

South Staffordshire Plc
Results for the Year Ended 31 March 2007

Highlights

- South Staffordshire Water
 - Capital expenditure exceeds £34m, the highest in the Company's history
 - 81km of mains replaced
 - Overall performance remained amongst the highest in the industry
 - Continued "Band A" status for operating cost and capital cost efficiency
- Echo successfully opens Belfast operation
- Major contracts in Water and Wastewater Services secured and renewed
- Group now has over 1,400 employees

Group Results

	2007	2006	
Turnover	£119.8m	£104.8m	+14%
Operating Profit			
Regulated Water Supply	£19.8m	£18.9m	+ 5%
Non-Regulated Activities	<u>£ 7.3m</u>	<u>£ 5.0m</u>	<u>+46%</u>
Total Group Operating Profit	£27.1m	£23.9m	+13%

Chairman's Statement

The year to 31 March 2007 has seen further successful continuation of our strategy of ensuring that the Regulated Water Supply business remains amongst the best within its sector in all areas, whilst at the same time growing our non-regulated, but water related, service businesses both organically and through acquisition.

Group Results

The Group results for the year show an increase in turnover from £104.8m to £119.8m (including share of joint ventures) representing growth of 14%. The regulated water business, South Staffordshire Water Plc, increased turnover by 5% to £72.8m, reflecting the increase in charges allowed by Ofwat plus inflation. Non-regulated turnover grew from £35.2m to £47.0m, an increase of 33% with a good year from Echo, OnSite, Integrated Water Services (IWS) and Pipeline Services and the benefit of Echo's new contract for Northern

Ireland Water Limited.

Operating profit in the regulated water business increased by 5% to £19.8m (2006: £18.9m) representing increased turnover and continuing operating efficiencies offset partly by the expected increase in depreciation and infrastructure renewals. Operating profit in the non-regulated businesses increased to £7.3m (2006: £5.0m) up by 46%. In addition to another very good performance by OnSite, the result was helped by significant growth at IWS. The pleasing turnaround achieved at Echo as the Company concentrated on its core water related contracts, having taken the decision at the beginning of the year to withdraw from unprofitable outbound selling, was also a significant contributor.

Cash flow from operating activities was above expectations and increased by 10% to £44.8m (2006: £40.6m), resulting from increased profitability, tight control of working capital and also as a result of some short-term year-end timing benefits which will reverse early in the new financial year.

Regulated Water Supply

South Staffordshire Water achieved a very good result for the year and has succeeded in maintaining high quality and efficiency standards and was one of only three companies in the Industry to be placed in Ofwat Band A for operating and capital cost efficiencies.

As measured by Ofwat we continued to provide excellent levels of customer service, but we are well aware of the need for continued improvement which will come through a mixture of better links with operations, coupled to developments in IT. Customers have a right to expect and demand the highest possible standards and to this end we are focussing on all our customer facing activities.

At just under £35m the Water Company has managed the highest level of annual capital expenditure in its history although slightly behind target for the year, the two year cumulative expenditure is within 5% of the Ofwat Determination. We have replaced more than 65km of mains and have continued with a large programme of asset renewals aimed at maximising the efficiency of our network, reducing leakage and reducing pumping costs. We have also installed a £2.0m chlorine production plant to eliminate the hazardous storage of chlorine gas. Major investments in existing pumping stations and boreholes will help maintain our essential assets and water resources.

Efficiency gains are becoming ever more difficult to achieve in the face of inflationary pressures in the economy as a whole and dramatic increases in energy costs - which now account for some 15% of our regulated operating expenses. Continued tight control of costs will be necessary in the current year. Our aim, as always, is to combine the lowest possible prices for our customers with standards of service which are second to none.

Non-Regulated Businesses

Our Group strategy consists of growing our non-regulated activities whilst always ensuring that we concentrate on relatively high margin service businesses which are closely related to and benefit from the experience and know-how of our core regulated water business. The increase in non-regulated profits is a clear indication that the strategy is paying off.

Echo Managed Services, which provides customer contact, billing and cash collection both for South Staffordshire Water and other UK water and sewerage utilities, has had a significantly better year. The closure of non-water related contracts and the successful launch of our Belfast call centre to provide billing, customer contact and cash collection for Northern Ireland Water Limited (NIWL) has brought much improved profitability. This was helped by a one-off RapidXtra licence sale to NIWL. The challenge for 2007/8 will be to renew our long standing contract with South West Water and to maximise other water sector contract opportunities. During the year we will also initiate a major review of our RapidXtra software to enable it to cope with the changing demands of our customer base.

2006/7 has been another very successful year for Water and Wastewater Services. OnSite Worcester which undertakes flow and CCTV surveys of the sewerage networks and 24/7 sewer blockage services for the major utilities had a record year with turnover up by 31%. Business was successfully won from a number of new clients with good future potential, including British Waterways, as well as renewing the important drainage services contract with Severn Trent Water. OnSite Challow, the sewer relining business, had another excellent year and enters the new financial year with a strong order book as expenditure on sewer rehabilitation continues throughout the UK.

Integrated Water Services, which provides water hygiene control mainly for local authorities and specialist, water related, mechanical and electrical services, including pump repair and efficiency maximisation, has seen rapid growth in turnover of 27% compared to 2005/6. To enable IWS to grow its water hygiene business more rapidly into a UK-wide service we purchased Brocol Consultants Limited in December 2006. The Company is based in Chippenham, Wiltshire and offers the same water hygiene expertise as IWS. From 1 April 2007 Brocol was fully integrated into IWS.

Underground Pipeline Services, which repairs and lays small diameter water mains and assesses pipe condition by non-destructive testing, had a successful year, growing by 13%.

In March 2007 the Group acquired Hydrosave UK Limited, a leak detection specialist for water utilities. The importance of efficient leak detection has grown with the pressure from Ofwat and the government to reduce leakage rates experienced by all water undertakings. We believe that this Kettering based £5m turnover business has potential for further growth and will usefully extend the range of services provided by our Water and Wastewater Division.

Aqua Direct has had a mixed year. Whilst Office Watercoolers has succeeded in steadily growing its installed cooler base in line with plan, the high speed bottling line, providing mineral and spring water to the supermarket and other retail sectors has had a difficult time. Production problems, the ever increasing cost of logistics and tight market pricing have resulted in the previous year's losses increasing. A turnaround in the fortunes of the bottling line will depend on improving production efficiencies and distribution logistics.

Outlook

The new year has started well both in the regulated water business and with good order books in all the non-regulated businesses especially Water and Wastewater. There will of course be many challenges, not least the increased pressure for efficiency in regulated water. Echo has a critical year both ensuring the continued success of its Northern Ireland contract in a climate of political uncertainty and winning new business to consolidate its market position. Nonetheless we are looking forward with optimism.

Our Employees - our main asset

We now employ over 1,400 people throughout the Group and it is to their combined efforts that we owe the success of this year. We are committed to providing our staff with the opportunities and training to grow both their own careers and our Group's future. We have an excellent team and it is our greatest asset.

D B Sankey
Executive Chairman
25 May 2007

Notes

- 1) For more information please contact

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- 2) Further details are provided in South Staffordshire Plc's 2007 Annual Report and Accounts which is available at www.south-staffordshire.com
- 3) A separate announcement in respect of South Staffordshire Water PLC is available at www.south-staffs-water.co.uk