other major infrastructure owners under long-term relationships.

The year to 31 March 2010 saw a reduction in demand for the division's services, principally the result of the UK economic climate and the year being the final year of the AMP4 five year investment programme for a number of large customers, when capital activity is historically lower than other years in the cycle. Nevertheless, the division remained profitable and cash generative and made reductions to its cost base to mitigate the impact of these unavoidable factors. In fact, a number of the businesses continued to thrive despite these factors and all are in a very strong position to deliver increased work to their customers when the likely increase in demand occurs.

OnSite

OnSite offers specialist wastewater services including flow monitoring, sewer rehabilitation, CCTV surveys and a 24/7 reactive sewer maintenance service. Its main customers are UK water and sewerage companies (WASCs), but OnSite has sought out a diverse client base, including British Waterways and the Environment Agency.

While some parts of the business have seen reductions in demand during the year, particularly flow monitoring, others have performed very well.

During the year the business' quality management systems were certified by BSI and it obtained ISO 9001:2008 status. OnSite's health and safety management systems were recognised by receiving the RoSPA Occupational Health & Safety silver award. This quality-focused approach to its operations has frequently been rewarded by the renewal of existing contracts and OnSite has agreed a further six-month extension to the Network Operations contract with Severn Trent Water, which it has worked on since April 2004.

OnSite has been carrying out CCTV surveys since 1977. Continual investment has resulted in the business having the largest, best-equipped, specialist surveying fleet in the UK; many of the specialist surveying teams are led by employees with 10 to 20 years of industry experience. OnSite has contracts with the majority of WASCs and continues to be sole supplier of CCTV surveys to Anglian Water and Yorkshire Water.

The temporary dam business, Portadam, has proved successful. Turnover has again increased and OnSite has marketed the service to a wider audience.

OnSite has continued to invest and develop its new Flow technology. The business has been in dialogue with clients aimed at providing a more bespoke offering. OnSite's OS8000 flow monitoring and OS1000 rainfall measurement systems have evolved and adapted over the last year. The business is currently beta testing the new OnSite Live website, a new application which will be an intuitive tool allowing the end user to access data with little training.

Perco

Perco is widely known as the UK leader in the provision of no-dig services, such as guided augerboring, pipebursting, UV-CIPP lining, pigging, directional drilling, microtunnelling, headings and related specialist civils works. It provides a wide range of trenchless solutions to the water industry and other sectors, for the installation of underground pipelines. The use of such innovative technologies provides tangible savings to the client, end user and other stakeholders, through environmental, health and safety and commercial success.

The business principally operates as a sub-contractor to the UK's main framework contractors.

Perco has embarked on a successful marketing campaign to related sectors such as facilities management, rail, housing and petro-chemical.

2009/10 has also been a strong year in terms of health and safety, with no RIDDOR occurrences, continued accreditation to CHAS, and the further development of the QUENSH system. Current company qualifications have been maintained, including Investors in People, Linkup, ISO9001:2008 (QA) and Constructionline. Perco's in-house Customer Satisfaction Survey results were over 80% - the highest result recorded.

IWS

Integrated Water Services (IWS) comprises two divisions, Water Hygiene Services (WHS); and Mechanical and Electrical Services (M&E), with seven regional reporting centres providing efficient high quality services.

WHS principally provides legionella maintenance, remedial and risk assessments to local authorities, housing associations and retail markets throughout the UK. M&E provides technical engineering services relating to abstraction, treatment and pumping of water, with a specialist pump repair workshop in Walsall, and has a track record of delivering sustainable reductions in energy consumption for its clients.

In spite of difficult trading conditions during 2009/10, the business has delivered profit growth. Demand for services has remained strong as the need to reduce energy consumption remains high on clients' agendas.

New contracts and frameworks have been secured in both divisions, notably pump testing and refurbishment frameworks with South West Water and legionella control contracts with Staffs County Council, Newcastle City Council and Severn Trent Water.

The full year of the national Coal Authority contract has proved beneficial and a significant number of additional pumping tests have been undertaken. The Environment Agency also awarded a contract for the design and installation of flood defence pumping stations around Alcester.

The business has invested in electronic data capture and reporting systems, significantly reducing time taken to present site-specific information to clients and lessening the burden of paper-based systems.

Health and safety management and performance at IWS has been endorsed with a gold award from RoSPA and an International Occupational Health and Safety Award from the British Safety Council.

In April 2010 the business acquired Ion Water and Environmental Management Ltd, a water hygiene business based near Glasgow. The acquisition will enable the WHS division to grow in Scotland and the north east of England. A further expansion of the regionalised reporting base is expected which will increase the ability to provide a full range of services nationwide.

Pipeline Services

Pipeline Services provides new lay, repairs, maintenance and replacement of clean water mains and small diameter sewers, and destructive and non-destructive quality testing of water mains.

During the year the business completed 21km of mains rehabilitation, 10km of new mains, plus a variety of leakage repairs and minor civil work for South Staffs Water.

Specialist pipe condition assessment (PCA) service work was delivered for Scottish Water, as well as South West Water and Yorkshire Water via main contractors.

The business was successful with an award of contracts for Walsall Housing Group and Birmingham CC to add to the existing contract with Dudley MBC.

In conjunction with Hydrosave, the business has also secured "Find & Fix" work.

During the year a new bespoke works management system was developed to link with field system PDAs. This enables tracking of job progress, gang productivity, travel times and estimation accuracy in real time, as well as automatic invoicing. Work on a replacement field system and secure web access to data by clients has now been completed.

The business is pleased to report the second successful annual assessment by BSI of their Occupational Health and Safety Management System against BS OHSAS 18001:2007 and, for the third year, their Quality Management System against BS EN ISO 9001:2001.

Hydrosave

Hydrosave specialises in leak detection and water conservation, focused on improving the efficiency of clean water networks, having worked with half of the UK's water companies and over 1,000 industrial customers. The business operates as a tier-one framework supplier to UK water utilities and as a partner for commercial water customers seeking to optimise water usage.

Hydrosave's services are supported by people with unparalleled experience and knowledge of the water industry's unique requirements and issues.
The business has been successful in securing several new clients during the year, actively promoting itself through sponsorship of national events and marketing. Hydrosave has also diversified into new sectors such as trunk mains audit and specialist engineering design services.

In February 2010 the business launched a new website including access to the Hydrosave Online Performance Management web-based system, enabling technical components of contract performance to be reported and viewed online by customers.

In 2009/10 Hydrosave achieved the award of a new four year framework with Scottish Water and framework extensions to contracts in Severn Trent Water, Veolia Three Valleys and Anglian Water. The business has also undertaken field services related to hydraulic network modelling for two WASCs.

Hydrosave has started its first UK Water Industry Research project (UKWIR) in partnership with Hyder Consulting and was also successful in securing an AMP5 leakage consultancy framework. Elsewhere, the business has undertaken trunk mains audits and leak detection projects.

New health and safety policies and procedures were implemented resulting in external audit compliance and ISO 18001 accreditation, and an above average industry score in the Achilles Verify process of over 90%.


Three steps to success
RapidXtra
RapidXtra

Echo
has at the core of its strategy a dedicated team of sector specialists.

Echo is a leading provider of customer process management services, focused on regulated markets. The business provides customer contact management services, resolving customer queries and issues, as well as a billing and revenue management service, including its proprietary RapidXtra billing and customer care software and its suite of Credit Intelligence revenue management solutions.

Despite challenging economic conditions, the business nevertheless achieved its targets and enjoyed some success in a tough year where there were fewer new business opportunities. Echo's ability to remain successful and on target in these conditions is due to a fundamentally strong, stable and focused business strategy.

At the core of Echo's strategy is a dedicated team of sector specialists. The expertise and deep market knowledge of Echo's people has enabled the development of market leading products and a proven and reliable service delivery capability. Echo's client relationships are typified by long-term, high profile contracts which are predominantly in the UK water market, but also include a growing presence in the public sector and in the Irish local authority market.

Over the past two to three years Echo has been increasing its investment in R&D activity for its market leading billing and customer care system, RapidXtra. This investment is now beginning to reap rewards. New developments in areas such as tariffs, web self-service and service orientated architecture have not only helped to ensure the technology remains ahead of its competitors, but have also helped to provide significant value and confidence to key clients, all of whom intend to remain with the system throughout the next AMP period. Working with such a strong client base, and supported by the new, directly employed development team in India, the planned roadmap of developments points to an exciting future for the system.

With the Ofwat Final Determination being completed and the new AMP5 cycle having now commenced, Echo has placed a great deal more focus on the potential for new opportunities for RapidXtra. Despite a tough Final Determination for the water companies, Echo believes that the new AMP period will provide the catalyst for a number of water companies to consider moving away from legacy systems. First and even second generation billing systems will become increasingly unsuitable in an environment which demands customer centric, web-enabled and smart meter enabled solutions. Echo has positioned the product to support water companies who seek to thrive through the next five years and beyond, a period which is likely to include major changes to competition, regulatory structures and to customer expectations.

Echo's development work and investment in its Credit Intelligence revenue management solution has reached some maturity. As a result, natural extensions to the core solution are now evolving into new propositions, which, Echo believes, will help to generate more new

business opportunities over the coming year. Echo is committed to continue broadening its debt focused expertise in the coming year and aims to take its propositions into new and complementary sectors.

As the solution continues to develop into a suite of offerings, a growing strategic debt collection (DC) service has already delivered new business. In 2009 Echo secured its first new client for DC services, Bristol and Wessex Billing Services Ltd (BWBSL), who provide billing and customer services on behalf of both Wessex Water and Bristol Water. BWBSL is now using Echo's DC service, alongside the Credit Intelligence analytics and reporting solution, to help improve collection performance and guard against the effects of the adverse economic climate.

In addition, Echo commissioned independent research analysing the different approaches to debt collection of water companies and local authorities. The insights from the research enabled Echo to form a number of new relationships with water companies and local authorities in the UK. Echo is confident that these relationships can start to deliver more new business growth over the coming year.

In Northern Ireland, Echo worked with Northern Ireland Water (NIW) to implement some significant contractual changes to the provision of its end-to-end customer services. These changes have included a new, direct contractual relationship between Echo and NIW and the expansion of the scope of Echo's service.

Across both of Echo's main customer service operations, for NIW and South Staffs Water, consistently impressive scores were delivered in the quarterly regulated customer satisfaction measures. Echo took great satisfaction in seeing four of its clients occupying the top four positions in the rankings.

Financial Review:

The Group performed well both operationally and financially.

The Group performed well both operationally and financially in the year to 31 March 2010, despite the difficulties presented by the UK economic climate and the reduction in demand for the Group's non-regulated services during the final year of the AMP4 period.

The Group exceeded challenging targets set at the start of the year for both profitability and cash generation.

Turnover and Profit

Group turnover (including its share of its Joint Ventures) reduced by 2.2% to £142.5m (2009: £145.6m) with the reduction being principally the result of lower non-regulated business activity as demand from our main WASC customers significantly reduced, due to both the economic conditions and to 2009/10 being the final year of their AMP4 capital investment period when demand is typically low.

Regulated turnover increased from £78.5m to £82.3m, primarily due to the price increase allowed by Ofwat of 1.3% (plus inflation) and a modest increase in commercial consumption.

Non-regulated turnover reduced from £67.1m to £60.2m, reflecting the reduction in demand for our services as our major customers reduced expenditure in the final year of AMP4.

The Group's operating profit (before goodwill amortisation) of £29.4m was ahead of our expectations but 6.4% lower than 2008/9 (£31.5m), with the reduction principally representing the reduced turnover in the majority of the non-regulated businesses.

Regulated operating profit remained at £21.2m with the increase in charges allowed by Ofwat being offset by unavoidable higher operating costs including power, with higher prices on a new contract taking effect from October 2009, and the significant costs associated with the impact of the severe winter weather on burst mains and leakage. Other costs were reduced successfully to mitigate the impact of these unavoidable factors and to maintain very high efficiency standards.

Non-regulated operating profit (before goodwill amortisation) reduced by 19.0% to £8.3m. While this reduction in profitability is disappointing, it is an improvement versus expectations and reflects significant effort made across all non-regulated businesses to reduce costs and operate as efficiently as possible while ensuring that all businesses are in a strong position to respond quickly to the expected increase in demand in 2010/11. Despite the adverse external factors, IWS and part of the OnSite business had a successful year with further organic growth being achieved. Total operating profit (after goodwill amortisation) was £28.3m (2009: £30.3m).

Finance charges (net of interest receivable) reduced slightly to £9.7m (2009: £9.8m) in the year. Overall, profit before tax reduced from £20.5m to £18.6m.

Tax

The Group's tax charge (after the benefit of group relief) reduced by £0.8m from 2008/9, mainly due to the reduction in profitability detailed above and adjustments in respect of prior years.

Free cash flow increased to £19.9m, exceeding expectations and representing a disciplined performance.

Dividends

Dividends of £18.4m were paid or proposed in respect of 2009/10 (2009: £15.1m) with the increase in the year mainly reflecting increased free cash flow generation (as explained below).

Cash Flow & Debt

Cash flow from operating activities reduced to £44.2m from £50.0m as a result of lower operating profits, as explained above, and the expected higher working capital requirements in the year. Despite this, working capital management was better than our expectations in a very challenging environment and reflects the Group's ongoing commitment to keeping working capital at low levels.

The Group's net cash interest payments were maintained at £3.1m.

Cash tax received was £0.3m, compared to £1.4m paid in 2008/9.

Capital expenditure (net of disposals and capital contributions) was £21.4m compared to £27.8m in 2008/9, a reduction of £6.4m, mainly reflecting the expected reduction in the regulated business as it entered the final year of the AMP4 investment period, with the large majority of expenditure allowed for in Ofwat's Determination for the period having been delivered in the first four years. Over the AMP4 period, cumulative expenditure by South Staffs Water of £114.1m was in line with Ofwat's Determination including adjustments to the Determination to allow for the increase in the number of customers opting for a water meter during this period.

In addition, there was lower non-regulated expenditure in 2009/10 as the majority of businesses reduced investment to mitigate the cash flow impact of lower trading activity.

Overall, free cash flow increased to £19.9m from £17.7m in 2008/9 with the increase of £2.2m exceeding expectations and representing a disciplined performance.

Group net book debt at 31 March 2010 amounted to £264.8m (2009: £261.6m). This differs from the value used for covenant reporting purposes of £247.4m (2009: £250.1m) 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. The reduction in the covenant value of £2.7m reflects higher net cash balances held compared to 31 March 2009 and lower values for index-linked debt due to negative inflation earlier in the year.

South Staffs Water's net debt for covenant reporting purposes was £161.6m (2009: £162.7m) representing 73.7% of its Regulated Asset Value (RAV) of £219.4m (2009: £209.9m) as included in Ofwat's Final Determination. This ratio reflects the higher than expected level of inflation (RPI) at March 2010 of 4.4%, which is used to record RAV, whereas the majority of index-linked debt was inflated using inflation at July 2009 of -1.4%. This ratio is expected to be 77% going forward in line with the Company's dividend policy. Both South Staffs Water and the Group maintain significant headroom in respect of all borrowing covenants.

Standard and Poors continues to rate South Staffs Water as BBB+, well within investment grade.

Pensions

At 31 March 2010 the actuarial valuation of the Group's final salary pension scheme (prepared in accordance with FRS 17) showed a post tax deficit of £4.0m (2009: surplus of £2.1m), with the movement reflecting an increase in the scheme's discounted liabilities due to a reduction in real discount rates. This was partly offset by an increase in the value of scheme assets reflecting the improvement in world-wide equity values. Both the Group and its employees in the scheme have committed to make further increases to contributions.

A P Page
Group Finance Director
28 May 2010

Corporate Social Responsibility:

The Group continues to investigate and commit to ways to reduce its carbon footprint.

The environment and community are fundamental considerations in the Group's approach to Corporate Social Responsibility. Employees across the Group contributed greatly to various environmental and local community based initiatives during the year, as outlined below.

The Group also regularly reviews policies for emergency planning, risk management, health and safety, business continuity, whistleblowing and employee well-being.

HEALTH & SAFETY

The Group values its employees and is committed to protecting their health, safety and well being. It therefore continues to develop and improve arrangements for managing health and safety. Each business within the Group manages safety at the local level, with responsibility being with a Director, who is supported by a health and safety Manager.

A significant initiative on workplace driving has been running throughout the year, as a substantial number of employees drive for work. A minimum standards document has been developed, to help individual businesses form their own policy to meet their needs and deliver consistent standards Group wide. This, together with the development of a driver handbook, risk assessments and training, will ensure that driving for work remains a low risk activity for employees.

The Group recognises that the well-being of employees can be a major factor in business success and all employees now have access to an occupational health adviser. In addition to providing occupational health monitoring, to try to ensure that no harm to our employees' health occurs as a result of our activities, a series of health promotion events were delivered in a number of businesses.

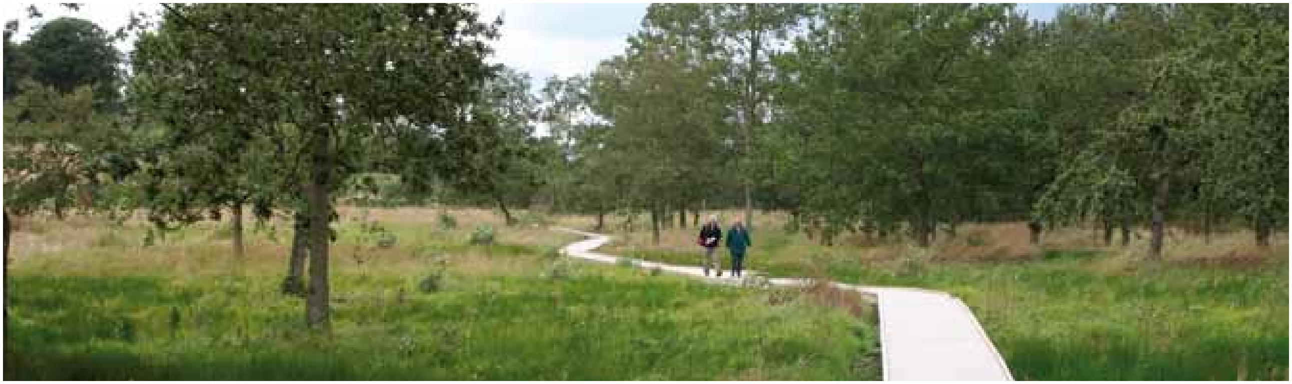
The Group continues to strive towards an incident and injury free environment wherever it operates; this is demonstrated in consistently low numbers of incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). There were 13 reportable accidents in 2009/10 - 7.4 per 1,000 employees, compared to 11 incidents in 2008/9, a rate of 6.9 per 1,000 employees. Although this represents an increase, all incidents were fully investigated; none were considered of a serious nature and there are no underlying trends that present significant cause for concern.

ENVIRONMENT

The Group continues to investigate and commit to ways to reduce its carbon footprint, including working with external organisations like the Carbon Trust and the Water UK Energy Management Forum, to promote and apply best practice.

The vast majority of electricity used by South Staffs Water is in abstracting, treating, pumping and distribution of water. The plant used is maintained to the highest possible standards to ensure it operates at optimum efficiency.

South Staffs Water's partnership with Natural England continues to flourish through the successful operation of a High Level Stewardship Agreement



at Blithfield. Much progress has been made with protecting and creating wildlife habitat through the management of the area designated as a Site of Special Scientific Interest. Three new permissive walks were completed during the year. In addition, a wetland regeneration project has yielded over 50 species of grass and wetland plants in its first year.

A number of businesses across the Group are already ISO 14001 certified, or are currently developing processes to facilitate certification, demonstrating an ongoing commitment to the environment.

The Group will continue to work to evolve environmental strategies and encourage further development in this area, both with employees and external organisations, to the benefit of environments within its control.

STAKEHOLDERS

Employees

The Group has over 1,600 employees, who are vital to the Group's success, and a successful work-life balance plays a key role in this. A range of benefits is on offer to attract and retain the best possible employees.

All employees are offered membership of the Group pension scheme and are eligible for life assurance cover for the benefit of their dependants, regardless of pension membership. The Group remains committed to supporting its final salary pension scheme and, whilst the scheme is closed to new members, an excellent money purchase scheme is available.

Most employees have access to discounted private medical insurance schemes and an Employee Assistance Programme, which provides a dedicated and confidential helpline.

The Group ensures that its equal opportunities policies are effectively operated, making every reasonable effort to ensure that all people have equal opportunities for employment, training and promotion and strives for continued employment under normal terms and conditions where possible if an employee becomes disabled.

Employees receive training in many areas and feedback on performance remains a key part of the Group's people strategy. During 2009/10, the focus has been on management development. Echo managers worked towards Chartered Management Institute Management and Leadership qualifications at levels 3, 5 and 7, as well as NVQ Level 4 in Management; South Staffs Water implemented "Leading Excellence", an eight module programme focusing on the role of leaders, performance management, coaching and delivering change. The Group Services management team completed a "Developing Talent" programme.

During 2009/10, the Group's Employee Extras handbook was revised to ensure staff had up-to-date information on benefits. A new employee discount programme, Lifestyle, was also launched, giving staff access to a wide range of discounted products and services.

Customers

The Group has a diverse range of customers, from private consumers to commercial customers. Relationships with all customers are characterised by high quality customer service, built on long-term relationships, which are key to future business success and stability.

South Staffs Water has achieved its highest position in relation to customer satisfaction scores, as reported by Ofwat, whilst other Group businesses have reported impressive scores in their own customer satisfaction surveys.

Ethics

The Group has a Whistleblowing policy whereby employees can raise concerns about unethical conduct in confidence and security. The Board is fully supportive of this policy and an independent team is in place to monitor any reports that are made. To date, there have been no reports.

Community

The Group has continued extensive community and charity activities, both locally and further afield.

Over £114,000 was contributed this year to charities and sponsorship. Some of the good causes that benefited in 2009/10 include:

- Brain Tumour UK (in memory of Robert Harley)
- Walsall Hospice
- British Blind Sport

Fourteen local teams also benefited from the Youth Team Sponsorship scheme, where employees are invited to apply for sponsorship to assist teams they or their children are involved with.

Group employees once again supported the national water industry charity, WaterAid, raising much-needed funds for the development of safe drinking water and proper sanitation in developing countries; the total raised exceeded £20,000.

South Staffs Water's charity of the year was MacMillan Cancer Support. The business donated £5,000 for a number of activities, including the Birmingham Fun Run, the Christmas Tree of Thought and the World's Largest Coffee Morning.

South Staffs Water continued to focus on delivering quality learning programmes for Key Stage 2 Science at its Education Centre. Over 2,500 pupils studied the water cycle, learnt about woodland plant and insect life, as well as undertaking pond-dipping studies relating to the aquatic food chain.

The business is aiming to extend the range of programmes on offer to cover secondary schools and colleges.

Once again, Echo employees worked hard throughout the year to raise funds for a variety of causes. Over £5,000 was raised for charities including: Acorn Children's Hospice, Walsall; Chest, Heart and Stroke Association, Northern Ireland; Action With Effect; Children in Need. Echo is also developing a new CSR framework, to be implemented in 2010/11.

Executive Team Biographical Details:

Adrian Page, BSc (Hons) ACA,
Group Finance Director
Age: 44

Appointed as Group Finance Director in April 2004. Previously Group Finance Director of South Staffordshire Group Plc from 1998 to 2002. Prior to this appointment he was with ACT Group plc and KPMG.

Jack Carnell, PhD, MSc, BSc (Hons),
Managing Director of South Staffordshire Water Plc
Age: 53

Appointed as Managing Director of South Staffordshire Water in January 2004, following four years as Deputy Managing Director. He has 35 years experience in the water industry with South Staffordshire Water, and is the National President of the Institute of Water Officers.

Phillip Newland, BA (Hons),
Managing Director of Echo Managed Services
Age: 39

Appointed Managing Director of Echo in April 2006, having previously worked with the business as Project Director and as Business Development Director. Prior to joining Echo, he was a Management Consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

Directors & Advisors:

Directors	Adrian Page Christopher Beale Simon Riggall Alex Black
Secretary	Jason Goodwin (appointed 26 March 2010) Adrian Page (resigned 26 March 2010)
Registered Office	Green Lane, Walsall, West Midlands, WS2 7PD Telephone: 01922 638282 Registered in England, Number 4295398
Auditors	Deloitte LLP Four Brindleyplace, Birmingham B1 2HZ
Legal Advisors	Martineau 1 Colmore Square, Birmingham, B4 6AA
Bankers	HSBC Bank Plc 130 New Street, PO Box 68, Birmingham B2 4JU Royal Bank of Scotland Plc 135 Bishopsgate, London, EC2H 3UR Barclays Bank Plc 5 The North Colonade, Canary Wharf, London, E14 4BB

Directors' Report:

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2010

Principal Activities and Review of Business

The Group is engaged in water supply to domestic, industrial and commercial customers and complementary non-regulated activities. A detailed review of the business and the future development of the Group is presented in the Executive Summary, the Operational Review and the Financial Review on pages 2 to 17.

Major Corporate Transactions

On 22 April 2010, the Group acquired Ion Water and Environmental Management Limited, a water hygiene and environmental management business based in Lanarkshire.

Except for any matters referred to elsewhere in this Report and Accounts, there have been no other significant events affecting the Company or any of its subsidiary undertakings since the end of the financial year.

Financial Results

The Group's turnover decreased to £142.5m (2009: £145.6m) with total operating profit of £28.3m (2009: £30.3m) and profit before taxation of £18.6m (2009: £20.5m). The Group's results are shown in the consolidated profit and loss account and consolidated cash flow statement on pages 32 and 36.

Financial & Treasury Risk

Details of the Group's policy in respect of financial and treasury risk are provided in note 28 to the accounts.

Fixed Assets

Capital expenditure before contributions towards tangible fixed assets, including infrastructure renewals, amounted to £25.0m (2009: £31.5m) during the year.

Directors

The Directors who held office during the year and subsequently to 28 May 2010 are as detailed in the table below:

	First Appointed	Resigned
Mr A P Page *(standing for re-election)*	4 December 2003	
Mr C Beale*	14 November 2007	
Mr S Riggall*	14 November 2007	
Mr A W F Black* *(standing for election)*	26 March 2010	
Mr D B Sankey	6 April 2004	26 March 2010
Dr J Carnell	23 April 2002	26 March 2010
Mr R I Harley	1 December 2005	Deceased 1 August 2009
Mr P C Newland	26 November 2007	26 March 2010
Mr R P Corbett*	6 April 2004	26 March 2010
Mr M A Hughes*	6 April 2004	26 March 2010
Mr S Coxe*	14 November 2007	26 March 2010

* denotes a Non-executive Director

Directors' Interests and Liabilities

No Director had any material interest in any contract of significance with the Group during the period under review.

Indemnities have been given to all of the Directors to the extent permitted by the Companies Act. Directors' & Officers' insurance has been established for all Directors and senior management to provide cover against any actions brought against them as Officers of the South Staffordshire Plc group of companies.

Retirement & Re-Election of Directors

In accordance with the Companies Act 2006 and the Articles of Association, Mr Page will retire by rotation and being eligible will offer himself for re-election at the forthcoming Annual General Meeting. Mr Black, having been appointed after the last Annual General Meeting, will stand for election.

Corporate Social Responsibility

A summary of the Company's Corporate Social Responsibility practices is provided on pages 18 to 20.

Corporate Governance

A report on corporate governance is set out on pages 25 to 28.

Basis for Going Concern Assumption

The Group's business activities, together with the factors likely to affect its future development, are set out in the Executive Summary and Operational Review on pages 2 to 14. The financial position of the Group, its cash flows, liquidity position, its borrowing facilities and financial risks and their management are described in the Financial Review on pages 15 to 17 and in note 28 to the accounts. The Group has significant undrawn borrowing facilities in addition to its net cash balances and has significant headroom in respect of all of its borrowing covenants, both on a historic and forward looking basis.

The regulated water business has a large number of both domestic and commercial customers, none of which make up a significant proportion of the business' turnover. In addition, the non-regulated businesses have long-term contractual relationships with a large number of financially stable customers (including utilities, government agencies and local authorities) and suppliers across different geographic areas.

As a consequence of the above, the Directors believe that the Group is well placed to manage its risks successfully despite the current uncertain economic outlook. After making reasonable enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate available resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Donations

Charitable donations of £114,911 were made during the year (2009: £112,972). There were no political contributions in the year (2009: £nil).

Payment of Creditors

The Group'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. Group trade creditors at 31 March 2010 represent 56 days of purchases during the year (2009: 65 Days).

Auditors

In accordance with 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 auditors are 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 auditors are aware of that information.

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

By Order of the Board

J R Goodwin

Company Secretary

28 May 2010

Corporate Governance:

During the year under review, South Staffordshire Plc continued to apply the spirit of the Combined Code where considered applicable to the Group.

The Board of Directors

At the year-end the Board comprised of a Non-Executive Chairman, one Executive Director and two other Non-Executive Directors. The names of the Directors are shown on page 22.

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). 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. The Directors subject to retirement are shown on page 23.

The Non-Executive Directors together bring considerable experience and diversity of business knowledge to the Company.

All Directors and senior management are covered by Directors' & Officers' insurance against any actions taken against them as Officers of the South Staffordshire Plc group of companies.

Directors' Remuneration

The remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors. The Remuneration Committee has overall responsibility for determining the Executive Director's remuneration package and level and those of senior management.

The total remuneration package includes basic salary, benefits, an annual bonus (the payment of half of which is deferred for two years) that is linked to individual business targets and a Long Term Incentive Plan. Performance related incentives are designed to encourage and reward continuing improvement in the Group's performance over the longer term.

Functions of the Board

Company Law requires that a company has an effective Board, with duties aligned to the success and interests of the Company, setting strategic goals and ensuring that Company strategy is fulfilled. The Company is satisfied that the Board has met these requirements during the last financial year.

The Board sets standards of conduct to promote the success of the Company, provides leadership, reviews the Group's internal controls, risk management policies and governance structure. It approves major financial and investment decisions over senior management thresholds and evaluates the performance of the individual businesses and the Group as a whole by monitoring reports received directly from the subsidiary businesses and those prepared at a Group level. The Non–Executive Directors have a duty to oversee this work, and to scrutinise management performance.

In addition to the Audit Committee, the Board is also responsible for the Group's systems of internal control, evaluating and managing significant risks to the Company.

There were 10 Board meetings during the year and all Board members are provided with sufficient information prior to any Board meeting to ensure that they can properly discharge their duties.

The Board also keeps up to date with legal and regulatory changes, in particular the final implementation of several areas of the Companies Act 2006 this year, by receiving written briefings from both internal and external advisors.

A schedule of matters specifically reserved for the Board's decision has been adopted. The terms include, but are not limited to:

- Approval of capital and operating budgets
- Reviewing and approving the Group's strategy
- Reviewing and approving any changes to the Group's capital structure
- Review and approval of financial reporting
- Review and approval of major contracts
- 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.

The Directors are supported by a team of senior managers who have responsibility for assisting them in the development and achievement of the Group's strategy and reviewing the financial and operational performance of the Group and its individual businesses. This team of senior managers 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. The names and responsibilities of the executive team are set out on page 21.

All Directors are aware of the formal procedure for those wishing to seek independent legal and other professional advice. No such advice was sought during the year. The Board also has access to the advice and services of the Company Secretary.

Board Committees

The Remuneration Committee is responsible for the remuneration policy of the Board and senior management and meets at least once a year. During the year the Remuneration Committee comprised of Christopher Beale, Simon Riggall and David Sankey. No Director is involved in determining his own remuneration.

The key terms of reference for the Committee are to:

- Agree remuneration that will ensure that the Executive Director and senior management are provided with appropriate incentives to achieve high standards of performance and reward them for their individual contributions to the success of the Group;
- 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;
- Approve the design of, and determine targets for, any performance related pay schemes operated within the Group;
- Ensure that contractual terms on termination are fair and that failure is not rewarded;
- Oversee any major changes in employee benefits structures throughout the Group.

During the year the Audit Committee comprised of Mr Corbett and Mr Hughes and was chaired by Mr Corbett. During the financial year, the Committee met twice. Deloitte LLP, the Group's external auditor, the Group Finance Director and Company Secretary are also invited to the meetings.

The Committee is responsible for reviewing and monitoring the Group'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.

During the year the Committee considered the following specific matters:

- Regulatory Reporting Controls
- Specific Systems and Control Processes
- Investment Programme
- Litigation and Claims
- Controls over Employee Expenses
- Risk Control Frameworks

The Committee is responsible for recommending to the Board the appointment of the external auditor and monitoring the auditor's independence, performance and effectiveness, approving the nature and scope of external audits and approving the auditors' remuneration.

The key terms of reference for the Committee in this respect are to:

- Review and appraise the work of the external auditors;
- Monitor, review and challenge when necessary the integrity of the financial statements of the Company and other Group companies, including its annual report 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 and the Group's internal controls and risk management policies.

Accountability and Audit
– Financial Reporting and Systems

The Board of Directors recognises the need to present a balanced and clearly defined assessment of the Group's operational and financial performance and position including its future prospects. This is provided by a review of the Group's performance as set out in the Executive Summary, Operational Review and Financial Review on pages 2 to 17.

Three-year business plans, annual budgets and investment proposals for each business and for the Group have been formally prepared, reviewed and approved by the Board. These include three year profit and loss and cash flow forecasts. 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 Group's compliance with its borrowing covenants are also prepared on a regular basis, as is the Group's level of borrowing facilities and liquidity.

The responsibilities of the external auditors in the area of financial reporting are set out on pages 30 and 31.

– 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 Group 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. The Board has delegated some responsibility for such reviews to the Audit Committee.

There is an established internal control framework that is continually reviewed and updated taking into account the nature of the Group's operations. This process includes the identification, evaluation and management of the significant risks faced by the Group. The Board confirms that this process was in place throughout the financial year to which this report applies and up to the date of approval of these accounts. The Board considers the internal audit arrangements in operation are appropriate to the size and complexity of the business but will continue to review these arrangements on a regular basis.

– 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 of South Staffordshire Water PLC, including independent Non-Executive Directors, are involved in the approval process for key regulatory information, and this process supports the internal audit function in place and the review of information by our Ofwat Reporters (Monson Engineering) and our external auditors (Deloitte LLP).

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 with reference to this data.

– Organisational Structure

For the year ended 31 March 2010, a defined organisation structure for the Group existed with clear lines of accountability and appropriate division of duties.

The Board sets overall policy and 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 briefings. The Group's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Board. In addition, formal treasury policies are in place. Where appropriate, commercial and financial responsibility is clearly delegated to local business units and supported by the Board.

– Risk Management

Risk management is discussed at Board level both in terms of the Group and its businesses on a regular basis. The Group's individual businesses are required to monitor risk and its management with any significant changes in business risk and any subsequent actions or controls to mitigate the risk being immediately reported to the Board.

– External Auditors

The Board, assisted by the Audit Committee, is of the opinion that, having reviewed the external auditors' performance, effectiveness and fees during the year, all are satisfactory. Usually the non-audit services undertaken by the external auditors are regulatory in nature. During the year ended 31 March 2010 the Board does not believe that the value of the non-audit services provided to the Group by the external auditors is substantial.

– Going Concern

The Directors consider that it is appropriate to prepare the accounts on a going concern basis. This is based upon a review of the Group's budget for the year ending March 2011, the three-year operating plan, financial forecasts and investment programme to March 2013, together with forecast compliance with borrowing covenants and with the committed borrowing facilities available to the Group. Further details are provided in the Directors' Report on page 24.

Statement of Directors' Responsibilities:

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

Company Law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and the profit and loss of the Group for the financial year. Under that law the Directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these accounts, the Directors are required to:

- Select suitable accounting policies 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 accounts; and
- Prepare the accounts on the 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 confirm that they have complied with the above requirements in preparing the accounts.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, having prepared the accounts, are required to provide the auditors with such information and explanation as the auditors think necessary for the performance of their duty.

The Directors have 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 accounts may differ from legislation in other jurisdictions.

Independent Auditors' Report:

We have audited the financial statements of South Staffordshire Plc for the year ended 31 March 2010 which comprise of the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement, notes to the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds and the related notes 1 to 33. 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 auditors' 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 auditors

As explained more fully in the Statement of Directors' Responsibilities, 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 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 (APBs) 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 Group's and 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2010 and of the Group's 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 matters prescribed by the Companies Act 2006

In our opinion the information given in 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

Jane Whitlock
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, UK
7 June 2010

Consolidated Profit & Loss Account

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Turnover	2	142,481	145,615
Less share of joint ventures' turnover		(1,289)	(1,027)
Group turnover		141,192	144,588
Operating costs before goodwill amortisation (net)	3	(111,861)	(113,203)
Group operating profit before goodwill amortisation		29,331	31,385
Share of joint ventures' operating profit		117	75
Total operating profit before goodwill amortisation		29,448	31,460
Goodwill amortisation	11	(1,151)	(1,150)
Total operating profit: Group and share of joint ventures	2	28,297	30,310
Finance charges (net)	7	(9,692)	(9,818)
Profit on ordinary activities before taxation		18,605	20,492
Taxation on profit on ordinary activities	8	(23)	(858)
Profit on ordinary activities after taxation		18,582	19,634
Minority interests	27	(1)	1
Profit for the financial year		18,581	19,635
Earnings per share			
Basic and diluted	10	144.9p	153.2p

A statement of movements in reserves is given in note 25 to the accounts.

The results above are derived from continuing operations. The accompanying notes are an integral part of these accounts.

Consolidated Balance Sheet

As at 31 March 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Intangible assets - goodwill	11	7,982	9,133
Tangible assets	12	192,237	191,786
Investments - share of joint ventures' net assets	15	185	145
		200,404	201,064
Current assets			
Stocks	16	1,730	1,964
Debtors - amounts recoverable within one year	17	29,515	28,524
Debtors - amounts recoverable in more than one year	17	138,601	138,708
Cash at bank and in hand		7,197	15,311
		177,043	184,507
Creditors – amounts falling due within one year			
Borrowings	18	(2,594)	(12,771)
Other creditors	19	(38,783)	(40,903)
		(41,377)	(53,674)
Net current assets		135,666	130,833
Total assets less current liabilities		336,070	331,897
Creditors – amounts falling due in more than one year			
Borrowings	18	(269,405)	(264,150)
Other creditors	19	(22,086)	(22,927)
Accruals and deferred income	14	(7,001)	(7,373)
Provisions for liabilities - deferred tax	21	(9,059)	(9,547)
Retirement benefit (deficit)/surplus	22	(4,003)	2,055
Net assets		24,516	29,955
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Merger reserve	25	(253)	(253)
Hedging reserve	25	(12,226)	(12,774)
Currency translation reserve	25	17	14
Capital redemption reserve	25	1	1
Profit and loss account	25	20,639	26,630
Shareholders' funds		24,509	29,949
Minority interests	27	7	6
Total capital employed		24,516	29,955

The accompanying notes are an integral part of these accounts.

The accounts of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 28 May 2010.

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Company Balance Sheet

As at 31 March 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	15	25,802	18,302
Tangible assets	12	105	115
		25,907	18,417
Current assets			
Debtors - amounts recoverable within one year	17	7,593	10,233
Debtors - amounts recoverable in more than one year	17	96,650	104,151
Cash at bank and in hand		5,752	6,152
		109,995	120,536
Creditors – amounts falling due within one year			
Borrowings	18	(2,693)	(7,942)
Other creditors	19	(7,126)	(5,890)
		(9,819)	(13,832)
Net current assets		100,176	106,704
Total assets less current liabilities		126,083	125,121
Creditors – amounts falling due in more than one year			
Borrowings	18	(88,770)	(88,360)
Other creditors	19	(9,724)	(10,272)
Net assets		27,589	26,489
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Hedging reserve	25	(7,001)	(7,396)
Capital redemption reserve	25	1	1
Profit and loss account	25	18,258	17,553
Shareholders' funds		27,589	26,489

The accompanying notes are an integral part of these accounts.

The accounts of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 28 May 2010.

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Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 March 2010

	2010 £'000	2009 £'000
Profit on ordinary activities after taxation	18,582	19,634
Actuarial (loss)/gain relating to retirement benefit deficit/surplus		
Experience gain/(loss) on scheme assets	26,069	(30,953)
Experience gain arising on scheme liabilities	3,472	1,214
(Loss)/gain due to changes in assumptions underlying scheme liabilities	(38,155)	22,108
Deferred tax on actuarial loss	2,412	2,137
Change in book value of hedging instruments (net of deferred tax)	548	(12,774)
Exchange differences on translation of overseas operations	3	14
Total recognised gains and losses relating to the year	12,931	1,380

Reconciliation of Movements in Consolidated Shareholders' Funds

For the year ended 31 March 2010

	2010 £'000	2009 £'000
Profit for the financial year	18,581	19,635
Actuarial loss relating to retirement benefit (deficit)/surplus (net of deferred tax)	(6,202)	(5,494)
Exchange differences on translation of overseas operations	3	14
Change in book value of hedging instruments (net of deferred tax)	548	(12,774)
Dividends paid or proposed (note 9)	(18,370)	(15,061)
Net reduction to shareholders' funds	(5,440)	(13,680)
Opening shareholders' funds	29,949	43,629
Closing shareholders' funds	24,509	29,949

The accompanying notes are an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Net cash inflow from operating activities	(a)		44,152		49,995
Returns on investments and servicing of finance:					
Net interest paid		(2,960)		(3,032)	
Interest element of finance lease and hire-purchase rental payments		(109)		(111)	
Net cash outflow from returns on investments and servicing of finance			(3,069)		(3,143)
Taxation:					
Corporation tax refunded/(paid)			277		(1,383)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets		(24,627)		(31,000)	
Proceeds from sale of tangible fixed assets		263		258	
Capital contributions received		2,930		2,971	
Investment in joint venture		—		(13)	
Net cash outflow from capital expenditure and financial investment			(21,434)		(27,784)
Free cash flow			19,926		17,685
Acquisitions:					
Cash consideration for businesses acquired (including expenses)		—		(2,968)	
Cash balances acquired (net)		—		826	
Net cash outflow from acquisitions			—		(2,142)
Equity dividends paid			(17,293)		(15,061)
Financing:					
Repayment of loan notes		(95)		(183)	
Issue of index-linked bond (net of issue costs)		—		34,500	
Additions to loans receivable from parent undertakings		—		(25,000)	
New bank loans (net of issue costs)		—		(1,130)	
Capital element of finance lease and hire-purchase rental payments		(374)		(544)	
Net cash (outflow)/inflow from financing			(469)		7,643
Increase in cash (net of short-term bank loans and overdrafts)			2,164		8,125

The accompanying notes are an integral part of these accounts.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2010

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2010		2009	
	£'000	£'000	£'000	£'000
Total operating profit: Group and share of joint ventures		28,297		30,310
Depreciation (non-infrastructure assets)	12,265		11,461	
Depreciation (infrastructure assets)	9,339		8,778	
Amortisation of goodwill	1,151		1,150	
Amortisation of capital contributions	(568)		(547)	
Defined benefit pension scheme current service cost (employer)	1,168		2,022	
Defined benefit pension scheme contributions (employer)	(2,490)		(2,676)	
Profit on disposal of tangible fixed assets	(195)		(187)	
		20,670		20,001
Share of operating profit in joint ventures		(117)		(75)
Decrease/(increase) in stocks	234		(56)	
Increase in debtors	(884)		(7,929)	
(Decrease)/increase in creditors	(4,048)		7,744	
		(4,698)		(241)
Net cash inflow from operating activities		44,152		49,995

(b) Reconciliation of Movement in Net Debt

	2010 £'000	2009 £'000
(Decrease)/increase in cash	(8,114)	14,484
Decrease/(increase) in bank loans and overdraft	10,278	(6,359)
	2,164	8,125
Finance lease repayments (cash)	374	544
Assets purchased under finance leases (net of disposals, non-cash)	(409)	(450)
New bank loans (net of issue costs - cash)	—	1,130
Bank loans (non-cash)	(410)	(690)
Issue of index-linked bond (net of issue costs - cash)	—	(34,500)
Movement on index-linked debt (non-cash)	(5,006)	(4,717)
Repayment of loan notes (cash)	95	183
Increase in net debt in the year	(3,192)	(30,375)
Net debt brought forward	(261,610)	(231,235)
Net debt carried forward	(264,802)	(261,610)

Notes to the Consolidated Cash Flow Statement
(continued)

(c) Analysis of Net Debt

	Balance at 1 April 2009 £'000	Cash Flow £'000	Non-Cash Changes £'000	Balance at 31 March 2010 £'000
Cash at bank and in hand	15,311	(8,114)	—	7,197
Bank loans and overdrafts	(12,303)	10,278	—	(2,025)
	3,008	2,164	—	5,172
Irredeemable debenture stock	(1,633)	—	—	(1,633)
Index-linked debt (net of issue costs)	(173,385)	—	(5,006)	(178,391)
Bank loans payable (net of issue costs)	(88,360)	—	(410)	(88,770)
Obligations under finance leases and hire-purchase contracts	(1,145)	374	(409)	(1,180)
Loan notes	(95)	95	—	—
Net debt	(261,610)	2,633	(5,825)	(264,802)

Non-cash movements represent indexation, amortisation of issue costs and the discount/premium on index-linked debt and the inception of new finance leases net of disposals. The book value of net debt differs from the value used for covenant reporting purposes. Index-linked debt used for covenant reporting is the indexed principal whereas in accordance with applicable accounting standards the book value represents amortised cost. Also, bank loans for covenant purposes are reported at principal value before costs whereas the book value above includes amortised costs.

Notes to the Accounts

1 Statement of Accounting Policies

The principal accounting policies are summarised below, which 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. In order to show a true and fair view, the Company has departed from the requirements of the Companies Act 2006 in respect of merger accounting for group reconstructions and in respect of accounting for capital contributions. Further details are provided in (b) and (g) below respectively.

The Directors have considered the assumptions for preparing the accounts on a going concern basis. These are set out in the Directors' Report.

(b) Basis of Consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings made up to 31 March each year.

In accordance with Financial Reporting Standard Number 6, certain group reorganisations have been accounted for using merger accounting principles, in order to meet the overriding requirement under section 393 of the Companies Act 2006 for financial statements to present a true and fair view. The transactions accounted for using these principles did not meet all of the conditions for merger accounting under Companies Act 2006, namely that the fair value of any non-equity consideration must not exceed 10 per cent of the nominal value of equity shares issued as consideration. However, the Directors consider that in substance the consideration for these transactions comprised equity share capital with no net cash impact and that the alternative approach of acquisition accounting, with the restatement of separable assets and liabilities to fair values, the creation of goodwill, and the inclusion of post reorganisation results only would not give a true and fair view of the Group's results and financial position. The substance of the transactions was not the acquisition of businesses but rather a group reconstruction under which the ultimate shareholders of the businesses transferred, and their rights relative to the others, remained unchanged. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 2006 requirements.

Other business combinations have been accounted for under the acquisition method.

(c) Joint Ventures

The Group's share of turnover and profit or loss of its joint ventures is included in the consolidated profit and loss account. The Group's share of their net assets or liabilities is included in the consolidated balance sheet within fixed asset investments or provisions for liabilities and charges respectively.

(d) Turnover

Regulated water turnover includes amounts billed together with an estimation of amounts unbilled at the year-end.

Software licence income is recognised within turnover once software implementation and customer acceptance are complete. Income from separate software maintenance contracts is recognised evenly over the contract period to which it relates. Income generated through the performance of development services is included within turnover on the basis that turnover is matched with the delivery of the service.

Contract accounting is applied to certain contracts the Group is a party to. Where the outcome of the contract can be assessed with reasonable certainty, attributable turnover and profit are calculated on an appropriate and prudent basis and included in the accounts for the period under review. Where a contract loss is anticipated, the entire anticipated loss is recognised immediately.

Turnover of other non-regulated activities represents amounts receivable excluding VAT, from the sale of goods and services.

(e) Goodwill

Goodwill arising on acquisitions, represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is amortised over its estimated useful life of 10 years.

(f) 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), land and buildings and other assets including plant.

Notes to the Accounts

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 service 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 are treated as additions which are included at cost.

The depreciation charge for infrastructure assets is the 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.

Other Assets

Other assets are stated at cost less accumulated depreciation and any provision 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 assets are as follows:

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

(g) Capital Contributions

Capital contributions are treated as deferred income and amortised over the estimated 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 as they are maintained in perpetuity.

(h) Leased Assets

Assets financed by leasing and hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are included in tangible fixed assets, and the net obligation to pay future rentals is included as borrowings within 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. Operating lease rentals are charged to the profit and loss account on a straight line basis.

(i) Investments

Investments held as fixed assets are stated at cost less amounts written off and any provision for impairment. In accordance with Section 611 of the Companies Act 2006, the cost of shares acquired from a fellow group undertaking by way of a share for share exchange are recorded at the higher of the nominal value of the shares issued as consideration and the carrying value of the investment in the transferring company.

(j) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes an appropriate element of overheads. Provision is made for obsolete, slow moving or defective items where appropriate.

(k) Foreign Currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates prevailing at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

(l) Pensions

The profit and loss charge in respect of defined benefit pension schemes represents:

- the increase in the present value of scheme liabilities expected to arise from employee service in the year. This is charged against operating profit.

- the difference between the unwinding of the discount on scheme liabilities and the expected return on scheme assets. This is charged or credited within finance charges (net).

Actuarial gains and losses are charged or credited directly to the consolidated statement of total recognised gains and losses net of deferred tax. The defined benefit scheme liability, valued using the projected unit method and the fair value of scheme assets, is recognised in the consolidated balance sheet (net of deferred tax) as retirement benefit obligations. In the case of a surplus, this is recognised in the consolidated balance sheet to the extent that the Group is legally entitled to recover the surplus in the future either through reduced contributions to the scheme, or refunds from the scheme.

In respect of the Group defined contribution schemes the amounts charged to the profit and loss account are the contributions payable in the year.

(m) Research and Development

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

(n) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred tax 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 rate of tax anticipated when the asset or liability reverses. The balance 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. A deferred tax asset is recognised only when, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the reversal in the future can be deducted.

(o) 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 other than derivative financial liabilities (see Hedge Accounting below) 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.

(p) Hedge Accounting

The Group designates certain hedging instruments, including derivatives, as cash flow hedges. At inception of the hedge relationships, the Group documents the relationships between the hedging instruments and the hedged items along with the Group's risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the Group 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. 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.

Hedge accounting is discontinued when the Group de-designates the hedging relationships, the hedging instruments expire, are terminated or are sold or they no longer qualify for hedge accounting. Any cumulative gain or loss that remains in the hedging reserve at that time is recognised when hedged forecast transactions are ultimately 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.

(q) Related Party Transactions

As at 31 March 2010, the Company was an indirectly wholly owned subsidiary undertaking of Hydriades IV Limited. As such, the Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Hydriades IV Limited, as consolidated financial statements for this company in which the accounts of the Company and its subsidiaries are included, are publicly available. The Group has no other related party transactions requiring disclosure other than those disclosed in note 30.

(r) Dividends

Dividends are accrued in the profit and loss account if they have been paid or if they have been approved by the shareholders before the year end.

Notes to the Accounts

2 Segmental Information

Turnover

	2010 £'000	2009 £'000
Regulated water supply	82,272	78,513
Non-regulated activities	76,221	84,218
Inter-divisional	(16,012)	(17,116)
External non-regulated activities	60,209	67,102
	142,481	145,615

Inter-divisional turnover relates principally to non-regulated services charged to the regulated water supply business.

Operating Profit

	2010 £'000	2009 £'000
Regulated water supply	21,173	21,248
Non-regulated activities (before goodwill amortisation)	8,275	10,212
Goodwill amortisation (non-regulated)	(1,151)	(1,150)
Non-regulated activities (after goodwill amortisation)	7,124	9,062
	28,297	30,310

Net Operating Assets

	2010 £'000	2009 £'000
Regulated water supply	163,536	160,217
Non-regulated activities	18,191	17,536
Net operating assets	181,727	177,753
Net debt	(264,802)	(261,610)
Goodwill	7,982	9,133
Loans receivable in more than one year	134,000	134,000
Other non-operating net liabilities	(18,227)	(19,597)
Corporation tax	(3,102)	(2,232)
Retirement benefit (deficit)/surplus	(4,003)	2,055
Provisions for liabilities - deferred tax	(9,059)	(9,547)
Net assets	24,516	29,955

All turnover, operating profit and net operating assets arise in the United Kingdom and India. The Directors do not consider the turnover, operating profit and net operating assets arising in India to be material to the Group and as such these have not been separately disclosed.

3 Operating Costs Before Goodwill Amortisation (Net)

	2010 £'000	2009 £'000
Other operating income (note 6)	(907)	(933)
Raw materials and consumables	12,068	15,607
Staff costs (note 4)	48,967	47,273
Depreciation (non-infrastructure assets)	12,265	11,461
Depreciation (infrastructure assets)	9,339	8,778
Amortisation of capital contributions	(568)	(547)
Operating lease rentals:		
plant and machinery	24	20
other	1,752	1,786
Other operating costs	28,921	29,758
	111,861	113,203

Auditors' remuneration is analysed as follows:

	2010 £'000	2009 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15	15
The audit of other Group undertakings pursuant to legislation	87	87
Total audit fees	102	102
Other services pursuant to legislation	18	47
Tax services	51	31
Total non-audit fees	69	78

Notes to the Accounts

4 Staff Costs

	Group	
	2010	**2009**
	£'000	**£'000**
Wages and salaries	43,623	41,135
Social security costs	3,604	3,527
Pension costs	1,740	2,611
	48,967	47,273

Group	**2010**	**2009**
	Number	**Number**
Average number of employees		
Regulated water supply	434	419
Non-regulated activities	1,239	1,192
	1,673	1,611

5 Directors' Remuneration

The remuneration of the Directors of the Company, for the year ended 31 March 2010 is set out below.

	2010	**2009**
	£'000	**£'000**
Emoluments	1,239	1,205

There was 1 Director holding office at 31 March 2010 accruing benefits under a defined benefit scheme (2009: 4 Directors) and 1 Director accruing benefits under a money purchase scheme (2009: 3 Directors). The value of contributions paid by the Group to money purchase pension schemes in respect of Directors during the year was £20,000 (2009: £29,000). No Directors received or exercised share options or had share interests under a share-related long-term incentive plan that vested during either year.

The highest paid Director received emoluments of £394,000 (2009: £341,000). He is a member of a defined benefit pension scheme which provided for an accrued pension of £39,000 (2009: £33,000) and an accrued lump sum of £116,000 at 31 March 2010 (2009: £99,000). There were no contributions to money purchase pension schemes in respect of the highest paid Director (2009: £Nil).

None of the Directors had a material interest in any contract to which the Group was party during the year or the preceding year.

6 Other Operating Income

	2010 £'000	2009 £'000
Profit on disposal of tangible fixed assets	195	187
Rental income	712	746
	907	933

7 Finance Charges (net)

	2010 £'000	2009 £'000
Interest payable and similar charges		
Index-linked debt (cash)	5,351	5,064
Index-linked debt (non-cash)	5,006	4,717
Bank loan and other interest payable	6,912	6,611
Finance leases and hire-purchase contracts	110	100
Irredeemable debenture stock	67	67
Share of joint ventures' interest payable	9	—
	17,455	16,559
Interest receivable		
Bank interest receivable	(305)	(78)
Loans to parent undertakings	(8,792)	(8,323)
	8,358	8,158
Other finance charges/(income) (net)		
Defined benefit pension scheme interest cost	8,293	9,151
Expected return on defined benefit pension scheme assets	(7,171)	(8,986)
Ineffective element of cash flow hedge	—	1,327
Amounts recycled from hedging reserve	212	168
	9,692	9,818

Finance charges (net) includes £8,667,000 in the regulated water supply business (2009: £9,629,000).

Notes to the Accounts

8 Taxation on Profit on Ordinary Activities

The tax charge for the year comprises:	2010 £'000	2009 £'000
Current tax		
Current year	607	1,814
Adjustment in respect of prior years	(14)	(768)
Share of joint ventures	74	—
Total current tax charge	667	1,046
Deferred tax		
Pension cost timing differences	56	135
Origination and reversal of other timing differences	(165)	(899)
(Increase)/decrease in discount	(266)	285
Adjustment in respect of prior years	(269)	291
Total deferred tax credit	(644)	(188)
Total tax charge	23	858

The overall rate of tax for the Group, including deferred tax, based on the profit before tax was 0.1% (2009: 4.2%). The principal differences between the current corporation tax rate for the Group of 3.6% (2009: 5.1%), based on profit before tax and the standard rate of corporation tax of 28.0% (2009: 28.0%) are as follows:

	2010 %	2009 %
Standard rate of corporation tax	28.0	28.0
Expenses not deductible for tax purposes (net)	0.2	(0.1)
Pension cost timing differences	(0.3)	(0.7)
Utilisation of losses brought forward - permanent	(0.2)	(0.1)
Capital allowances in excess of depreciation (net)	(2.5)	(0.9)
Group relief received and not paid for	(25.5)	(22.8)
Adjustments in respect of prior years	(0.1)	(3.7)
Other timing differences	4.0	5.4
Current corporation tax rate for the year	3.6	5.1

9 Dividends Paid or Proposed

	2010 £'000	2009 £'000
Equity interests		
Ordinary dividends of 143.3p (2009: 117.5p) per share	18,370	15,061

10 Earnings per Share

The calculation of earnings per share is based on profit for the financial year 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:

	2010 £'000	2009 £'000
Profit for the financial year and profit for earnings per share	18,581	19,635

	2010 Number of Shares	2009 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	12,819,856	12,819,856

11 Goodwill

Group

	£'000
Cost at 1 April 2009 and 31 March 2010	11,509
Amortisation	
At 1 April 2009	2,376
Charge for the year	1,151
At 31 March 2010	3,527
Net Book Value	
At 31 March 2010	7,982
At 31 March 2009	9,133

The Company had no goodwill at either year-end.

Notes to the Accounts

12 Tangible Fixed Assets

Group	Land and Buildings £'000	Infra-structure Assets £'000	Fixed Plant & Equipment £'000	Specialised Operational Assets £'000	Total £'000
Cost					
At 1 April 2009	21,220	154,318	108,078	106,251	389,867
Additions	91	11,704	10,222	3,019	25,036
Capital contributions received	—	(2,734)	—	—	(2,734)
Disposals	(9)	(1,173)	(5,030)	—	(6,212)
At 31 March 2010	21,302	162,115	113,270	109,270	405,957
Depreciation					
At 1 April 2009	4,343	99,533	55,912	38,293	198,081
Charge for the year	338	9,339	7,966	3,961	21,604
Disposals	—	(1,173)	(4,792)	—	(5,965)
At 31 March 2010	4,681	107,699	59,086	42,254	213,720
Net Book Value					
At 31 March 2010					
Owned	16,621	50,189	52,832	65,055	184,697
Leased	—	4,227	1,352	1,961	7,540
	16,621	54,416	54,184	67,016	192,237
At 31 March 2009					
Owned	16,877	50,558	50,864	65,788	184,087
Leased	—	4,227	1,302	2,170	7,699
	16,877	54,785	52,166	67,958	191,786

Infrastructure renewals expenditure and the charge to the profit and loss account have been included within infrastructure assets 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 2010 and movements in the year are set out in note 14.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £13,752,000 (2009: £13,359,000) less accumulated depreciation of £6,212,000 (2009: £5,660,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £569,000 (2009: £562,000). Tangible fixed assets include freehold land of £2,220,000 (2009: £2,229,000) which is not subject to depreciation. Tangible fixed assets in the course of construction or commissioning had a cost of £7,758,000 at 31 March 2010 (2009: £8,717,000).

Company	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 April 2009	80	35	115
Additions	—	7	7
Disposals	—	(14)	(14)
At 31 March 2010	80	28	108
Depreciation			
At 1 April 2009	—	—	—
Charge for the year	—	3	3
At 31 March 2010	—	3	3
Net Book Value			
At 31 March 2010	80	25	105
Net Book Value			
At 31 March 2009	80	35	115

Freehold land of £80,000 (2009:£80,000) held at 31 March 2010 was not subject to depreciation.

13 Capital Commitments

Group capital commitments outstanding at 31 March 2010 were £798,000 (2009: £341,000). The Company had no capital commitments at either year-end.

Notes to the Accounts

14 Capital Contributions

Group	Infrastructure Assets £'000	Other Assets £'000
Balance at 1 April 2009	80,067	7,373
Capital contributions received	2,734	196
Disposals	(604)	—
Amortised in the year	—	(568)
Balance at 31 March 2010	82,197	7,001

Capital contributions in respect of other assets are included in the consolidated balance sheet in accruals and deferred income. The Company had no capital contributions at either year-end. Capital contributions in respect of infrastructure assets are netted against tangible fixed assets in the consolidated balance sheet (note 12).

15 Fixed Asset Investments

	Group	Company
	Share of Joint Ventures' Net Assets £'000	Shares in Subsidiary Undertakings £'000
At 1 April 2009	145	18,302
Profit after tax for the year	34	—
Investment during the year	—	7,500
Foreign exchange movements	6	—
At 31 March 2010	185	25,802

The Group's share of gross assets and gross liabilities in its joint ventures was £1,474,000 (2009:£968,000) and £1,289,000 (2009:£823,000) respectively. Shares in subsidiary undertakings are stated at their cost which is equal to net book value.

The investment during the year by the Company of £7,500,000 represents the issue of additional share capital at Integrated Water Services Limited, Onsite Central Limited and Underground Pipeline Services Limited at nominal value for cash consideration to the Company. On the same day of issue, these companies repaid £7,500,000 of long-term loans due to the Company.

As at 31 March 2010 the Company's principal subsidiary undertakings, all of which are incorporated in the United Kingdom with the exception of Onsite India Private Limited, which is incorporated in India, and all of which have only ordinary shares in issue, were as follows:

Company Name	Direct	Indirect	Nature of Principal Business
South Staffordshire Water PLC	100%		Water supply
Aqua Direct Limited	100%		Supply of spring and mineral water
Office Watercoolers Limited	90%		Rental of water cooling units and sale of spring water
Echo Managed Services Limited	100%		Customer management
Echo Northern Ireland Limited		100%	Customer management
South Staffordshire Water & Wastewater Services Limited	100%		Holding company for those companies listed below
Underground Pipeline Services Limited		100%	Repair, maintenance and replacement of water mains and sewers
Onsite Central Limited		100%	Sewer inspection, relining, drainage, surveying and flow monitoring
Onsite India Private Limited	1%	99%	Sewer inspection, relining, drainage, surveying and flow monitoring
Integrated Water Services Limited		100%	Water treatment, water hygiene and pump refurbishment services
Hydrosave UK Limited		100%	Water main leak detection services and clean water network management services
Perco Engineering Services Limited		100%	Trenchless installation and refurbishment of sewer networks

16 Stocks

Group

	2010 £'000	2009 £'000
Stores and raw materials	1,730	1,964

The Company had no stocks at either year-end.

Notes to the Accounts

17 Debtors

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Amounts recoverable within one year				
Trade debtors	20,089	19,450	64	23
Other debtors	1,623	1,938	2,795	2,942
Amounts owed by Group undertakings	—	—	4,579	5,297
Amounts owed by parent undertakings	364	727	—	364
Corporation tax recoverable	—	—	—	826
Prepayments and accrued income	7,439	6,409	155	781
	29,515	28,524	7,593	10,233
Amounts recoverable in more than one year				
Loans receivable from parent undertakings	134,000	134,000	94,000	94,000
Amounts owed by Group undertakings	—	—	2,650	10,151
Other amounts owed by parent undertakings	4,495	4,602	—	—
Other debtors	106	106	—	—
	138,601	138,708	96,650	104,151
	168,116	167,232	104,243	114,384

Other debtors in the Company include a deferred tax asset of £2,793,000 (2009: £2,940,000). The movement in the deferred tax asset is analysed below:

	£'000
At 1 April 2009	2,940
Profit and loss account credit	6
Charge to statement of total recognised gains and losses	(153)
At 31 March 2010	2,793

Deferred tax assets for the Group are set-off against deferred tax liabilities (note 23).

18 Borrowings

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Amounts falling due within one year				
Bank loans and overdraft	2,025	12,303	2,693	7,942
Obligations under finance leases and hire purchase contracts	569	373	—	—
Loan notes	—	95	—	—
	2,594	12,771	2,693	7,942
Amounts falling due in more than one year				
Bank loans	88,770	88,360	88,770	88,360
Index-linked debt	178,391	173,385	—	—
Irredeemable debenture stock (note 20)	1,633	1,633	—	—
Obligations under finance leases and hire-purchase contracts:				
Payable between one and two years	414	429	—	—
Payable between two and five years	197	343	—	—
	269,405	264,150	88,770	88,360

The book value of the index-linked debt of £178,391,000 (2009: £173,385,000) is stated at amortised cost. The indexed principal of £159,733,000 (2009: £160,259,000) is used for covenant purposes. Similarly, bank loans are stated net of unamortised costs whereas the principal value is used for covenant purposes.

19 Other Creditors

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Amounts falling due within one year				
Trade creditors	16,925	19,637	3,261	2,891
Payments received in advance	9,196	9,741	—	—
Other creditors	7,455	7,293	1,896	1,882
Amounts payable to parent undertakings	—	1,000	—	1,000
Proposed dividends	1,077	—	1,077	—
Corporation tax payable	3,102	2,232	784	—
Other taxation and social security	1,028	1,000	108	117
	38,783	40,903	7,126	5,890
Amounts falling due in more than one year				
Derivative financial liabilities	9,724	10,272	9,724	10,272
Other creditors	12,362	12,655	—	—
	22,086	22,927	9,724	10,272

Notes to the Accounts

Derivative financial liabilities represent the market value of floating to fixed rate interest rate swaps designated as cash flow hedges.

20 Irredeemable Debenture Stock

Group

	2010 £'000	2009 £'000
3½%	476	476
4%	627	627
5%	500	500
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	1,633	1,633

The Company had no irredeemable debenture stock at either year-end.

21 Provisions for Liabilities

Group

	Deferred Tax £'000
At 1 April 2009	9,547
Profit and loss account credit	(700)
Charge to statement of total recognised gains and losses	212
At 31 March 2010	9,059

An analysis of deferred tax is set out in note 23. The Company had no provisions for liabilities at either year-end.

22 Retirement Benefit (Deficit)/Surplus

(Deficit)/surplus of defined benefit pension scheme (net of deferred tax)

	£'000
Surplus at 1 April 2009	2,055
Current service cost (employer)	(1,168)
Current service cost (employee)	(777)
Contributions (employer)	2,490
Contributions (employee)	777
Finance charge	(1,122)
Actuarial loss	(8,614)
Movement on deferred tax	2,356
Deficit at 31 March 2010	(4,003)

Further disclosures relating to the above deficit are provided in note 29.

23 Deferred Tax

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Deferred tax liabilities/(assets) are provided as follows:				
Accelerated capital allowances	18,439	18,143	(3)	—
Timing differences in respect of finance charges	4,277	5,040	—	—
Timing differences in respect of hedging reserves	(4,755)	(4,967)	(2,723)	(2,876)
Other timing differences	(280)	(313)	(67)	(64)
Undiscounted provision for deferred tax	17,681	17,903	(2,793)	(2,940)
Discount	(8,622)	(8,356)	—	—
Discounted provision for deferred tax	9,059	9,547	(2,793)	(2,940)

The increase in the discount of £266,000 represents the credit to profit and loss for the year. There is an unprovided deferred tax liability of £1,340,000 (2009: £1,290,000) on capital gains rolled over into other assets of the Group. This will crystallise if the Group sells the assets into which the gain has been rolled into. Deferred tax relating to the retirement benefit deficit (2009: surplus) is excluded from the above and included in the deficit (2009: surplus) stated in the consolidated balance sheet (note 22).

The deferred tax asset of the Company at 31 March 2010 of £2,793,000 (2009: £2,940,000) is presented within other debtors (note 17).

Notes to the Accounts

24 Share Capital

Group and Company	2010 £'000	2009 £'000
Authorised		
47,058,824 ordinary shares of 42.5p each	20,000	20,000
Issued and fully paid		
12,819,856 ordinary shares of 42.5p each	5,449	5,449

25 Reserves

Group	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Profit & Loss Account £'000	Hedging Reserve £'000	Currency Translation Reserve £'000
At 1 April 2009	10,882	1	(253)	26,630	(12,774)	14
Profit for the financial year	—	—	—	18,581	—	—
Dividends paid or proposed (note 9)	—	—	—	(18,370)	—	—
Exchange movements on translation of overseas operations	—	—	—	—	—	3
Acturial loss relating to retirement benefit deficit	—	—	—	(6,202)	—	—
Change in value of hedging instruments - cash flow hedges (net of deferred tax)	—	—	—	—	395	—
Amounts recycled to profit and loss (net of deferred tax)	—	—	—	—	153	—
At 31 March 2010	10,882	1	(253)	20,639	(12,226)	17

Included within the profit and loss account balance is the deficit (net of deferred tax) of the defined benefit pension scheme of £4,003,000 (2009: £2,055,000 - net surplus).

Company	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Hedging Reserve £'000
At 1 April 2009	10,882	1	17,553	(7,396)
Profit for the financial year	—	—	19,075	—
Dividends paid or proposed (note 9)	—	—	(18,370)	—
Change in value of hedging instruments - cash flow hedges (net of deferred tax)	—	—	—	395
At 31 March 2010	10,882	1	18,258	(7,001)

As provided by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The Company's profit after tax for the financial year was £19,075,000 (2009: £20,364,000).

26 Operating Lease Commitments

At 31 March 2010 the Group and the Company had the following annual commitments under non-cancellable operating leases:

Group	**2010 Buildings £'000**	**2009 Buildings £'000**	**2010 Other £'000**	**2009 Other £'000**
Operating leases which expire:				
within one year	10	10	241	147
between two and five years	118	115	1,329	1,462
after five years	279	279	14	19
	407	404	1,584	1,628

Company	**2010 Motor Vehicles £'000**	**2009 Motor Vehicles £'000**
Operating leases which expire:		
within one year	5	5
between two and five years	20	15
	25	20

27 Minority Interests

	£'000
At 1 April 2009	6
Profit on ordinary activities after taxation	1
At 31 March 2010	7

28 Financial Assets and Liabilities

The Group's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial liabilities, trade creditors and trade debtors. Borrowings represent bank loans and overdrafts, finance lease obligations, index-linked debt, irredeemable debenture stock and loan notes. The purpose of the Group's borrowings is to finance the Group's operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates and long and short term debt while not exposing the Group to significant risk of market movements (see below). Derivative financial liabilities represent floating to fixed interest rate swaps used as cash flow hedges to reduce the Group's risk to changes in LIBOR. The Group is not subject to any material foreign exchange risk.

Notes to the Accounts

Interest Rate Risk Profile

Borrowings	2010 £'000	2009 £'000
Retail Price Index-linked debt	178,391	173,385
Fixed rate financial liabilities	91,583	91,138
Floating rate financial liabilities	2,025	12,398
	271,999	276,921

The floating rate borrowings principally comprise sterling denominated bank loans, overdrafts and loan notes that bear interest at rates based on LIBOR or the Bank of England base rate. Fixed rate financial liabilities include floating rate bank loans of £88,770,000 (2009:£88,360,000) that are swapped to fixed rate by fully effective cash flow hedges using interest rate swaps. The Group's cash balances earn interest at floating rates linked to LIBOR. The Group'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 (2009: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2010 of £141,678,000 (2009: £137,862,000), and a fair value of £170,509,000 (2009:£120,479,000) and the £35,000,000 (2009:£35,000,000) Retail Price Index-linked bond which had a book value at 31 March 2010 of £36,713,000 (2009:£35,523,000) and a fair value of £33,954,000 (2009:£27,192,000).

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
2010		
Sterling	6.3	3.5
2009		
Sterling	6.3	4.5

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2010 in respect of which all conditions precedent have been met were as follows:

	2010 £'000	2009 £'000
Expiring in one year or less	—	—
Expiring in more than one year but not more than two years	10,000	—
Expiring in more than two years but not more than five years	20,000	20,000
Expiring in more than five years	—	—
	30,000	20,000

Financial Risks

The Group's activities result in it being subject to a limited number of financial risks, principally interest rate risk, as the Group has floating rate and retail price index-linked borrowings and credit risk as the Group 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 Group has formal principles for overall risk management as well as specific policies to manage individual risks.

1) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates including those linked to LIBOR and the Retail Price Index (RPI) that expose the Group's earnings and cash flows to changes in LIBOR and the long term forecast for RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of Group borrowings that are linked to this variable rate 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 Group grants certain customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of 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. The total carrying value of financial assets subject to credit risk, net of provisions, at 31 March 2010 was £161,203,000 (2009: £160,823,000).

3) Liquidity risk

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

Security Over Assets

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate. The Group's index-linked debt is not secured on any assets. Bank loans are secured against the shares of the Company and its subsidiaries.

Sensitivity Analysis

The following analysis, required by 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 Group for the year ended 31 March 2010. There is no impact on reserves other than the impact on the profit and loss account after tax.

Notes to the Accounts

	2010 £'000	2009 £'000
RPI + 0.25%	(324)	(369)
RPI - 0.25%	324	369
LIBOR +1.00%	4	8
LIBOR -1.00%	(4)	(8)

The impact on the pre-tax profit and loss account for 2010 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2009 and remained different to the actual variables recorded by the stated amount during the year 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 2008.

Maturity of Financial Assets and Liabilities

The maturity profile of the Group's financial liabilities recorded at current repayment value at 31 March 2010 was as follows:

	2010 £'000	2009 £'000
Borrowings		
In one year or less, or on demand	2,594	12,771
In more than one year, but not more than two	414	429
In more than two years, but not more than five	90,197	90,343
In more than five years, but not more than twenty	—	—
In more than twenty years	161,366	161,892
	254,571	265,435
Other financial liabilities		
In one year or less, or on demand	38,783	40,903
In more than one year but not more than two	312	296
In more than two years but not more than five	10,767	11,260
In more than five years but not more than twenty	8,657	8,205
In more than twenty years	2,350	3,166
Total	315,440	329,265

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £159,733,000 (2009: £160,259,000) 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 (2009: £399,467,000) and at redemption in 2051 is £139,996,000 (2009:£139,996,000).

Group debtors recoverable in more than one year of £138,601,000 (2009: £138,708,000) principally represent loans receivable from the Company's parent undertakings of £134,000,000 (2009: £134,000,000) with £Nil (2009:£22,200,000) due to be repaid within a year, £15,000,000 (2009: £15,000,000) due to be repaid between five and twenty years and £119,000,000 (2009: £96,800,000) having no fixed repayment date.

Trade Debtors

Before accepting orders from customers and offering credit terms, the Group undertakes appropriate credit assessments and uses this information to determine if the order 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. Due to the different nature of the Group's operations there is no single method that is applied to all trade debtors. This would not be considered appropriate with the methods applied being considered appropriate to each business. The total amount charged to the profit and loss account in the year ended 31 March 2010 in respect of such provisions was £2,081,000 (2009: £1,657,000). Total Group trade debtors as at 31 March 2010 were £20,089,000 (2009: £19,450,000). The total amount of the provision included in the above, as at 31 March 2010 was £11,546,000 (2009: £8,623,000). The Group 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 gross book value. The Directors consider that the concentration of credit risk across the Group is limited due to the Group's customer base being significant. The largest balance outstanding from any single customer at 31 March 2010 was £2,112,000 (2009: £1,656,000), representing 11% of the above Group total (2009: 9%). Individually significant debtors are principally due from customers with investment grade credit ratings including utilities, government agencies and local authorities.

An ageing analysis of trade debtors that are past due 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**
2010	5,337	1,633	736	168	—	—	7,874
2009	4,905	1,264	604	302	9	—	7,084

Non-Regulated	**<1 month £'000**	**1-2 months £'000**	**>2 months £'000**	**Total £'000**
2010	2,464	468	2,918	5,849
2009	2,181	473	925	3,579

Non-regulated debtors that are considered to be impaired of £1,049,000 (2009: £1,010,000) were all more than 2 months past due. An ageing analysis of regulated debtors that are considered to be impaired is provided below:

	<1 year £'000	**1-2 years £'000**	**2-3 years £'000**	**3-4 years £'000**	**4-5 years £'000**	**>5 years £'000**	**Total £'000**
2010	1,947	1,869	1,731	1,663	1,388	1,899	10,497
2009	1,633	1,532	1,364	1,139	737	1,208	7,613

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 17 approximates to their fair value.

Notes to the Accounts

29 Pension Retirement Benefits

The Group operates two funded pension schemes for the benefit of its employees. The Group participates in the Water Companies Pension Scheme, by way of a separate sub-fund, which provides benefits based on final pensionable pay. The Group also operates a defined contribution money purchase pension scheme. The assets of these schemes are held separately from those of the Group, being invested by discretionary fund managers.

The Group accounts for pension schemes in accordance with Financial Reporting Standard 17, "Retirement Benefits" (FRS 17). Further details are provided in note 1. In accordance with the recommendations of the actuary, the employers current service cost charged to the Group's profit and loss account for the defined benefit scheme in the year ended 31 March 2010 was £1,168,000 (2009: £2,022,000). The employer's contribution rate was 27.6% (2009: 27.6%). Contribution rates for the year ending 31 March 2011 are 23.0% and a fixed contribution of £1,640,000 for the employer and 9.5% for the employee. The amount charged to the profit and loss account for the defined contribution scheme in the year was £572,000 (2009: £589,000). There were no overdue contributions at either year-end.

Financial Reporting Standard 17

Additional disclosures regarding the Group's defined benefit pension scheme are required under the provisions of FRS 17. The FRS 17 valuation at 31 March 2010 has been undertaken by a qualified actuary using assumptions that are consistent with the requirements of FRS 17. The market value of investments has been calculated using the bid price.

The major assumptions used were as follows:

	31 March 2010 %	31 March 2009 %	31 March 2008 %
Rate of increase in salaries	4.7	4.7	5.2
Rate of increase in pensions	3.7	3.2	3.7
Discount rate	5.5	6.9	6.6
Inflation	3.7	3.2	3.7

	31 March 2010 No. of Years	31 March 2009 No. of Years	31 March 2008 No. of Years
Life expectancy of male aged 60 at accounting date	26.4	26.3	26.8

The market value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

Valuation	**2010 %**	**2010 £'000**	**2009 %**	**2009 £'000**	**2008 %**	**2008 £'000**
Equities	55	84,407	49	60,993	53	80,060
Bonds/gilts	45	70,430	51	64,340	47	70,071
Cash	0	53	0	349	0	121
Market value of scheme assets		154,890		125,682		150,252
Present value of scheme liabilities		(160,450)		(122,828)		(140,256)
(Deficit)/surplus in the scheme		(5,560)		2,854		9,996
Related deferred tax asset/(liability)		1,557		(799)		(2,799)
(Deficit)/surplus after deferred tax		(4,003)		2,055		7,197

Changes in the present value of the scheme's liabilities are as follows:

	2010 £'000	**2009 £'000**
Opening present value of scheme liabilities	122,828	140,256
Current service cost (employer)	1,168	2,022
Current service cost (employee)	777	762
Interest cost	8,293	9,151
Actuarial loss/(gain)	34,683	(23,322)
Benefits paid	(7,299)	(6,041)
Closing present value of scheme liabilities	160,450	122,828

Changes in the market value of the scheme's assets are as follows:

	2010 £'000	**2009 £'000**
Opening market value of scheme assets	125,682	150,252
Expected return on scheme assets	7,171	8,986
Actuarial gain/(loss)	26,069	(30,953)
Contributions (employer)	2,490	2,676
Contributions (employee)	777	762
Benefits paid	(7,299)	(6,041)
Closing market value of the scheme assets	154,890	125,682

Notes to the Accounts

An analysis of the movement in the scheme deficit/surplus during the year ended 31 March 2010 is provided in note 22. The following disclosures represent the analysis of the scheme deficit/surplus and the amounts that have been charged in the consolidated statement of total recognised gains and losses over a five year history.

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Market value of scheme assets	154,890	125,682	150,252	148,919	141,680
Present value of scheme liabilities	(160,450)	(122,828)	(140,256)	(143,240)	(143,169)
(Deficit)/surplus in the scheme	(5,560)	2,854	9,996	5,679	(1,489)
Experience adjustments on scheme liabilities - amount of gain/(loss)	3,472	1,214	165	(50)	830
% of scheme liabilities	2%	1%	0%	0%	1%
Experience adjustments on scheme assets - amount of gain/(loss)	26,069	(30,953)	(6,096)	985	13,735
% of scheme assets	17%	(25%)	(4%)	1%	10%
(Loss)/gain due to changes in assumptions underlying the present value of scheme liabilities	(38,155)	22,108	8,293	5,137	(11,375)
% of scheme liabilities	24%	18%	6%	4%	8%
Actuarial (loss)/gain	(8,614)	(7,631)	2,362	6,072	3,190
% of scheme liabilities	(5%)	(6%)	2%	4%	2%

30 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. The balance due from Hydriades I LP in respect of these transactions at 31 March 2010 was £4,859,000 (2009: £4,965,000). This amount has been recognised within debtors in the Group Consolidated Balance Sheet. In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account of South Staffordshire Water PLC and the Group have been netted off with no overall impact.

31 Post Balance Sheet Events

On 22 April 2010, Integrated Water Services Limited, a subsidiary undertaking of South Staffordshire Plc, acquired the entire ordinary share capital of Ion Water And Environmental Management Limited, a company based near Glasgow, offering water hygiene services to a range of clients.

32 Ultimate Controlling Party

The Company's immediate parent undertaking is Aquainvest Acquisitions Limited. The ultimate controlling party in the United Kingdom is Hydriades IV Limited. The results of the Company and the Group for the year ended 31 March 2010 were consolidated in the accounts of Hydriades IV Limited. The ultimate controlling party is Alinda Capital Partners LLC, a company registered in the United States of America.

33 Regulatory Accounts

South Staffordshire Water PLC is required to publish additional financial information relating to the "Appointed Business" as a water supply company in accordance with its Instrument of Appointment from the Secretary of State for the Environment. A copy of this information is available by application to the Company Secretary at Green Lane, Walsall, WS2 7PD.

Five Year Summary

Group	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Turnover					
Regulated water supply	82,272	78,513	76,488	72,800	69,555
Non-regulated activities	76,221	84,815	78,782	65,305	51,754
Inter-divisional	(16,012)	(17,713)	(16,925)	(18,257)	(16,509)
	142,481	145,615	138,345	119,848	104,800
Operating profit					
Regulated water supply	21,173	21,248	20,659	19,781	18,856
Non-regulated activities (before goodwill amortisation)	8,275	10,212	8,466	7,587	5,127
Goodwill amortisation (non-regulated)	(1,151)	(1,150)	(857)	(290)	(71)
	28,297	30,310	28,268	27,078	23,912
Finance charges (net)	(9,692)	(9,818)	(5,461)	(5,171)	(5,713)
Profit before tax	18,605	20,492	22,807	21,907	18,199
EBITDA	50,484	51,152	47,390	44,584	39,744
Profit for the financial year	18,581	19,635	19,282	16,104	15,845
Net cash inflow from operating activities	44,152	49,995	45,680	44,763	40,553
Average number of employees	1,673	1,611	1,416	1,068	890
Capital investment	25,036	31,502	32,748	36,651	26,796
Net assets	24,516	29,955	43,636	38,640	34,729
Net debt	264,802	261,610	231,235	148,975	135,516

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Underground Pipeline Services Ltd
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Telephone: 0121 520 1006
www.upls.co.uk

Integrated Water Services Ltd
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Telephone: 01543 445700
www.integrated-water.co.uk

Hydrosave UK Ltd
Managing Director: Simon Dray
Swallow Court, Kettering Venture Park,
Kettering, NN15 6XX
Telephone: 01536 515110
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OnSite Central Ltd
Managing Director: Alan Plante
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General Manager: Simon Baylis
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Telephone: 01235 772882
www.onsite.co.uk

Perco Engineering Services Ltd
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