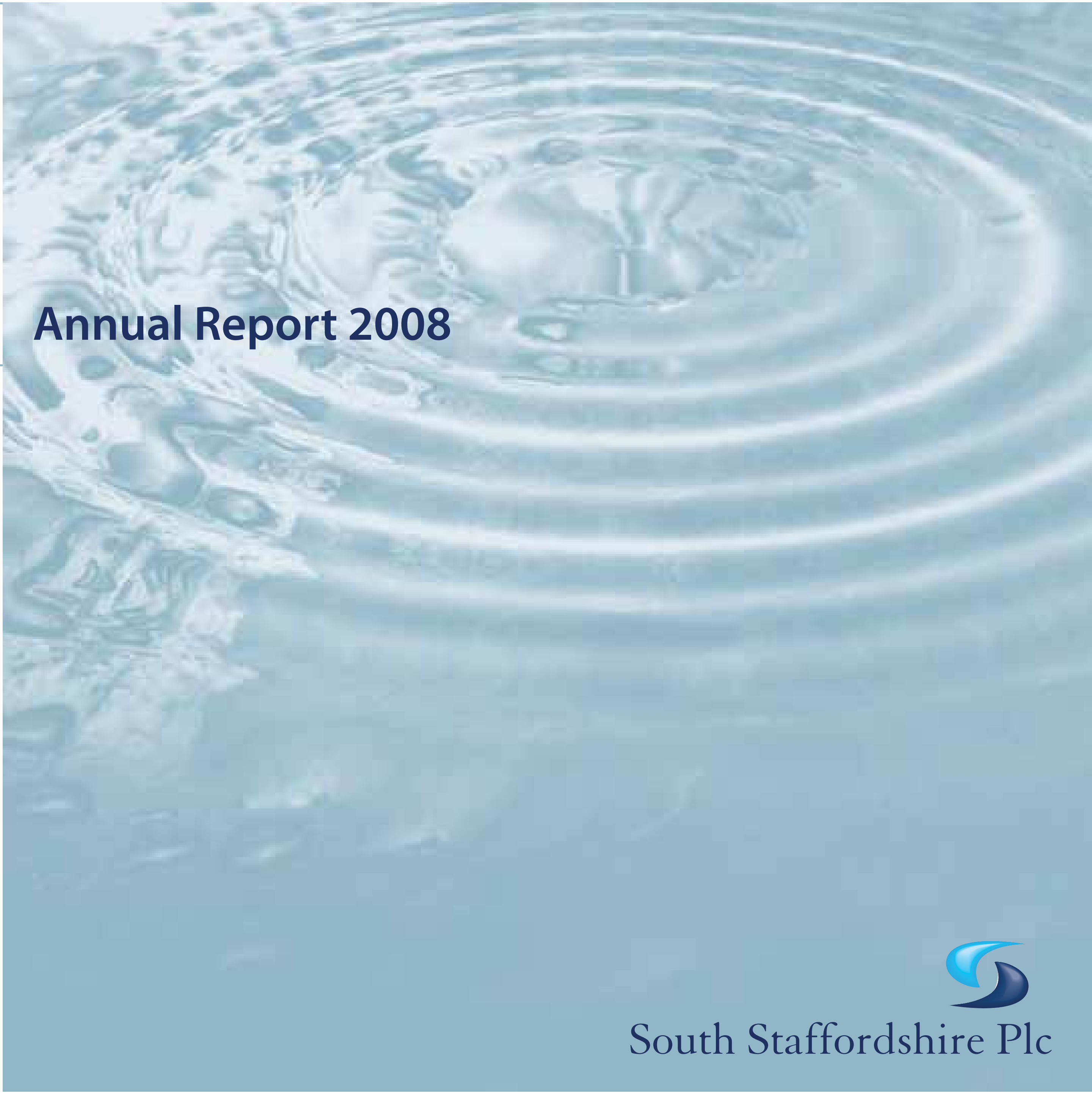


Annual Report 2008

South Staffordshire Plc

Contents:

Highlights:

- Turnover increased by 15.4% to £138.3m.
- All four divisions achieved profit expectations.
- £31m of planned capital investment by South Staffs Water successfully completed.
- Continued operating efficiencies achieved by South Staffs Water.
- Continued growth of closely related non-regulated activities.

	2008	2007
Turnover	£138.3m	£119.8m
Operating Profit (before goodwill)	£29.1m	£27.4m
Profit Before Tax	£22.8m	£21.9m
Operating Cash Flow	£45.7m	£44.8m
Average Number of Employees	1,416	1,068

Chairman's Statement:
The year has been a successful one for the Group with all our divisions achieving their profit targets.

We continue to focus on the high performance standards we and our customers expect from the Regulated Water Supply business whilst steadily taking advantage of growth opportunities in our closely related non-regulated companies.

In November 2007 the Group was acquired from Arcapita by Alinda Capital Partners, a U.S. based infrastructure investor. Water is a long-term business and with Alinda's backers being mostly Pension Funds it is very satisfying to see the Group once more backed by long-term investors.

Group Results

In the year ended 31 March 2008 the Group's turnover increased from £119.8m to £138.3m, representing growth of 15.4%. South Staffs Water's regulated turnover grew by £3.7m to £76.5m, due principally to the increase in charges allowed by OFWAT offset by a reduction in measured demand due to an increasing awareness of water usage and a wet summer. Non-regulated turnover grew by 31.5% to £61.9m, reflecting another good year at OnSite and continued growth at Integrated Water Services, together with a full year of Hydrosave and the acquisition of Perco.

Operating profit in the regulated water business increased by 4.4% to £20.7m helped by operating costs being successfully contained. Operating profit in the non-regulated business (before goodwill) increased to £8.5m, an increase of 11.6% on the previous year, which contained a one-off profit relating to the sale of a RapidXtra licence to Northern Ireland Water. It was another good year from the Water and Wastewater businesses which included both organic and acquisition growth. Echo performed to plan and there was a most encouraging turnaround at the Aqua Direct bottling plant.

During the year, free cashflow of £12.7m was ahead of expectations and reflected generally strong working capital management throughout the Group.

Regulated Water Supply

South Staffs Water did well to offset the effect of reduced measured income by successful control of its operating costs and achieved its budget. The advantages of a well-timed power contract a year ago were very apparent as the cost of energy continued to climb throughout the year.

The Company has once again been placed in OFWAT's Band A for both operating and capital cost efficiencies – one of only five companies in the industry to do so. Good results were also achieved against OFWAT's various service measures and South Staffs Water continued to provide excellent levels of customer service. Nevertheless, we are well aware of the need for continued improvement in this area as customers become, justifiably, more demanding. We are planning improvements through better links with operations to provide more up-to-date and relevant information for our customers, developments in IT and more focus on all our customer facing activities.

We have the third lowest prices in the industry and the current price is some 24% lower than the industry average. As always, our aim is to combine the lowest possible prices for our customers with standards of service which are second to none. Containing prices is not easy and efficiency gains are becoming ever more difficult to achieve in the face of inflationary pressures in the economy as a whole and the dramatic increases in energy costs, which now account for almost 15% of our operating expenditure.

Renewing and maintaining our assets is an essential part of our business. At £31m, the Water Company has managed one of the highest levels of capital expenditure in its history. In addition to replacing more than 68km of mains, we have continued with a large programme of asset renewal at our treatment works, borehole sites and pumping stations. Amongst larger projects, the £2m chlorine production plant at Hampton Loade treatment works which eliminated the hazardous storage of chlorine gas is now fully operational and we have installed full stand-by power generation at our other main treatment works, Seedy Mill. Over the first three years of the Ofwat AMP4 period our cumulative capital expenditure is within 1% of the Determination.

There has been much press coverage of Governance Issues in the Regulated Water Industry in the last year. We have an open, no-blame culture in our business and we always strive to provide information accurately and honestly. This responsibility extends throughout the Company and includes all Board members. Whilst we cannot promise that mistakes will never be made, we can and will ensure that they are not intentional.

Non-Regulated Businesses

Our non-regulated businesses once again performed well as we continued to build the range of services we offer to our mainly water utility, local authority and public utility customer base.

Water and Wastewater Services achieved its demanding target. OnSite Worcester and Challow, which undertake flow and CCTV surveys of the sewer network and line sewer pipes, again performed well with Worcester beginning to build, as planned, on opportunities for growth in Scotland as well as developing its minor works strategy. Worcester also acquired the small Portadam business which enables work to be carried out

on sections of canals without the need to drain them. This is already proving a useful additional service and the potential for additional work from British Waterways and other infrastructure owners looks encouraging. During the year we also acquired Perco Engineering Services which undertakes sewer pipe renewal using pipe bursting as well as lining and auger boring. Its services complement those provided by OnSite Challow's CIPP lining process.
During the year OnSite established a business in India on the back of winning contracts in Delhi for the lining of the sewerage system. This work, worth some £5m, is for the Delhi Jal (Water) Board. Whilst it is early days, we believe India is a major opportunity for the OnSite business.

In its first full year with the Group, Hydrosave, which provides leak detection and network management services, has had a successful year and has met expectations. This business has broadened the range of services provided by the Group into this important area in the industry.

Integrated Water Services, which specialises in water hygiene control, mainly for local authorities, and in mechanical and electrical services for water utilities, the Coal Authority, the Environment Agency and other similar organisations, has successfully integrated the Brocol water hygiene business and has been awarded a number of new local authority and Water Company contracts.

Aqua Direct had a much improved year as production efficiencies finally began to be achieved in the bottling plant. The outsourcing of logistics to Cott, one of the UK's largest soft drinks contract bottlers, did much to simplify our operation. Becoming a local supplier to Tesco in the Midlands was also a significant achievement.

Echo Managed Services, which provides customer contact, billing and debt collection for UK water utilities, achieved its budget for the year. This is the second successful year in a row for Echo since the business refocussed on the UK water sector, with our RapidXtra software continuing to be seen as the industry leading software for customer service and billing, with both further investment by our customers and the commitment to further development by Echo. Domestic billing has been postponed in Northern Ireland. That said, Echo is providing the full service very satisfactorily to Northern Ireland commercial customers and is well prepared to introduce the domestic service as and when it happens. Having held the South West Water customer service contract in a joint venture with South West Water for five years at negligible margins, Echo was underbid in the new tender process. We are working hard to secure one or more of the major opportunities on which we

The outlook remains positive and we are looking forward to a successful year.

are working. South West Water is an existing user of our RapidXtra software and this business will continue. The medium term strategy for Echo is to continue to concentrate on the water utility sector, where our experience lies, and to build other specialist services, notably related to debt collection, around our existing offering. We believe this strategy will provide plenty of opportunities for growth.

Outlook

Although the UK economic outlook is far less positive than a year ago, all our businesses have started the new financial year well. The majority of the services we provide are related to essential needs and should not be badly affected by economic downturn. Water is an essential commodity and the sewers have to work. Inflationary pressures will mean that we need to keep a careful control of costs in order to maintain margins. All in all, the outlook remains positive and we are looking forward to a successful year.

Our Employees

Our employee numbers have increased this year to nearly 1,500 people. We have become a very significant employer in the area. It is our duty to provide a safe and satisfying work environment for all our employees. Without their efforts the Group would not achieve the success it has and I would like to thank them all for their valued contribution.

D B Sankey
Executive Chairman
23 May 2008

South Staffs Water's employees engage with a wide variety of customers across its diverse supply area.

Operational Review: South Staffs Water

The Company has made excellent progress in delivering its capital programme.

South Staffs Water continues to provide excellent value to its customers and is recognised as one of the leading companies in the sector. Its performance remains amongst the highest in the industry for both levels of service and efficiency.

The Company's strategy is based on the "3 Cs" which summarises the three main drivers for the decisions the Company makes and the policies that it adopts.

The 3 Cs represent:

- **Customers** – provide an excellent customer experience
- **Carbon** – reduce carbon usage
- **Costs** – control costs so that the Company is efficient

The Company's household bills are the third lowest in England and Wales. For 2007/8, the average water bill for a South Staffs Water customer was £113, 24% below the industry average of £149.

Levels of service continue to be very high across all areas, with the Company's Overall Performance Assessment (OPA) as measured by Ofwat and reflecting service in 2006/7, being 283 out of a possible score of 288, well above the industry average of 270. This maintains the Company's strong track record of delivering high levels of service to its customers – being the eighth consecutive year in the top five. The provisional results for 2007/8 demonstrate continued high service standards, although the OPA score will be marginally lower due to a number of large burst mains in the year.

The Company is recognised as being in the top band for efficiency by the industry regulator, Ofwat. For operating costs, South Staffs Water was fourth out of 22 companies in 2006/7, compared to fifth in 2005/6 and maintained Band A status for the fifth consecutive year. This status was echoed in the efficiency assessment for capital costs, meaning that the Company was one of only five companies achieving Band A status on efficiency for both operating and capital costs. Whilst costs continue to be carefully controlled and further savings are being achieved, the cost base is being influenced by factors outside the Company's control, particularly power costs. These have increased in the year following the expiry of the previous electricity contract, however the new two year contract is at favourable rates compared to current market prices.


South Staffs Water has to maintain almost 6,000km of underground mains.

The summer of 2007 was cooler than the previous year, resulting in a significant reduction in demand compared to the previous summer which was much warmer. In addition, industrial demand has continued to reduce. This lower consumption has resulted in reduced measured income in the year, only partially offset by lower pumping costs. The benefit of the lower demand was that customers again had no resource difficulties and none are expected in the current year, with the Company's major reservoir at Blithfield currently being nearly full.

The Company has made excellent progress in delivering its capital programme, to ensure that its assets remain in good condition and can maintain supplies to customers. Capital expenditure over the first three years of the AMP4 period (2005-10) of £90m is in line with our 2004 Business Plan expectations and the Ofwat Determination.

Good progress has been made in replacing mains that are susceptible to bursts and leakage, and the Company has upsized a trunk main running from Burton to Overseal to improve supply security to customers in this area. A major plant refurbishment of the Prestwood pumping station, which supplies approximately 20 million litres of water a day, was completed and significant maintenance work was undertaken on the Company's boreholes and fluoride stations.

South Staffs Water opened a new workshop at the head office site to assist with the repair and maintenance of the Company's fleet of vehicles and plant. This new workshop has also allowed the expansion of the pump testing and refurbishment facility.

The Company has a culture of strong employee engagement, careful financial awareness and planning, and a desire to work hard to provide an excellent service to all customers. With that in mind and in preparation for the 2009 price review, the Company has made great efforts to discuss its policies, strategies and challenges with its customers. For the development of a long-term strategic plan, a series of customer focus groups were held to debate issues such as leakage, metering policies, approaches to water efficiency and the quality of water provided. To understand customers' willingness to pay for the services on offer, South Staffs Water conducted over 500 customer interviews across different socio-economic groups to learn the value they place on the services on offer at present and the options to change the services provided in the future.

In 2007/8, the Company produced a long-term strategy document; the "Strategic Direction Statement", covering the key priorities for the next 25 years, and continued to prepare the business plan for the period 2010-

The Company is working hard to protect the environment and to prepare for the major challenge of climate change.

2015. This work is intended to secure the Company's future success so that customers continue to be provided with the best value possible – low price and high quality service. The next stage in preparing for the 2009 Periodic Review covering the period 2010 to 2015 is the submission of the Company's Draft Business Plan to Ofwat in August 2008. This is expected to focus on asset maintenance, continuity of water supply, renewable energy and financeability. This plan will be discussed with stakeholders before submission of a Final Business Plan in April 2009 and the finalisation of charges at the end of that year.

In terms of protecting the water resources available and developing plans to meet summer peak demands and future housing growth, the Company has produced a revised Water Resources Plan and has updated the Drought Contingency Plan.

The Company continues to advise customers about the excessive use of water resulting from sprinklers and has introduced a policy to enable the compulsory installation of meters on change of household ownership, which will be focussed on areas of supply stress.

South Staffs Water takes its relationship with the local community very seriously. Further details are provided in the section on Corporate Social Responsibility.

The Company is also working hard to protect the environment and to prepare for the major challenge of climate change. The Government is in the process of designing a scheme to encourage reductions in carbon usage. As we are a major user of electricity to transfer water around our network, this looks set to be a major driver for change affecting the business going forward.

The Company has installed a met mast to measure wind speed at Chelmarsh Reservoir as part of the ongoing investigation into the possible use of wind turbines to provide power for the major high lift pumps at the Hampton Loade treatment works.

South Staffs Water is proud of its achievements and will continue to be one of the best companies in the sector. None of this would be possible without the hard work and support of all our employees.

Spring Water

Aqua Direct is ideally positioned to satisfy growing consumer demand for local supply.

Based near Lichfield, Aqua Direct supplies tankered and bottled spring and mineral water from its Elmhurst Spring and Maple Spring sources. The tankered water business continues to provide many retail "household names" with spring water as an ingredient for flavoured soft drinks including ranges from Asda and Britvic, amongst others. The disastrous floods in Gloucestershire saw the Company provide 24/7 emergency supply of spring water to the affected areas for some six weeks.

The poor weather during the summer resulted in a reduction in demand, however the efficiency of the high speed bottling line has improved significantly during the year and the plant is now working double shifts. Bottled water sales have increased significantly since the start of production in 2004 and the Company supplied 18.8 million bottles of spring and mineral water to UK retailers in the year. This included own label products to Aldi and Ikea, and the recently launched "Chase" Spring Water brand to Tesco in the Midlands as part of its local supply initiative. The Tesco supply agreement proves that the business is ideally positioned to satisfy growing consumer demand for local supply and reduced environmental impact in production and delivery.

Office Watercoolers provides watercoolers and ancillary items to businesses in the Midlands, North West and Yorkshire, with almost 4,000 coolers placed with customers. The spring water the Company supplies is provided by Aqua Direct, which ensures that there is a constant supply of water during the busier summer months.

During the year, Office Watercoolers opened a new distribution centre in Warrington and is currently in the process of securing a site for the Yorkshire operation. The Company is aiming for continued growth in cooler numbers over the 2008/9 period and has recently increased the number of its employees to achieve this aim. Office Watercoolers remains customer focused, and this shows in our service levels and customer feedback.

Office Watercoolers supplies spring water to its cooler base of almost 4,000 across the UK.

OnSite introduced a fifth CIPP team in response to increased demand.

Water & Wastewater Services

OnSite has had a very busy year with two acquisitions, the establishment of an overseas subsidiary and the opening of a Scottish depot.

The Group's Water and Wastewater Services division is a group of specialist service providers to all of the Water & Sewerage Companies (WASCs), most of the Water Only Companies (WOCs) and other major infrastructure owners. The division provides a broad range of related services and operates under long-term relationships.

OnSite

OnSite is a major wastewater specialist services provider, offering data gathering and analysis, asset surveying, structural lining of underground pipes, reactive and planned sewer network operations and related specialist civil engineering solutions for WASCs and major infrastructure owners.

OnSite has had a very busy year. During the year, it has acquired two businesses – Perco and Portadam and established a subsidiary company based in Delhi, India. Perco is a specialist civil engineering business focusing on pipe bursting, auger boring, sewer lining, directional drilling and micro tunnelling, on a nationwide basis. Portadam is a specialist installer of short term dam arrangements to assist infrastructure owners, particularly British Waterways, to gain access to their otherwise submerged assets.

OnSite India has been successful in the award of three large sewer lining contracts for the Delhi Jal (Water) Board and is undertaking sewer improvement works in Kolkata.

In addition, a new depot has been opened in Scotland to aid delivery of the significant works currently being undertaken there. Along with OnSite's Worksop depot, OnSite is now able to offer its full range of services to its clients on a regional basis.

OnSite's significant network operations contract for Severn Trent Water that provides 24/7 operational support was renewed in 2007 and continues to be delivered well. In response to increased demand for the CIPP lining services, the business has introduced a fifth team during the year.

With Portadam now fully integrated into OnSite, the business will grow significantly to provide rapid response to flooding and pollution incidents and will provide predictive techniques in order to ensure that its broadening client base satisfies ever increasing flood defence legislative requirements.

IWS provides a broad range of specialist mechanical and electrical services.

An excellent year of growth as IWS continues to provide technological solutions for its clients.

Perco has already taken advantage of OnSite's ownership and established a first tier relationship with a major WASC, and will continue to expand its service offering to OnSite's existing customer base.

OnSite will continue to expand its services in order to offer the provision of complementary solutions to its existing broad client base. OnSite is committed to seeking new and innovative techniques to help its clients outperform.

IWS

Integrated Water Services (IWS) provides a broad range of specialist technical engineering services relating to the abstraction, treatment, pumping and storage of water, along with specialist services relating to the control of Legionella.

IWS has delivered another year of excellent growth with revenue growing by nearly 60%.

2007/08 has seen IWS focus on further developing the contracts that have been awarded in previous years by extending the original scopes of work through offering added value services. During the year it was awarded, as part of a joint venture offering, a significant, long-term specialist pumping station refurbishment contract by Three Valleys Water, which is currently delivering substantial benefits to the client. The Company has successfully extended its relationship with Essex & Sussex Water into Northumbrian Water and, prior to year-end, it received pumps from them that are currently undergoing refurbishment at its dedicated facility in Walsall.

Pipeline Services offers a quality approach to all types of specialist water network issues.

Within Water Hygiene a number of significant Local Authority contracts have been secured during the year and IWS has continued to successfully deliver the significant Birmingham City Council contract awarded in the previous year.

IWS's excellent standards were recognised by the Royal Society for the Prevention of Accidents (ROSPA) by achieving a silver award (2008).

In April 2008, IWS acquired Wells Water Treatment Services Ltd, based in Bury near Manchester, thus continuing its development as a nationwide regional service provider. This acquisition allows IWS to offer its full range of services competitively throughout the North West of England.

Pipeline Services

Pipeline Services focuses on the rehabilitation and localised repair and maintenance of all sizes of water distribution networks. The majority of this work is undertaken by the latest "no dig" methods to reduce costs for its clients and to minimise disruption. The Company also offers a growing pipe condition assessment service for an increasing number of WOCs and WASCs. In addition, Pipeline Services also provides planned and reactive services on both clean and wastewater assets owned by Local Authorities and Housing Associations throughout the West Midlands.

The majority of the Company's work continues to be for South Staffs Water and Pipeline Services again secured, in competitive tender, the South Staffs Water Repair and Maintenance contract for a further five year term. However, the Company continues to broaden its client base and, during the year, secured work with a number of WOCs and WASCs for whom it had not previously worked.

The business was awarded its ISO9001 accreditation in Health & Safety during the year and it is now included on Achilles Verify, the industry best practice database.

As Pipeline Services grows and reduces its reliance on South Staffs Water, it has restructured to focus more closely on providing a broader service to a wider client base. The recent introduction of an electronic field data capture system now allows its clients to have real time access to asset condition and location.

Hydrosave is a market leader in leakage management.

Hydrosave has a wealth of experience relating to the management of water networks including Network Optimisation, Water Conservation, Leakage Management, Leak Detection and Asset Maintenance.

Hydrosave

Hydrosave provides a range of specialist water management and operational technical services to the water industry.

As a leading UK framework supplier, the business has a wealth of experience relating to the management of water networks including Network Optimisation, Water Conservation, Leakage Management, Leak Detection and Asset Maintenance.

As a market leader in leakage management, Hydrosave provides a high quality service to customers through experienced employees utilising the highest quality training, equipment and technology.

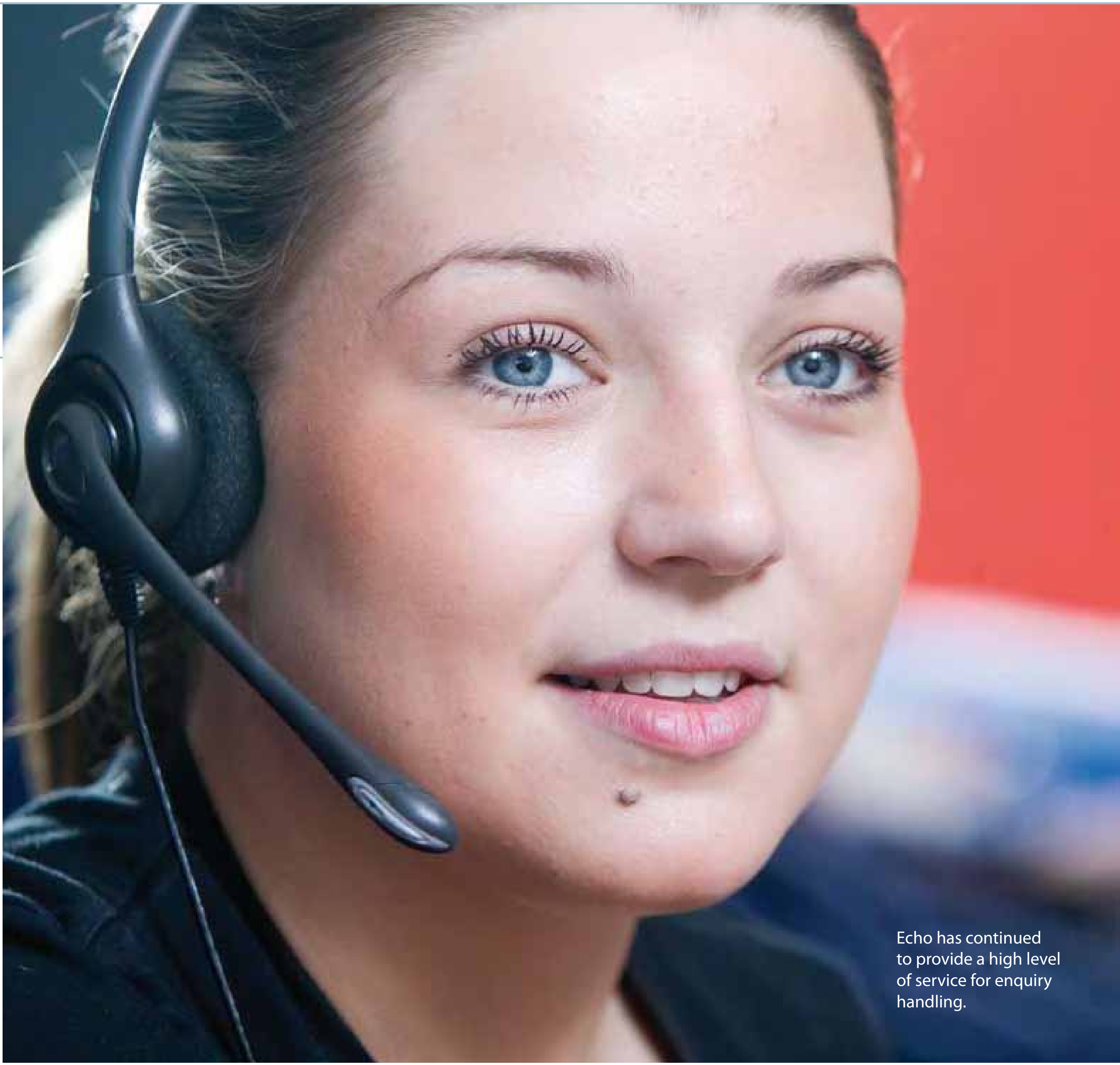
Following its acquisition in March 2007, the integration of Hydrosave into the Group has been a major success. The Hydrosave Health & Safety, quality and environmental management systems were independently audited as part of the Achilles UVDB system, and the business achieved a class leading result. Significant investment in new technologies has enabled Hydrosave to continue its status as a UK leading service provider in leakage management and leak detection.

Hydrosave has secured an 18 month extension to its current framework contract with Severn Trent Water. Hydrosave currently supplies leak detection services throughout Derbyshire, Nottinghamshire, Leicestershire and Warwickshire and is recognised as a leading supplier to Severn Trent Water.

In June 2007 Hydrosave was successful in procuring a two year framework with Three Valleys Water for the provision of leak detection services, which is progressing well.

Other specialist service provisions have continued throughout 2007/8. Frameworks with other clients have been extended for business customer services and metering services contracts and specialist data logging and engineering projects have continued.

As well as focussing on continued high levels of service to existing customers, Hydrosave is looking to strengthen its excellent reputation by expanding its range of specialist services.



Echo has continued to provide a high level of service for enquiry handling.

Echo
A leading provider of customer process management services focused on the UK Water sector.

Echo is a leading provider of customer process management services focused on the UK Water sector. Echo provides a Customer Contact Management service, 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 newly introduced Credit Intelligence solution.

Echo's current customers include:

- South West Water
- Severn Trent Water
- Northern Ireland Water
- Wessex Water
- Bristol Water
- South Staffs Water
- Hartlepool Water
- Galway County Council

During the year, each of Echo's water customers committed to standardise on RapidXtra OA; an enhanced web based platform. In addition, major customers such as Wessex Water, Bristol Water and Hartlepool Water have all increased their investment and commitment to the product and its ongoing development roadmap.

This year also saw a consistent improvement in Echo's customers' Ofwat customer satisfaction scores, as well as continued strong performance across the sites on other regulated measures. Echo has also completed another successful annual billing cycle for all its water customers, providing reliable, quick and accurate billing runs.

The Crystal Alliance partnership, which comprises Echo, Steria and AMT Sybex is contracted to deliver customer service, billing, debt recovery and mobile work management services for Northern Ireland Water's customers. The task of implementing this new service to Northern Ireland Water Limited (NIW) was successfully achieved and the live service was launched last year. Since then, Echo has continued to provide a high level of service for enquiry handling, billing and revenue management. From April 2008, a further 11,000 non-domestic customers in Northern Ireland began to be charged for water and sewerage services. Communication to customers began in February with Echo working with NIW to advise customers of the changes.

Echo will be continuing to develop its current product and service offering to remain at the forefront of the market.

Echo's joint venture with South West Water (SWW), Echo South West Limited had provided customer contact and debt recovery services to the regulated Water and Wastewater business of SWW since 2002. This contract ended on 31 March 2008, at which point ongoing responsibility for customer services was handed over to a new service provider, although RapidXtra remains SWW's chosen software product.

Looking forward, Echo will continue to offer value for money to its existing water utility customers, which contribute to the majority of the current revenue. Additionally, we will continue to grow in both the Northern Ireland public sector and the UK water utility sector by offering industry specialist services.

In the UK water industry, companies are preparing for the next price review and will be increasingly seeking second or third generation outsourced service and software contracts. Echo will continue to develop its current product and service offering to remain at the forefront of the market.

It is becoming increasingly challenging to collect debt from water customers, therefore Echo has already invested in a specialised analytics team and in a full integration of RapidXtra with the credit management systems already being used in our operations. A Credit Intelligence solution is being developed to deliver specialised predictive management information and behavioural data for utility customers.

Customers within the sector are anticipating significant changes such as metering and tariffs. Echo has therefore decided to press ahead with new developments and, to this end, has designed a technology roadmap, which articulates its vision for the future. This roadmap takes account of important industry issues, such as regulatory compliance and redesigning the billing, tariff and metering processes to enable smart metering and tariff advances.

Echo is contracted to deliver customer service, billing and debt recovery for Northern Ireland Water.

Financial Review

The Group has achieved another strong financial performance with all four of the Group's divisions performing well.

The Group has achieved another strong financial performance in the year ended 31 March 2008 with all four of the Group's divisions performing well. Group turnover, profitability and cash flows exceeded our expectations and showed very encouraging growth compared to last year.

Group turnover (including the Group's share of its joint venture) for the year ended 31 March 2008 increased by 15.4% to £138.3m (2007: £119.8m). Turnover in the regulated water business grew by 5.1% to £76.5m (2007: £72.8m) following the increase in charges for the year of 1.7% plus inflation as allowed by Ofwat, offset partly by lower consumption following a wet 2007 summer which reduced demand below the normal level. Turnover of £61.9m (2007: £47.0m) in the non-regulated businesses increased by 31.5% representing organic growth in a number of businesses, particularly at Spring Water, OnSite and Integrated Water Services along with the impact of acquisitions including the full year effect of those made last year (Hydrosave and Brocol Consulting) and Perco Engineering Services, the major acquisition in 2007/8.

Operating profit before goodwill of £29.1m increased by 6.4% (2007: £27.4m). The regulated business generated operating profits of £20.7m (2007: £19.8m), an increase of 4.4% representing the above turnover growth and continued efficiencies offset partly by the expected increases in wage inflation, energy costs, depreciation and infrastructure renewals charges. The non-regulated businesses increased operating profits before goodwill to £8.5m (2007: £7.6m) an increase of 11.6%, primarily reflecting increased trading activity at both the Water and Wastewater and Spring Water divisions partly offset by the sale of a significant Rapid Xtra licence and associated implementation services by Echo in 2006/7.

Net finance charges of £5.5m were slightly higher than last year (£5.2m) reflecting increased borrowing and higher inflation charges on index-linked debt.

Overall, Group profit before tax grew by 4.1% to £22.8m (2007: £21.9m).

Tax

The tax charge (including current and deferred tax) of £3.5m for the year (2007: £5.8m) is at an effective rate of 15.5% (2007: 26.5%) with the reduction representing a one-off reduction to deferred tax liabilities to account for the change in corporation tax rates from April 2008 from 30% to 28% and expected changes in future capital allowances and the availability of Group relief following the acquisition of the

Group by Alinda. Current tax has been provided at 30%, the applicable rate for the year, whereas deferred tax is provided at the rate applicable from 1 April 2008 of 28%.

Dividends

Dividends of £16.1m were paid in the year (2007: 16.4m) with the dividend policy continuing to be to pay dividends that are consistent with shareholder expectations while maintaining significant headroom on the Group's borrowing covenants.

Cash Flow & Debt

Cash inflow from operating activities increased by £0.9m to £45.7m in the year, primarily due to increased profitability (which included higher non-cash depreciation and amortisation charges) offset partly by the expected increase in working capital requirements to support the growth in the Group's operations. However, the actual increase in working capital was significantly lower than expected and reflects the Group's continued focus on management of working capital including its trade debtors. Net cash outflow on capital expenditure was £26.3m (2007: £28.2m) with net cash expenditure in the regulated business of £25.0m meeting our expectations with the cumulative three-year AMP4 expenditure being within 1% of Ofwat's Final Determination and continuing the reversal of the shortfall experienced in 2005/6. The business remains confident of achieving the total level of AMP4 net expenditure of £115.5m by March 2010.

Overall, free cash flow for the year ended 31 March 2008 was £12.7m, ahead of last year by £0.9m and significantly ahead of our expectations.

During the year, South Staffordshire Plc raised £90m following the issue of a four and five-year bank loan from Barclays which has the option of a further one year extension. The funds raised, after issue costs, were used to repay existing borrowings of £17.3m and to lend £71.8m to Hydriades Limited, Alinda's acquisition vehicle. Following the refinancing, the Group maintains significant headroom in respect of all borrowing covenants.

At 31 March 2008 total net debt amounted to £231.2m (2007: £149.0m), however this includes unamortised premium and costs of £13.1m in relation to index-linked debt and bank loans which are excluded for covenant reporting purposes. Group net debt for covenant reporting purposes amounted to £218.1m (2007: £133.5m) with covenant net debt in South Staffordshire Water totalling £132.9m (2007: £121.0m) representing 64.8% (2007: 62.0%) of its Regulated Asset Value of £205.2m (2007: £195.2m).

South Staffordshire Water's index-linked loan reduces the Group's exposure to short term interest rate rises, with inflation risk on the cost of the loan effectively hedged against regulated revenues and growth in the Regulated Asset Value, both of which increase in line with inflation. Standard and Poor's rates South Staffordshire Water as BBB+, well within investment grade.

Pensions

At 31 March 2008 the actuarial valuation of the Group's final salary pension scheme (prepared in accordance with FRS 17) showed a post-tax surplus of £7.2m (2007: £4.0m), with the increase reflecting the level of contributions (which totalled £3.5m in the year) and lower liabilities following an increase in discount rates which reflect the current uncertainty in the bond market. While the scheme is closed to new members, the Group views the scheme as a valuable benefit for existing members and remains committed to its continued support and funding. An attractive money purchase pension scheme is available to employees not eligible for the final salary scheme.

A P Page
Group Finance Director
23 May 2008

Corporate Social Responsibility

Environmental and social issues affecting the businesses are of key importance to the Group.

Environmental and social issues affecting the businesses are of key importance to the Group and we have analysed our activities in this area over the following pages.

In order to strengthen the contribution of the existing CSR team, South Staffs Water has appointed a Director of Corporate Social Responsibility, who will consolidate and develop existing approaches to recording, measuring and reporting the impact of the Company on both the local community and environment at large. Key areas for development will be the design and implementation of an Employer supported volunteer scheme, delivery of year two of the Blithfield Estate three-year development plan and the design of appropriate impact measurements for year-on-year assessment of the Company's performance against the CSR agenda. This report also highlights related activities in other parts of the Group.

The Group regularly reviews its policies for Emergency Planning, Risk Management, Health & Safety, Business Continuity, Equal Opportunities, Whistleblowing and Employee Well-Being.

Health & Safety

Health & Safety remains a top priority for the Group, which is committed to achieve and maintain the highest standards for all employees, contractors and others who may be affected by its activities.

Each business within the Group manages safety at the local level with responsibility sitting with a Director, who is supported by a Health & Safety coordinator. They are responsible for implementing formal safety management systems set to deliver continuous improvement in Health & Safety performance. The local Health & Safety coordinators meet regularly to share best practice and, where appropriate, establish common policies and procedures. These safety management systems are subject to annual external audits.

The Group Health & Safety strategy forum, chaired by Dr Jack Carnell, brings together the Managing Directors of the key business areas, Health & Safety specialists and includes an external Health & Safety consultant. This forum is now well established with its function being to develop Group policy, set and monitor strategic objectives, monitor corporate governance and ensure best practice. This forum reports to the Group Board.

The Group continues to strive toward an incident and injury free environment wherever it operates, and this is demonstrated in the consistently low number of incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR). This year, despite an

Land management plans are being greatly enhanced at the Blithfield Reservoir estate.

increase in employee numbers, the total incidents reported fell from 15 to 12, none of which, after investigation, were considered to be of a serious nature.

An ongoing programme of employee training ranging from awareness on Health & Safety issues for Directors and Executives to IOSH Managing Safely for managers and supervisors contributes to keeping Health & Safety at the forefront of decision making.

Recent developments have been to raise the profile of occupational health. The Group is increasingly providing proactive screening to detect the early signs of occupational ill health and run campaigns on specific health issues such as vibration and manual handling.

During the year, a number of initiatives have been implemented to further progress Health & Safety goals including:

- Developing the Group Health & Safety vision statement supported by a set of core values to which we all strive.
- Implementing a programme of enhanced Health & Safety training to meet the needs of employees, in many cases this is externally accredited and includes IOSH Working Safely.
- Implementing the recommendations from external Health & Safety audits which have seen all businesses achieving over 90% compliance in this year's audit.

Environmental

The Group continues to work to minimise its effect on the environment by developing environmental management policies, site management plans and ensuring considerate business operations.

We constantly aim to identify ways of reducing the Group's carbon footprint through effective management of our energy consumption, using technology and other means. The Group has clear strategies to promote the Reduce, Reuse, Recycle ideology, which are under constant review to maximise efficiency as much as possible. We have once again been recognised by the National Energy Foundation with reaccreditations under the Energy Efficiency Accreditation Scheme managed by the Carbon Trust.

The majority of the energy that South Staffs Water uses drives pumps to distribute water around the Company's large network. The pump testing and refurbishment work we undertake in maintaining energy efficient pumps has been recognised as a centre of excellence within the Water Industry, and the majority of our source and booster stations run more efficiently than the industry average. South Staffs Water is also a proactive member of the Water UK Energy Management Forum.

Alternative energy sources have been investigated and a met mast has been installed at our Chelmarsh Reservoir in Shropshire to test the feasibility of installing wind turbines to help power our Hampton Loade site, our largest source, with renewable energy. The success of the final scheme will depend on Ofwat's support and is subject to planning approval.

South Staffs Water's land management plans are being greatly enhanced at the Blithfield Reservoir estate following provisional acceptance by Natural England into their High Level Entry Stewardship Scheme. The Scheme is designed to enhance the existing wildlife population on the estate and encourage the development of natural habitats to improve the number of wildlife species overall. To help achieve these requirements the Company is using two estate workers to carry out specialist activities around the reservoir margins and in the woodlands. Consideration is also being given to similar woodland management schemes run by the Forestry Commission. To maintain the long-term sustainability of the estate, consideration is being given to the introduction of innovative ideas such as compost toilets and a biomass boiler.

South Staffs Water's long-running programme of spreading sludge created in the treatment of river and reservoir water to arable farmland continues and has now become a standard for the industry. This makes use of materials that were previously useless, whilst providing benefit to both land and crop. Each year around 15,000 tonnes is spread on fields adjacent to the Hampton Loade and Seedy Mill Treatment Works.

Some of the work that OnSite performs on the canals and waterways, for example, must ensure that there is no possibility of endangering the ecosystem through cross contamination. This work will involve liaison with various agencies, including British Waterways and the Environment Agency. We pride ourselves on our safe systems of work that ensure that we do not damage the environment.

Echo hopes to achieve ISO 14001 certification in Northern Ireland, demonstrating the Company's awareness of environmental issues and performance in addressing them through the introduction of an Environmental Management System. Initiatives include:

- Developing environmental policies and objectives, taking into account legislative requirements and ensuring that all employees are aware of the policy.
- Improving the existing policy of purchasing products that are environmentally friendly. This is also linked to improved recycling facilities on-site.
- The creation of the "Green Team" – a team of employees who are responsible for championing environmental initiatives across the company.
- A Travel to Work Survey designed to help employees determine if they can reduce their carbon footprint in the future.

The Group actively strives to raise awareness of environmental issues not only internally but also throughout the local area and support environmental understanding through our education centre and participation in environmental events at schools and other external establishments.

We will continue to work to improve our environmental performance, and will encourage even better relationships with our stakeholders and external organisations, to the benefit of the environments that are within our control.

Stakeholders - Employees

The last twelve months have seen continued growth for the Group and the total number of employees is now almost 1,500. The Group's success is very much dependent upon the skill and enthusiasm of our employees and we recognise that a successful work/life balance plays a key role in this. The Group therefore continues to provide a range of benefits that complement this perspective.

Currently all employees are offered membership of the Group defined contribution pension scheme, but for those employees who choose not to join, the Group has provided Life Insurance for the benefit of their dependants.

All employees are entitled to participate in the Group's annual bonus scheme which, in order to encourage increased involvement and performance within the Group, is linked to the Group's profit and cash performance. Employees are provided with regular updates in order to involve and inform them regarding the progression of their businesses and the Group as a whole.

In respect of 2007/8 performance, approximately 1,100 employees will receive a payment of up to £500 each, at a total cost to the Company of over £500,000.

During the year, South Staffs Water Plc received a prestigious award from Business in the Community for their "Best of Both Worlds" campaign, which promoted a productive work/life balance and which communicated the vast array of initiatives the Company offers its staff to support their social, health, recreational and sporting interests.

The Group recognises that both personal and work-related issues can affect an employee's performance at work, and it is for this reason that an Employee Assistance programme is provided. A confidential 24-hour helpline has been made available to employees, while ongoing support and training is also offered.

The health of our employees is one of the Group's major concerns. An increasing number of employees are taking advantage of access to discounted Private Medical Schemes and employees at a number of our offices have use of an onsite gym. As a Group we are dedicated to promoting a choice of healthy options in the canteen, and where possible will be using local suppliers for our produce.

The range of employee benefits is continuously reviewed to ensure that, wherever possible, our employees are able to benefit from the latest initiatives, including access to discounted goods and services. In May 2007 the Group opened a crèche at its Head Office to assist young families and to encourage the recruitment and retention of employees with young children. This has proved a huge success in enhancing the work/life balance of our staff and in allowing parents to return to work at an earlier stage should they so wish.

The Group continues to be highly committed to providing equal opportunities and has a policy of non-discrimination, which applies at all times. South Staffs Water has been awarded a certificate for being "Positive about Disabled People", and the entire Group shares responsibility for ensuring that our equal opportunities policies are effectively operated. The Group makes every reasonable effort to provide disabled people with equal opportunities for employment; training and promotion, and where an existing employee becomes disabled, the Group aims to provide continued employment under normal terms and conditions wherever possible.

We aim to ensure continuous communication with our employees through the medium of regular briefings, newsletters and special Group-wide publications, keeping employees informed about new developments within the Group's businesses.

Staff training, development and succession are very important for the current and continued future success of the Group. Training and regular reviews of employees' performance and development are ongoing and continue to be of great importance to the success of the Group. Last year, a Graduate Programme was implemented, specifically to target local students who want to enter a career based in engineering within the Water Industry. Due to the success of this scheme, we aim to repeat the course this year, along with continued offering of craft apprenticeships.

Once again South Staffs Water and Echo have maintained their "Investors in People" accreditation.

- Customers

The entire Group is committed to continuing to provide and improve upon excellent customer service to both commercial and domestic customers. Building long-term relationships with customers is always key to the future success and stability of the business. Without high levels of service, customers would not be retained. South Staffs Water has embarked on a programme of consultation with its customers to ensure that the Company retains its high quality and low cost of service in the long term.

South Staffs Water continues to provide some of the highest levels of service in the Industry, and has been recognised as being in the top band for efficiency assessments by OFWAT. The Company provides a Special Services Scheme for customers who require additional assistance and additional tariffs are available for customers in vulnerable groups.

The success of the Group's non-regulated businesses is built on long-term relationships with our customers. For example, some of our businesses have been sucessfully trading on a continuous basis with the same customer for over 30 years.

Ethics

The Group has a Whistleblowing Policy in place whereby team members can raise any concerns they have in confidence regarding financial reporting or unethical conduct. The Board fully supports this policy and an independent team will monitor all reports that arise each year. The Group strives to maintain a culture of open communication whereby issues can be raised on a one to one basis.

There have been no reports made against the Group under the Whistleblowing Policy to date.

Community

We take our relationship with the local community very seriously and have continued to assist charities that have a direct impact on the communities in which the Group's businesses operate as well as those further afield. The Group has continued to support the Air Ambulance both financially, by charitable donation and practically, by providing office space.

The Group contributes approximately £90,000 each year to local charities. Listed below are some of the many good causes that benefited from the donations:

Castle School
Staffordshire Wildlife Trust
Walsall Senior Citizens Linkline
Wear it Pink

South Staffs Water's nominated charity for 2007/8 was Beacon Centre for the Blind, which offers choice to over 3,000 local visually impaired people by providing residential care, day care and community services for those living in Wolverhampton, Dudley, Sandwell and Staffordshire, enabling them to lead a full and independent life. This year's donation went towards the charity's capital appeal, which aims to transform the current Centre into a 21st Century state of the art complex, providing many more facilities than are currently available.

During the year, South Staffs Water continued to be actively involved in the community.

In 2007/8 the Company hosted a Children's event at our Blithfield Education Centre to introduce special needs children to some of the activities and themes from various periods in our history. This link with local special needs schools was further developed at Christmas when a number of employees participated in a Cinderella pantomime for local children.

Every year, employees are invited to apply for sponsorship under the Youth Team Sponsorship scheme for teams that they or their children are involved in. This has been a successful and long-running scheme that directly contributes to the local community.

South Staffs Water employees continued their support for the National Water Industry Charity WaterAid, raising much-needed funds for the development of safe drinking water and proper sanitation in Africa and parts of the Indian sub-continent. Group companies and their suppliers and contractors also supported the WaterAid Annual Gala Dinner and Casino organised by South Staffs Water. This event, enhanced by a generous matching arrangement by our owners, raised well in excess of £50,000 for the charity. The Company also runs a Group Lottery for employees to help raise money and awareness for the cause.

During the year the Water Company joined the Water UK alliance group "Water for Health", an initiative that looks for ways to promote and develop the healthy benefits arising from drinking plain and simple tap water. In support of this initiative, the Company is offering to provide and install free water coolers to Care Homes for the elderly within its area of supply.

Echo employee support for charitable causes has gone from strength to strength in 2007/8. Throughout the year, employees have raised over £5,000 for a wide variety of charitable causes including Macmillan Cancer Support, Children in Need and Acorns Children's Hospice, Walsall.

Directors' Biographical Details

David Baldwin Sankey, MA, Executive Chairman, Age 64
Appointed as Executive Chairman in April 2004 and was previously a Non-Executive Director of South Staffordshire Group Plc from 1982 to 2004. For ten years until 2002 he was a venture capitalist initially as a Director of SUMIT Equity Ventures and then of Murray Johnstone Private Equity Limited, and his background is in automotive engineering.

Adrian Peter Page, BSc (Hons) ACA, Group Finance Director & Company Secretary, Age 42
Appointed as Finance Director and Company Secretary in October 2001. Also Finance Director of South Staffordshire Water PLC from September 2002. Previously Company Secretary of South Staffordshire Group Plc from 1998 to 2004 having also been Group Finance Director. 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 51
Appointed to the Board in April 2002 and appointed as Managing Director of South Staffordshire Water PLC in January 2004, following four years as Deputy Managing Director. He has 34 years experience in the water industry with South Staffs Water and is the National President of the Institute of Water Officers. Jack is also Chairman of USIT, the Water Industry Charity for Training.

Robert Ian Harley, Managing Director, Water and Wastewater Services Division, Age 54
Formerly co–owner of Insight Surveys, which was acquired by Homeserve in 1997. Robert was appointed to the Board of Homeserve in 2002 and joined South Staffordshire Plc in March 2005.

Phillip Charles Newland, BA (Hons), Managing Director of Echo Managed Services, Age 37
Appointed to the Board in November 2007. He was appointed Managing Director of Echo in April 2006, having worked with the business as Project Director and as Business Development Director. Prior to joining Echo, Phil was a Management Consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

Richard Panton Corbett, Independent Non-Executive Director, Age 70
Appointed as a Non-Executive Director in April 2004. Previously he was a Non-Executive Director of South Staffordshire Group Plc from 1993 to 2004. He is Non-Executive Director of Haynes Publishing Group PLC. He was Chairman of the Alternative Investment Market of the London Stock Exchange from inception up until April 1998 and





an Executive Director of Singer and Friedlander from 1973 to 1993 and then as a Non-Executive Director from 1993 to 1998.

Michael Alan Hughes, MSc, FIEE, C.Eng, Independent Non-Executive Director, Age 62
Appointed as Non-Executive Director in April 2004. He is a Director of EA Technology Ltd and was President of the Electricity Association. Until 2002 he was Executive Vice President of GPU International power systems business that included Midlands Electricity plc. He was Chief Executive of Midlands Electricity plc from 1993-2002 following a long career in GEC.

Christopher Beale,
Non-Executive Director, Age 60
Appointed to the Board in November 2007. He is Managing Partner of Alinda Capital Partners and has over 20 years' experience in infrastructure. Prior to forming Alinda, he led the world's largest infrastructure finance business as global head of project finance at Citigroup. He was also global head of project finance at Morgan Stanley and Credit Suisse First Boston, and Chairman of Beale Lynch Capital Partners, a private investment firm in New York.

Sam Coxe,
Non-Executive Director, Age 32
Appointed to the Board in November 2007. He is a Vice President with Alinda Capital Partners. Prior to joining Alinda, he was a Vice President with Credit Suisse First Boston in investment banking. Prior to receiving his MBA, he was with Oliver Wyman, a consultancy.

Simon Riggall,
Non-Executive Director, Age 60
Appointed to the Board in November 2007. He is a Partner and co-founder of Alinda Capital Partners, and has over 20 years' experience in infrastructure. Prior to forming Alinda, he was the European head of project finance at Citigroup, based in London. He was also a senior energy banker and head of construction and engineering lending at Citibank in London, European head of agri business at Citibank, and country head for Citibank in Morocco.

Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2008.

Principal Activities & 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 Chairman's statement, the Operational Review and the Financial Review on pages 6 to 23.

Major Transactions

On 14 November 2007 an affiliate of Alinda Capital Partners LLC acquired South Staffordshire Plc. Alinda is an independent, private investment firm that focuses on long-term infrastructure investments in the United States, Canada and Europe. During the acquisition process, Alinda were impressed by South Staffs Water's stable resource position and high levels of service and quality, as well as the demonstrated growth in each of non-regulated businesses.

On 14 September 2007, the Group acquired Perco Engineering Services Limited, a company based in Northampton specialising in the refurbishment of existing sewer pipe networks using trenchless technology. Since the end of the financial year, on 4 April 2008, the Group acquired Wells Water Treatment Services Limited, which is a water hygiene business based in Bury. 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 increased to £138.3m (2007: £119.8m) with total operating profit of £28.3m (2007:£27.1m) and profit before taxation of £22.8m (2007: £21.9m). The Group's results are shown in the consolidated profit and loss account on page 42.

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 £32.7m (2007: £36.7m) during the year.

Directors

Details of the Directors who held office at 23 May 2008 are given on pages 30 and 31.

The Directors who held office during the year and subsequently are as follows:

	First Appointed	Re-elected
Mr D B Sankey *(Standing for re-election at AGM)*	6 April 2004	2006
Mr A P Page *(Standing for re-election at AGM)*	4 December 2003	2005
Dr J Carnell	23 April 2002	2007
Mr R I Harley	1 December 2005	2006
Mr P C Newland *(Standing for re-election at AGM)*	26 November 2007	N/A
Mr R P Corbett *	6 April 2004	2007
Mr M A Hughes*	6 April 2004	2006
Mr C Beale* *(Standing for re-election at AGM)*	14 November 2007	N/A
Mr S Riggall* *(Standing for re-election at AGM)*	14 November 2007	N/A
Mr S Coxe* *(Standing for re-election at AGM)*	14 November 2007	N/A

* Denotes a Non-Executive Director

in addition to the above Asim Zafar and Qaisar Zaman were Directors until their resignation on 14 November 2007.

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 and Officers insurance has been established for all Directors and senior management to provide cover against any actions bought against them as Officers of the South Staffordshire Group of Companies.

Retirement & Re-Election of Directors

In accordance with the Companies Act 1985 and the Articles of Association, Mr Beale, Mr Coxe, Mr Newland and Mr Riggall having been appointed since the last Annual General Meeting, will retire from the Board and being eligible will offer themselves for re-election. Mr Page and Mr Sankey will retire by rotation and being eligible will offer themselves for re-election.

Corporate Social Responsibility

South Staffordshire Plc regards compliance with relevant environmental laws and the adoption of responsible social and ethical standards as integral to the business. A summary of the Company's practices is provided on pages 24 to 29.

Corporate Governance

A report on corporate governance is set out on pages 34 to 37.

Donations

Charitable donations of £89,000 were made during the year (2007: £89,000). There were no political contributions in the year (2007: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 2008 represent 56 days of purchases during the year (2007: 63 days).

Auditors

In accordance with the provisions of s234ZA of the Companies Act 2006, the Directors confirm that as far as they are aware, there is no relevant audit information of which the Company's 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 & Touche LLP as auditors will be put to the Annual General Meeting.

By Order of the Board
A P Page
Company Secretary

23 May 2008

Corporate Governance

South Staffordshire Plc continues to apply the spirit of the Combined Code where considered applicable to the Group and the Directors remain committed to setting high standards of corporate governance throughout the entire Group, as set out in pages 34 to 37.

The Board of Directors

At the year-end the Board comprised of an Executive Chairman, four other Executive Directors and five Non-Executive Directors (including two independent Non-Executive Directors). The names and responsibilities of the Directors are shown on pages 30 and 31.

Mr Zafar and Mr Zaman resigned from the Board on 14 November 2007. Mr Beale, Mr Coxe and Mr Riggall were appointed in their place. Mr Newland was also appointed on 26 November 2007.

Mr Hughes came to the end of his three-year appointment. The Company was more than satisfied with his performance and commitment to the role and re-appointed him for a further three years.

The Board's approach to Non-Executive appointments will be to offer a fixed term of three years (subject to retirement by rotation) and would not normally, as a matter of policy, be renewable more than twice.

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 at the forthcoming AGM are shown on page 32.

The Board consider Mr Corbett and Mr Hughes to be independent in character and judgement and that there are no relationships or circumstances that are likely to affect their independent judgement or independence from management. The Non-Executive Directors together bring considerable experience and diversity of business knowledge to the Group.

All Directors and Senior Management are covered by Directors & Officers Insurance against any actions taken against them as Officers of the South Staffordshire 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 Non-Executive Directors' fees and Executive Director remuneration packages and levels.

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

Functions of the Board

Both Company Law and the Combined Code require 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.

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 by 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 and guidance from the Turnbull recommendations, the Board is also responsible for the Group's systems of internal control, evaluating and managing significant risks to the Company.

There were ten Board meetings during the year and, in compliance with the Combined Code, all Board members are provided with sufficient information prior to any Board meeting to allow preparation time to ensure that they can properly discharge their duties. The Board undertakes site visits during the year to maintain familiarity with the Group's operations.

The Board also keep up to date with legal and regulatory changes, in particular the 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 based on ICSA Best Practice.

The terms include, but are not limited to:

- Approval of capital and operating budgets
- Reviewing 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 Board undertakes a verbal evaluation of its performance, the performance of the individual Directors and various Committees. These appraisals do not take a written form as it is felt that more formal procedures would not add to the effectiveness of the Board. The Company believes that the required balance of Executive and Non-Executive Directors has been maintained.

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 Asim Zafar, Qaisar Zaman and David Sankey. In November 2007, Mr Zafar and Mr Zaman were replaced by Mr Beale and Mr Riggall on this Committee. 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 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, the Combined Code 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 the two independent Non-Executive Directors and was chaired by Mr Corbett. During the financial year, the Committee met twice. Deloitte & Touche LLP, our external auditors, the Group Finance Director and the Director of Finance are also invited to the meetings.

The Committee is responsible for reviewing and monitoring the adequacy and effectiveness of 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:

- Regulatory Compliance
- Revenue Processes
- The Investment Programme Delivery
- Acquisition Due Diligence
- Financial Reporting Developments

The Committee is responsible for recommending to the Board the appointment of the external auditor and monitoring the auditor's independence, performance and effectiveness and approving the nature and scope of external audits and approving the 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 the Group, 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 position including its future prospects. This is provided by a review of the Group's performance as set out in the Chairman's Statement, Operational Review and Financial Review on pages 2 to 23.

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.

The responsibilities of the external auditors in the area of financial reporting are set out on pages 40 and 41.

- 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, 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 & Touche 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 our external credibility, but to also allow us to manage the performance of the business with reference to this data.

- Organisational Structure

For the year ended 31 March 2008, 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 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, having reviewed the external auditors' performance, effectiveness and fees during the year, that both are satisfactory. Usually the non-audit services undertaken by the external auditors are regulatory in nature. During the year ended 31 March 2008 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 2009, the three-year operating plan and investment programme to 31 March 2011, together with the committed borrowing facilities available to the Group.

Directors & Advisors

Directors	David Baldwin Sankey Adrian Peter Page Jack Carnell Robert Ian Harley Phillip Charles Newland Richard Panton Corbett Michael Alan Hughes Christopher Beale Simon Riggall Sam Coxe
Secretary	Adrian Peter Page
Registered Office	Green Lane, Walsall, West Midlands, WS2 7PD Telephone: 01922 638282 Registered in England, Number 4295398.
Auditors	Deloitte & Touche LLP Four Brindleyplace, Birmingham B1 2HZ.
Legal Advisors	Martineau Johnson 1 Colmore Square, Birmingham, B4 6AA
Bankers	HSBC Bank Plc 130 New Street, PO Box 68, Birmingham B2 4JU Royal Bank of Scotland plc 2 St Philips Place, Birmingham B3 2RB Barclays Bank Plc 5 The North Colonade, Canary Wharf, London, E14 4BB

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.

The Directors are required by the Companies Act 1985 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 or loss of the Group for the financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing 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 United Kingdom 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.

The Directors have responsibility for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect 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 financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

We have audited the Group and parent Company financial statements (the ''financial statements'') of South Staffordshire Plc for the year ended 31 March 2008 which comprise the consolidated profit and loss account, the consolidated and individual Company balance sheets, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, the consolidated cash flow statement and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 March 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, United Kingdom
29 May 2008

Consolidated Profit & Loss Account

For the year ended 31 March 2008

	Note	2008 £'000	2007 £'000
Turnover	2	138,345	119,848
Less share of joint venture's turnover		(5,633)	(5,211)
Group turnover		132,712	114,637
Operating costs before goodwill (net)	3	(103,767)	(87,377)
Group operating profit before goodwill		28,945	27,260
Share of joint venture's operating profit		180	108
Total operating profit before goodwill		29,125	27,368
Goodwill amortisation		(857)	(290)
Total operating profit: Group and share of joint venture	2	28,268	27,078
Finance charges (net)	7	(5,461)	(5,171)
Profit on ordinary activities before taxation		22,807	21,907
Taxation on profit on ordinary activities	8	(3,525)	(5,805)
Profit on ordinary activities after taxation		19,282	16,102
Minority interests	26	—	2
Profit for the financial year		19,282	16,104
Earnings per share			
Basic and diluted	10	150.4p	125.6p

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

The results above are derived from continuing operations. The post acquisition results relating to subsidiaries acquired during the year are not disclosed seperately as they are not considered to be material.

The accompanying notes are an integral part of these accounts.

Consolidated Balance Sheet

As at 31 March 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets - goodwill	11	8,380	7,417
Tangible assets	12	182,851	173,410
Investments - share of joint venture's net assets	15	48	—
		191,279	180,827
Current assets			
Stocks	16	1,888	1,730
Debtors - amounts recoverable within one year	17	24,805	24,201
Debtors - amounts recoverable in more than one year	17	109,163	37,308
Cash at bank and in hand		827	4,718
		136,683	67,957
Creditors – amounts falling due within one year			
Borrowings	18	(6,678)	(7,250)
Other creditors	19	(37,376)	(39,474)
		(44,054)	(46,724)
Net current assets		92,629	21,233
Total assets less current liabilities		283,908	202,060
Creditors – amounts falling due in more than one year			
Borrowings	18	(225,384)	(146,443)
Accruals and deferred income	14	(7,248)	(6,652)
Provisions for liabilities and charges	21	(14,837)	(14,300)
Retirement benefit surplus	22	7,197	3,975
Net assets		43,636	38,640
Capital and reserves			
Share capital	24	5,449	5,450
Share premium	25	10,882	10,882
Merger reserve	25	(253)	(253)
Capital redemption reserve	25	1	—
Profit and loss account	25	27,550	22,554
Shareholders' funds		43,629	38,633
Minority interests	26	7	7
Total capital employed		43,636	38,640

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of Directors on 23 May 2008.

D B Sankey
A P Page

Company Balance Sheet

As at 31 March 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	15	18,284	18,373
Tangible assets	12	—	313
		18,284	18,686
Current assets			
Debtors - amounts recoverable within one year	17	3,286	7,819
Debtors - amounts recoverable in more than one year	17	98,294	40,800
Cash at bank and in hand		2,774	—
		104,354	48,619
Creditors – amounts falling due within one year			
Borrowings	18	—	(3,504)
Other creditors	19	(5,256)	(5,578)
		(5,256)	(9,082)
Net current assets		99,098	39,537
Total assets less current liabilities		117,382	58,223
Creditors – amounts falling due in more than one year			
Borrowings	18	(88,800)	(28,000)
Net assets		28,582	30,223
Capital and reserves			
Share capital	24	5,449	5,450
Share premium	25	10,882	10,882
Capital redemption reserve	25	1	—
Profit and loss account	25	12,250	13,891
Shareholders' funds		28,582	30,223

The accompanying notes are an integral part of these accounts.

The accounts were approved by the Board of Directors on 23 May 2008.

D B Sankey
A P Page

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 March 2008

	2008 £'000	2007 £'000
Profit on ordinary activities after taxation	19,282	16,102
Actuarial gain relating to retirement benefit surplus		
Actual return less expected return on scheme assets	(6,096)	985
Experience gain/(loss) arising on scheme liabilities	165	(50)
Gain due to changes in assumptions underlying scheme liabilities	8,293	5,137
Deferred tax on actuarial gain	(548)	(1,822)
Total recognised gains and losses relating to the year	21,096	20,352

Reconciliation of Movements in Consolidated Shareholders' Funds

For the year ended 31 March 2008

	2008 £'000	2007 £'000
Profit for the financial year	19,282	16,104
Actuarial gain relating to retirement benefit surplus (net of deferred tax)	1,814	4,250
Dividends paid (note 9)	(16,100)	(16,441)
Net addition to shareholders' funds	4,996	3,913
Opening shareholders' funds	38,633	34,720
Closing shareholders' funds	43,629	38,633

The accompanying notes are an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Net cash inflow from operating activities	(a)		45,680		44,763
Returns on investments and servicing of finance:					
Interest paid		(3,310)		(2,483)	
Interest element of finance lease and hire-purchase rental payments		(152)		(177)	
Net cash outflow from returns on investments and servicing of finance			(3,462)		(2,660)
Taxation:					
Corporation tax paid			(3,169)		(2,087)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets		(32,592)		(36,088)	
Sale of tangible fixed assets		295		422	
Capital contributions received		5,969		7,505	
Net cash outflow from capital expenditure and financial investment			(26,328)		(28,161)
Free cash flow			12,721		11,855
Acquisitions:					
Cash consideration for businesses acquired (including expenses)		(3,545)		(6,103)	
Cash balances acquired (net)		46		1,199	
Net cash outflow from acquisitions			(3,499)		(4,904)
Equity dividends paid			(16,100)		(16,441)
Financing:					
Repayment of loan notes		(87)		—	
Additions to loans receivable from parent undertakings		(71,800)		—	
Repayment of bank loans		(13,000)		—	
New bank loans		89,080		—	
Capital element of finance lease and hire-purchase rental payments		(907)		(819)	
Net cash inflow/(outflow) from financing			3,286		(819)
Decrease in cash (net of short-term bank loans and overdrafts)			(3,592)		(10,309)

The accompanying notes are an integral part of these accounts.

The post acquisition cash flows of subsidiaries acquired during the year are not disclosed separately as they are not considered to be material.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2008

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

	2008		2007	
	£'000	£'000	£'000	£'000
Total operating profit: Group and share of joint venture		28,268		27,078
Depreciation (non-infrastructure assets)	10,248		9,490	
Depreciation (infrastructure assets)	8,524		8,165	
Amortisation of goodwill	857		290	
Amortisation of capital contributions	(507)		(439)	
Defined benefit pension scheme current service cost (employer)	2,183		2,315	
Defined benefit pension scheme contributions (employer)	(2,701)		(2,689)	
Profit on disposal of tangible fixed assets	(184)		(217)	
		18,420		16,915
Share of operating profit in joint venture		(180)		(108)
Increase in stocks	(94)		(417)	
Decrease/(increase) in debtors	424		(4,076)	
(Decrease)/increase in creditors	(1,158)		5,371	
		(828)		878
Net cash inflow from operating activities		45,680		44,763

(b) Reconciliation of Movement in Net Debt

	2008 £'000	2007 £'000
Decrease in cash	(3,891)	(5,476)
Decrease/(increase) in bank loans and overdraft	299	(4,833)
	(3,592)	(10,309)
Finance lease repayments	907	819
Assets purchased under finance leases (net of disposals)	(62)	(495)
Finance lease obligations acquired with subsidiaries	(294)	(104)
Issue of bank loans (cash)	(89,080)	—
Issue of bank loans (non-cash)	280	—
Movement on index-linked loan	(3,316)	(3,195)
Repayment of bank loans	13,000	—
Issue of loan notes (non-cash)	(190)	(175)
Repayment of loan notes	87	—
Increase in net debt in the year	(82,260)	(13,459)
Net debt brought forward	(148,975)	(135,516)
Net debt carried forward	(231,235)	(148,975)

Notes to the Consolidated Cash Flow Statement
(continued)

(c) Analysis of Net Debt

	Balance at 1 April 2007 £'000	Acquisitions £'000	Cash Flow £'000	Non-Cash Changes £'000	Balance at 31 March 2008 £'000
Cash at bank and in hand	4,718	—	(3,891)	—	827
Bank loans and overdrafts	(6,243)	—	299	—	(5,944)
	(1,525)	—	(3,592)	—	(5,117)
Irredeemable debenture stock	(1,633)	—	—	—	(1,633)
Index-linked loan	(130,852)	—	—	(3,316)	(134,168)
Bank loans payable	(13,000)	—	(76,080)	280	(88,800)
Obligations under finance leases and hire-purchase contracts	(1,790)	(294)	907	(62)	(1,239)
Loan notes	(175)	—	87	(190)	(278)
Net debt	(148,975)	(294)	(78,678)	(3,288)	(231,235)

Non-cash movements represent indexation, amortisation of issue costs and the discount/premium on index-linked debt, the inception of new finance leases net of disposals, provision for issue costs on new bank loans and the issue of loan notes as part consideration for the acquisition of a subsidiary undertaking. Cash and overdrafts acquired with subsidiaries acquired during the year are included in "Cash Flow" above.

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 1985 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.

(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 227 (6) of the Companies Act 1985 for financial statements to present a true and fair view. The transactions accounted for using these principals did not meet all of the conditions for merger accounting under Companies Act 1985, 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 1985 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 venture is included in the consolidated profit and loss account. The Group’s share of its 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) and other assets.

Infrastructure Assets

Infrastructure assets comprise a network of systems that, as a whole, is intended to be maintained in perpetuity at a specified level of service by the continuing

Notes to the Accounts

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:

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

(g) Capital Contributions

Capital contributions, which arise in the regulated water business, 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 1985 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.

(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 in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding. 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 132 of the Companies Act 1985, the cost of investments 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 period and their balance sheets at the rates ruling 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. 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 other than cash and cash equivalents are categorised as "loans and receivables" which are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Financial Liabilities

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

(p) Related Party Transactions

As at 31 March 2008, the Company was an indirectly wholly owned subsidiary undertaking of Aquainvest Ventures 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 Aquainvest Ventures Limited, as consolidated financial statements for this company for the year ended 31 March 2008, in which the accounts of the Company and its subsidiaries are included, are publicly available. The Company has no other related party transactions requiring disclosure other than that disclosed in note 30.

(q) Dividends

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

Notes to the Accounts

2 Segmental Information

Turnover

	2008 £'000	2007 £'000
Regulated water supply	76,488	72,800
Non-regulated activities	78,782	65,305
Inter-divisional	(16,925)	(18,257)
External non-regulated activities	61,857	47,048
	138,345	119,848

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

Operating Profit

	2008 £'000	2007 £'000
Regulated water supply	20,659	19,781
Non-regulated activities (before goodwill)	8,466	7,587
Goodwill amortisation (non-regulated)	(857)	(290)
Non-regulated activities (after goodwill)	7,609	7,297
	28,268	27,078

Net Operating Assets

	2008 £'000	2007 £'000
Regulated water supply	154,860	144,500
Non-regulated activities	12,632	11,807
	167,492	156,307
Net debt	(231,235)	(148,975)
Goodwill	8,380	7,417
Loans receivable in more than one year	109,000	37,200
Corporation tax	(2,361)	(2,984)
Retirement benefit surplus	7,197	3,975
Provisions for liabilities and charges	(14,837)	(14,300)
Net assets	43,636	38,640

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 seperately disclosed.

3 Operating Costs Before Goodwill (Net)

	2008 £'000	2007 £'000
Other operating income (note 6)	(838)	(578)
Raw materials and consumables	12,638	10,090
Staff costs (note 4)	42,517	33,493
Depreciation (non-infrastructure assets)	10,248	9,490
Depreciation (infrastructure assets)	8,524	8,165
Amortisation of capital contributions	(507)	(439)
Other operating costs	31,185	27,156
	103,767	87,377

Auditors' remuneration is analysed as follows:

	2008 £'000	2007 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15	14
The audit of other Group undertakings pursuant to legislation	85	79
Total audit fees	100	93
Other services pursuant to legislation	82	32
Tax services	44	30
Total non-audit fees	126	62

The statutory audit fee for the Company was £2,000 (2007: £1,000).

Notes to the Accounts

4 Staff Costs

	Group		Company	
	2008	**2007**	**2008**	**2007**
	£'000	**£'000**	**£'000**	**£'000**
Wages and salaries	37,114	28,721	2,523	2,285
Social security costs	2,776	2,126	285	212
Pension costs	2,627	2,646	232	243
	42,517	33,493	3,040	2,740

Group	**2008 Number**	**2007 Number**
Average number of employees		
Regulated water supply	420	395
Non-regulated activities	996	673
	1,416	1,068

The Company had an average number of employees of 53 (2007: 50).

5 Directors' Remuneration

The remuneration of the Directors of the Company, for the year ended 31 March 2008 is set out below.

	2008 £'000	**2007 £'000**
Emoluments	1,026	968

There were 4 Directors accruing benefits under defined benefit schemes (2007: 4 Directors) and 3 Directors accruing benefits under a money purchase scheme (2007: 2 Directors). The value of contributions paid by the Group to money purchase pension schemes in respect of Directors was £15,000 (2007: £12,000). No Directors received or exercised share options or had share interests under a long term incentive plan that vested during either year.

The highest paid Director received emoluments of £291,000 (2007: £282,000). He is a member of a defined benefit pension scheme which provided for an accrued pension of £29,000 (2007: £24,000) and an accrued lump sum of £87,000 at 31 March 2008 (2007: £72,000). There were no contributions to money purchase pension schemes in respect of the highest paid Director (2007: £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.

The interests of the Directors holding office at 31 March 2008 in the ordinary 'B' shares of the Company were as follows:

	2008 No of Shares	2007 No of Shares
J. Carnell	—	180,000
R. I. Harley	—	120,000
A. P. Page	—	300,000
D.B. Sankey	—	60,000

No other Director had any interests in any shares of the Company.

6 Other Operating Income

	2008 £'000	2007 £'000
Profit on disposal of tangible fixed assets	184	217
Rental income	654	361
	838	578

Notes to the Accounts

7 Finance Charges (net)

	2008 £'000	2007 £'000
Interest payable and similar charges		
Index-linked loan (cash)	4,490	4,317
Index-linked loan (non-cash)	3,315	3,198
Bank and loan interest payable	1,167	719
Finance leases and hire-purchase contracts	123	148
Irredeemable debenture stock	67	67
	9,162	8,449
Interest receivable		
Loans to parent undertakings	(2,239)	(2,046)
Bank interest receivable	—	(500)
Share of joint venture's interest receivable	(25)	(10)
	6,898	5,893
Other finance income (net)		
Defined benefit pension scheme interest cost	7,953	7,388
Expected return on defined benefit pension scheme assets	(9,390)	(8,110)
	5,461	5,171

Finance charges (net) includes £7,296,000 in the regulated water supply business (2007: £6,486,000).

8 Taxation on Profit on Ordinary Activities

The tax charge for the year comprises:	2008 £'000	2007 £'000
Current tax		
Current year	2,324	2,876
Adjustment in respect of prior years	54	329
Share of joint venture	41	25
Total current tax charge	2,419	3,230
Deferred tax		
Origination and reversal of timing differences	85	51
Decrease in losses carried forward	2,440	3,087
Pension cost timing differences	548	329
Decrease/(increase) in discount	98	(154)
Adjustment in respect of prior years	(118)	(735)
Impact of change in anticipated future tax rates	(945)	—
Impact of proposed changes to capital allowances	(1,002)	—
Share of joint venture	—	(3)
Total deferred tax charge	1,106	2,575
Total tax charge	3,525	5,805

The overall rate of tax for the Group, including deferred tax, based on the profit before tax was 15.5% (2007: 26.5%). The principal differences between the current corporation tax rate for the Group of 10.6% (2007: 14.7%), based on profit before tax and the standard rate of corporation tax of 30.0% (2007: 30.0%) are as follows:

	2008 %	2007 %
Standard rate of corporation tax	30.0	30.0
Expenses not deductible for tax purposes (net)	0.8	(0.9)
Pension cost timing differences	(2.6)	(1.5)
Utilisation of losses brought forward	(11.5)	(14.1)
Impact of prior period accounting adjustments	3.6	3.8
Capital allowances in excess of depreciation (net)	(4.7)	(4.7)
Group relief received and not paid for	(5.8)	—
Adjustments in respect of prior years	0.2	1.5
Other timing differences	0.6	0.6
Current corporation tax rate for the year	10.6	14.7

Notes to the Accounts

9 Dividends Paid

	2008 £'000	2007 £'000
Equity interests		
Ordinary dividends of 125.6p (2007: 128.2p) per share	16,100	16,441

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:

	2008 £'000	2007 £'000
Profit for the financial year and profit for earnings per share	19,282	16,104

	2008 Number of Shares	2007 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 2007	7,786
Acquisitions in the year	1,820
At 31 March 2008	9,606
Amortisation	
At 1 April 2007	369
Charge for the year	857
At 31 March 2008	1,226
Net Book Value	
At 31 March 2008	8,380
At 31 March 2007	7,417

Additions to goodwill during the year relate to the acquisition of Perco Engineering Services Limited and Portadam Limited (see note 27). The Company had no goodwill at either year-end.

12 Tangible Fixed Assets

Group	Land and Buildings £'000	Infra-structure Assets £'000	Plant and Equipment £'000	Specialised Operational Assets £'000	Total £'000
Cost					
At 1 April 2007	20,061	131,426	85,733	99,150	336,370
Additions	955	17,535	10,626	3,632	32,748
Capital contributions received	—	(4,866)	—	—	(4,866)
Disposals	(8)	(944)	(1,028)	(188)	(2,168)
Acquisitions	—	—	1,035	—	1,035
At 31 March 2008	21,008	143,151	96,366	102,594	363,119
Depreciation					
At 1 April 2007	3,695	84,191	43,785	31,289	162,960
Charge for the year	320	8,524	6,463	3,465	18,772
Disposals	—	(944)	(897)	(122)	(1,963)
Acquisitions	—	—	499	—	499
At 31 March 2008	4,015	91,771	49,850	34,632	180,268
Net Book Value					
At 31 March 2008					
Owned	16,993	47,153	45,671	65,583	175,400
Leased	—	4,227	845	2,379	7,451
	16,993	51,380	46,516	67,962	182,851
At 31 March 2007					
Owned	16,366	43,008	40,834	65,272	165,480
Leased	—	4,227	1,114	2,589	7,930
	16,366	47,235	41,948	67,861	173,410

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 2008 and movements in the year are set out in note 14.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £12,132,000 (2007: £12,430,000) less accumulated depreciation of £4,681,000 (2007: £4,500,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £415,000 (2007: £485,000). Tangible fixed assets include freehold land of £2,229,000 (2007: £2,229,000) which is not subject to depreciation. Tangible fixed assets in the course of construction or commissioning had a cost of £11,344,000 at 31 March 2008 (2007: £12,345,000).

Notes to the Accounts

Company	**Land and Buildings £'000**
Cost and net book value	
At 1 April 2007	313
Transfer to subsidiary undertaking	(313)
At 31 March 2008	—

Freehold land of £313,000 held at 31 March 2007 was not subject to depreciation.

13 Capital Commitments

Group capital commitments outstanding at 31 March 2008 were £786,000 (2007: £2,976,000).

The Company had no capital commitments at either year-end.

14 Capital Contributions

Group	**Infrastructure Assets £'000**	**Other Assets £'000**
Balance at 1 April 2007	73,980	6,652
Capital contributions received	4,866	1,103
Disposals	(526)	—
Amortised in the year	—	(507)
Balance at 31 March 2008	78,320	7,248

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.

15 Fixed Asset Investments

	Group	Company
	Share of Joint Venture's Net Assets £'000	Shares in Subsidiary Undertakings £'000
At 1 April 2007	—	18,373
Adjustments to prior period acquisitions	—	(89)
Reclassification from provisions for liabilities and charges (note 21)	48	—
At 31 March 2008	48	18,284

Shares in subsidiary undertakings are stated at their cost which is equal to net book value.

As at 31 March 2008 the Company's principal subsidiary undertakings and joint venture, 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
Echo Managed Services Limited	100%		Customer management
Echo Northern Ireland Limited		100%	Customer management
Echo South West Limited		50%	Customer management (joint venture)
Underground Pipeline Services Limited	100%		Repair, maintenance and replacement of water mains
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
Aqua Direct Limited	100%		Supply of spring and mineral water
Office Watercoolers Limited	90%		Rental of water cooling units and sale of spring water
Perco Engineering Services Limited		100%	Trenchless installation and refurbishment of sewer networks
Portadam Limited		100%	Provision of portable dams for waterways

Notes to the Accounts

16 Stocks

Group

	2008 £'000	2007 £'000
Stores and raw materials	1,832	1,730
Work in progress	56	—
	1,888	1,730

The Company had no stocks at either year-end.

17 Debtors

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts recoverable within one year				
Trade debtors	18,200	15,673	140	2
Other debtors	639	2,402	160	811
Amounts owed by Group undertakings	—	—	2,673	6,867
Corporation tax recoverable	—	—	167	—
Prepayments and accrued income	5,966	6,126	146	139
	24,805	24,201	3,286	7,819
Amounts recoverable in more than one year				
Other debtors	163	108	—	—
Loans receivable from parent undertakings	109,000	37,200	94,000	37,200
Amounts owed by Group undertakings	—	—	4,294	3,600
	109,163	37,308	98,294	40,800
	133,968	61,509	101,580	48,619

Other debtors in the Company include a deferred tax asset of £160,000 (2007: £155,000).

18 Borrowings

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Amounts falling due within one year				
Bank loans and overdraft	5,944	6,243	—	3,504
Obligations under finance leases and hire purchase contracts	551	919	—	—
Loan notes	183	88	—	—
	6,678	7,250	—	3,504
Amounts falling due in more than one year				
Bank loans	88,800	13,000	88,800	13,000
Index-linked loan	134,168	130,852	—	—
Irredeemable debenture stock (note 20)	1,633	1,633	—	—
Amounts payable to other Group undertakings	—	—	—	15,000
Obligations under finance leases and hire-purchase contracts:				
Payable between one and two years	423	483	—	—
Payable between two and five years	265	388	—	—
Loan notes	95	87	—	—
	225,384	146,443	88,800	28,000

The book value of the index-linked loan of £134,168,000 (2007: £130,852,000) represents an indexed principal of £119,831,000 (2007: £115,412,000) used for covenant purposes and unamortised costs and premium on issue of £14,337,000 (2007: £15,440,000).

The obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

During the year the Group issued £190,000 of loan notes as part consideration for the acquisition of Perco Engineering Services Limited (note 27).

19 Other Creditors

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Amounts falling due within one year				
Trade creditors	18,180	18,506	3,748	2,355
Payments received in advance	9,927	9,097	—	—
Other creditors	5,954	8,068	1,402	2,003
Corporation tax payable	2,361	2,984	—	1,118
Other taxation and social security	954	819	106	102
	37,376	39,474	5,256	5,578

Notes to the Accounts

20 Irredeemable Debenture Stock

Group

	2008 £'000	2007 £'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 and Charges

Group

	Deferred Tax £'000	Share of Joint Venture Net Liabilities £'000	Total £'000
At 1 April 2007	14,184	116	14,300
Acquisitions	94	—	94
Profit and loss account charge/(credit)	559	(164)	395
Reclassified to fixed asset investments (note 15)	—	48	48
At 31 March 2008	14,837	—	14,837

The Group's share of gross assets and gross liabilities in its joint venture was £1,096,000 (2007: £684,000) and £1,048,000 (2007: £800,000) respectively. The net assets as at 31 March 2008 are presented in the consolidated balance sheet within fixed asset investments (note 15).

An analysis of deferred tax is set out in note 23.

The Company had no provisions for liabilities and charges at either year-end.

22 Retirement Benefit Surplus

Surplus of defined benefit pension scheme (net of deferred tax)

	£'000
At 1 April 2007	3,975
Current service cost (employer)	(2,183)
Current service cost (employee)	(774)
Contributions (employer)	2,701
Contributions (employee)	774
Finance income	1,437
Actuarial gain	2,362
Movement on deferred tax	(1,095)
At 31 March 2008	7,197

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

23 Deferred Tax

	Group		Company	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
Deferred tax is provided as follows:				
Accelerated capital allowances	17,632	18,089	—	—
Unrelieved losses carried forward	—	(1,714)	—	—
Timing differences in respect of finance charges	6,177	7,446	—	—
Other timing differences	(331)	(275)	(160)	(155)
Undiscounted provision for deferred tax	23,478	23,546	(160)	(155)
Discount	(8,641)	(9,362)	—	—
Discounted provision for deferred tax	14,837	14,184	(160)	(155)

The reduction in the discount of £721,000 represents the reduction following changes to the future anticipated corporation tax rate to 28% of £623,000 and the charge to profit and loss for the year of £98,000. There is an unprovided deferred tax liability of £1,227,000 (2007: £1,247,000) 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 surplus is excluded from the above and included in the surplus stated in the consolidated balance sheet (note 22).

The deferred tax asset of the Company at 31 March 2008 of £160,000 (2007: £155,000) is presented within other debtors (note 17).

Notes to the Accounts

24 Share Capital

Group and Company	2008 £'000	2007 £'000
Authorised		
47,058,824 ordinary shares of 42.5p each	20,000	20,000
Nil (2007: 1,200,000) ordinary 'B' shares of 0.1p each	—	1
Issued and fully paid		
12,819,856 ordinary shares of 42.5p each	5,449	5,449
Nil (2007: 660,000) ordinary 'B' shares of 0.1p each	—	1

	Ordinary Share Capital £'000
Balance at 1 April 2007	5,450
'B' shares repurchased	(1)
Balance at 31 March 2008	5,449

'B' shares in issue at 31 March 2007 had no voting rights. On 7 March 2008 they were repurchased by the Company for a total consideration of £1 and subsequently cancelled, creating a capital redemption reserve of £660 (note 25).

25 Reserves

Group	Share Premium £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Profit and Loss Account £'000
At 1 April 2007	10,882	—	(253)	22,554
Profit for the financial year	—	—	—	19,282
Dividends paid (note 9)	—	—	—	(16,100)
Shares repurchased during the year (note 24)	—	1	—	—
Other recognised gains and losses relating to the year (net)	—	—	—	1,814
At 31 March 2008	10,882	1	(253)	27,550

Included within the profit and loss account balance is the surplus (net of deferred tax) of the defined benefit pension scheme of £7,197,000 (2007: £3,975,000).

Company

	Share Premium £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000
At 1 April 2007	10,882	—	13,891
Profit for the financial year	—	—	14,459
Dividends paid (note 9)	—	—	(16,100)
Shares repurchased during the year (note 24)	—	1	—
At 31 March 2008	10,882	1	12,250

As provided by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's profit after tax for the financial year was £14,459,000 (2007: £24,500,000).

26 Minority Interests

	£'000
At 1 April 2007	7
Profit on ordinary activities after taxation	—
At 31 March 2008	7

27 Acquisitions

On 14 September 2007, OnSite Central Limited acquired the entire issued ordinary share capital of Perco Engineering Services Limited. In addition, on 14 December 2007, OnSite Central Limited acquired the entire issued ordinary share capital of Portadam Limited. Details of these acquisitions including the consideration, the assets and liabilities acquired, and the related goodwill are set out overleaf. The acquisition method of accounting has been adopted.

Notes to the Accounts

	Perco Engineering Services Limited £'000	Portadam Limited £'000	Total £'000
Consideration:			
Cash consideration	1,698	264	1,962
Deferred cash consideration	—	88	88
Loan notes issued	190	—	190
Acquistion expenses	59	12	71
	1,947	364	2,311
Book value of net assets/(liabilities) acquired:			
Tangible fixed assets	685	—	685
Stocks	47	17	64
Debtors	1,012	71	1,083
Cash at bank and in hand/(overdraft)	114	(68)	46
Creditors and provisions	(1,227)	(56)	(1,283)
Net assets/(liabilities)	631	(36)	595
Accounting policy adjustments:			
Tangible fixed assets	(149)	—	(149)
Creditors and provisions	45	—	45
	(104)	—	(104)
Adjusted net assets/(liabilities) acquired	527	(36)	491
Goodwill on acquisition	1,420	400	1,820

There was no material difference between the adjusted net assets/(liabilities) acquired and their provisional fair value. Accounting policy adjustments represent changes to estimated asset lives and the associated impact on deferred tax.

Goodwill is being amortised over an estimated useful economic life of 10 years.

The summarised profit and loss accounts of Perco Engineering Services Limited are set out below:

	1 January 2007 to 13 September 2007 £'000	Year Ended 31 December 2006 £'000
Turnover	3,306	4,194
Operating profit	366	712
Finance charges (net)	(55)	(148)
Profit on ordinary activities before taxation	311	564
Taxation	(93)	(180)
Profit on ordinary activities after taxation	218	384

The summarised profit and loss accounts of Portadam Limited are set out below:

	1 July 2007 to 13 December 2007 £'000	Year Ended 30 June 2007 £'000
Turnover	129	293
Operating (loss)/profit	(21)	37
Finance charges (net)	(3)	(5)
(Loss)/profit on ordinary activities before taxation	(24)	32
Taxation	—	—
(Loss)/profit on ordinary activities after taxation	(24)	32

There were no material recognised gains and losses in the periods above other than the profit/(loss) on ordinary activities after taxation. The post acquisition results and cash flows of the subsidiaries acquired during the year are not analysed seperately in the consolidated profit and loss account, consolidated cash flow statement and related notes, as these results and cash flows are not considered to be material to the Group.

The net cash outflow, and increase in net debt, in respect of the acquisitions comprised:

	Perco Engineering Services Limited £'000	Portadam Limited £'000	Total £'000
Cash consideration paid in the year (including acquisition expenses)	1,757	276	2,033
Net (cash)/overdraft balances acquired	(114)	68	(46)
Net cash outflow	1,643	344	1,987
Loan notes issued as part consideration	190	—	190
Finance leases acquired	294	—	294
Increase in net debt	2,127	344	2,471

The difference between the cash consideration (including expenses) detailed above of £2,033,000 and the equivalent figure disclosed in the Consolidated Cashflow Statement of £3,545,000 relates to deferred consideration of a prior year acquisition paid in the year.

28 Financial Assets and Liabilities

The analysis of the Group's financial assets and liabilities included below includes cash, loans receivable, borrowings, trade creditors and trade debtors. Borrowings represent bank loans and overdrafts, finance lease obligations, index-linked debt, irredeemable debenture stock and loan notes. The main 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). The Group is not subject to any material foreign exchange risk.

Notes to the Accounts

Interest Rate Risk Profile

Borrowings

	2008 £'000	2007 £'000
Retail Price Index-linked debt	134,168	130,852
Fixed rate financial liabilities	91,672	3,423
Floating rate financial liabilities	6,222	19,418
	232,062	153,693

The floating rate borrowings comprise sterling denominated bank loans, overdrafts and loan notes that bear interest at rates based on LIBOR or the Bank of England base rate. The Group's cash balances and loans receivable 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 (2007: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2008 of £134,168,000 (2007: £130,852,000), and a fair value of £165,284,180 (2007: £164,215,000).

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
2008		
Sterling	6.3	5.5
2007		
Sterling	6.2	1.7

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2008 in respect of which all conditions precedent have been met were as follows:

	2008 £'000	2007 £'000
Expiring in one year or less	800	4,500
Expiring in more than one year but not more than two years	18,000	10,000
Expiring in more than five years	10,000	—
	28,800	14,500

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 principals for overall risks 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 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. 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 2008 was £127,200,000 (2007: £52,873,000).

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.

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 2008. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2008 £'000	**2007 £'000**
RPI + 0.25%	(299)	(269)
RPI - 0.25%	291	303
LIBOR + 0.50%	(81)	(66)
LIBOR - 0.50%	81	66

The impact on the pre-tax profit and loss account for 2008 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2007 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 2006.

Notes to the Accounts

Maturity of Financial Assets and Liabilities

The maturity profile of the Group's financial liabilities recorded at current repayment value at 31 March 2008 was as follows:

	2008 £'000	2007 £'000
Borrowings		
In one year or less, or on demand	6,678	7,250
In more than one year, but not more than two	518	570
In more than two years, but not more than five	45,265	13,388
In more than five years, but not more than twenty	45,000	—
In more than twenty years	121,464	117,045
	218,925	138,253
Other financial liabilities		
In one year or less, or on demand	37,376	39,474
Total	256,301	177,727

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £119,831,000 (2007: £115,412,000) 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 (2007: £364,169,000).

Group debtors recoverable in more than one year of £109,163,000 (2007: £37,308,000) principally represent loans receivable from the Company's parent undertakings and are due to be repaid within two to five years.

Trade Debtors

Before accepting orders from new 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 2008 in respect of such provisions was £1,437,000 (2007: £1,354,000). Total Group trade debtors as at 31 March 2008 were £18,200,000 (2007: £15,673,000). The total amount of the provision included in the above, as at 31 March 2008 was £5,754,000 (2007: £4,961,000). 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 2008 was £918,000 (2007: £1,106,000), representing only 5% of the above Group total (2007: 7%). Individually significant debtors are due only 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
2008	4,261	1,124	611	166	97	—	6,259
2007	4,673	1,015	333	120	—	—	6,141

Non-Regulated

	<1 month £'000	1-2 months £'000	>2 months £'000	Total £'000
2008	1,475	475	856	2,806
2007	1,787	449	547	2,783

Non-regulated debtors that are considered to be impaired of £140,000 (2007: £92,000) 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
2008	1,482	1,186	970	702	518	756	5,614
2007	1,231	1,060	780	677	513	608	4,869

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.

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 2008 was £2,183,000 (2007: £2,315,000). The employer's contribution rate was 27.6% (2007: 27.6%). Contribution rates agreed for the year ending 31 March 2009 remain at 27.6% for the employer and 8.0% for the employee. The amount charged to the profit and loss account for the defined contribution scheme in the year was £444,000 (2007: £331,000). There were no unpaid contributions at either year-end.

Notes to the Accounts

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 2008 has been undertaken by a qualified actuary using assumptions that are consistent with the requirements of FRS 17. Investments have been valued at market value.

The major assumptions used were as follows:

	31 March 2008 %	31 March 2007 %	31 March 2006 %
Rate of increase in salaries	5.2	4.7	4.5
Rate of increase in pensions	3.7	3.2	3.0
Discount rate	6.6	5.6	5.2
Inflation	3.7	3.2	3.0

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:

	2008		2007		2006	
	Expected rate of return per annum %	Valuation £'000	Expected rate of return per annum %	Valuation £'000	Expected rate of return per annum %	Valuation £'000
Equities	7.9	80,060	8.0	82,764	7.6	73,799
Bonds/gilts	4.4	70,071	4.7	65,685	4.3	67,519
Cash	3.9	121	5.4	470	4.5	362
Market value of assets		150,252		148,919		141,680
Present value of scheme liabilities		(140,256)		(143,240)		(143,169)
Surplus/(deficit) in the scheme		9,996		5,679		(1,489)
Related deferred tax (liability)/asset		(2,799)		(1,704)		447
Surplus/(deficit) after deferred tax		7,197		3,975		(1,042)

An analysis of the movement in the scheme surplus during the year ended 31 March 2008 is provided in note 22. The following disclosures, relating to amounts that would have been charged in the statement of total recognised gains and losses, had FRS 17 been applied in all years, has been built up over a five year history. For 2004, the information presented below represents that disclosed in the consolidated accounts of Homeserve plc and not the proportion relating to the Group.

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Actual return less expected return on scheme assets	(6,096)	985	13,735	1,987	10,159
% of scheme assets	(4%)	1%	10%	2%	8%
Experience gain/(loss) on scheme liabilities	165	(50)	830	(1,716)	3,727
% of scheme liabilities	0%	0%	1%	1%	3%
Gain/(loss) due to changes in assumptions underlying the present value of scheme liabilities	8,293	5,137	(11,375)	863	(9,982)
% of scheme liabilities	6%	4%	8%	1%	8%
Actuarial gain	2,362	6,072	3,190	1,134	3,904
% of scheme liabilities	2%	4%	2%	1%	3%

30 Related Party Transactions

During the year, the Company issued a £71.8m loan to Hydriades Limited, a parent undertaking. The balance at 31 March 2008 was £71.8m (2007: £Nil) and interest received on the loan in the year amounted to £193,000 (2007: £Nil).

31 Post Balance Sheet Events

On 4 April 2008, Integrated Water Services Limited acquired the entire ordinary share capital of Wells Water Treatment Services Limited, a company based in Bury, 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 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

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Turnover					
Regulated water supply	76,488	72,800	69,555	61,813	60,427
Non-regulated activities	78,782	65,305	51,754	27,978	24,691
Inter-divisional	(16,925)	(18,257)	(16,509)	(11,883)	(12,286)
	138,345	119,848	104,800	77,908	72,832
Operating profit					
Regulated water supply	20,659	19,781	18,856	16,955	16,774
Non-regulated activities (before goodwill)	8,466	7,587	5,127	4,249	4,085
Goodwill amortisation (non-regulated)	(857)	(290)	(71)	(8)	—
Exceptional operating items	—	—	—	(2,771)	—
	28,268	27,078	23,912	18,425	20,859
Finance charges (net)	(5,461)	(5,171)	(5,713)	(6,206)	(6,344)
Profit before tax and non-operating exceptional items	22,807	21,907	18,199	12,219	14,515
Profit for the financial year	19,282	16,104	15,845	8,598	10,541
Basic earnings per share	150.4p	125.6p	123.6p	87.3p	83.1p
Average number of employees	1,416	1,068	890	629	521
Capital investment	32,748	36,651	26,796	19,579	31,161
Net assets	43,636	38,640	34,729	34,335	28,355
Net debt	231,235	148,975	135,516	117,363	94,058

The results above, for the year ended 31 March 2004, have not been restated to reflect changes in accounting for defined benefit pension schemes and dividends made in the years then ended. For that year, the pension scheme included employees of the Homeserve Plc Group. The current service cost in respect of this year cannot reasonably be allocated between the two groups.

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