2019
ANNUAL REPORT

South Staffordshire Plc

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Leakage targets achieved in both South Staffs Water and Cambridge Water

South Staffs Water and SSI Services worked together to deliver UV treatment installation at Hampton Loade and nitrate treatment at Fowlmere

New UK and overseas contracts for Echo's new SaaS billing software, Aptumo

Within SSI Services, OnSite secured direct framework contracts with Network Rail

Turnover increased by 3.4% to £266m

Achievement of ServiceMark accreditation from the Institute of Customer Services

Executive Summary

Group overview, strategy and business model

South Staffordshire Plc is a highly respected integrated services group. The Group comprises of a regulated water supply company, South Staffs Water, comprising two operational regions, South Staffs and Cambridge, and two non-regulated service divisions, SSI Services and Echo.

The Group's strategy remains to continue to efficiently meet all of our legal and regulatory obligations and commitments, to continue to grow in all of our operations by providing high levels of service quality, remaining price competitive, as well as maintaining a safe and enjoyable working environment for our valued employees. Details of how this strategy is implemented across the Group and the individual divisional strategies, business models and plans are provided throughout the Strategic Report.

During the year Arjun Infrastructure Partners acquired a major controlling interest in the South Staffordshire Group. At the same time Mitsubishi UFJ Lease and Finance acquired a stake in the Group, with the purchase completing in July 2018.

South Staffs Water

2018/19 has been a busy year both in terms of our operations including adverse weather, and the broader environment in which we work including changes in regulation and political views. We continue to react well to these challenges.

Importantly, we have also been preparing and refining our Business Plan for the period from 2020 to 2025 which was submitted to Ofwat in September 2018 and following Ofwat's initial assessment, we revisited certain areas of our plan and resubmitted on 1 April 2019. Ofwat will make its final decision in December 2019. Within the plan we are proposing an ambitious level of investment to transform our two largest treatment works into higher performing and more resilient facilities, in order to deliver better quality and more reliable water. This includes further substantial investment following the recent installation of UV treatment at both works.

Alongside this we continue to focus on areas for improvement, and we are particularly pleased to see a 19% reduction in customer complaints. We have also had a better year regarding leakage, achieving our targets in both our South Staffs and Cambridge regions in 2018/19. We are disappointed to report that we missed our targets for both water quality compliance and the acceptability of water to customers. These failures have been investigated and the UV investment noted above plus other significant investment going forward is evidence of our commitment to attain at least the correct minimum standard.

SSI Services

Following 4 consecutive years of growth, 2018/19 was a challenging year for SSI Services given the tough trading conditions including some downward price pressure, rising statutory operating costs and challenging market conditions in general.

SSI Services profit for the year, despite the continuing strategy of reducing reliance on the UK water industry sector, was still impacted by the major water utilities reducing their spend profile towards the end of the current AMP cycle, in addition to the slow-down experienced in the construction sector as a result of Brexit uncertainty and general tightening of markets.

We saw several positive developments. Hydrosave secured the new Thames Water leakage contract for up to 8 years. OnSite has also secured framework contractor status to Network Rail for drainage services in 5 geographical regions, as well as the drainage and clearance framework for East Midlands and London North Eastern Railway. In addition, SSI Services was successful in continuing its focus on innovation by securing an exclusive licence for the UK and Ireland for the development and operation of an innovative in pipe leak repair solution which will be launched under the name of HydroSEAL during 2019/20.

SSI Services aim is to further develop and maintain a diverse client and sector base to ensure that it is a resilient business, and to further reduce water industry reliance. While there remains continuing market pressure on prices and therefore profit margins, with our focus on continuing to increase operational efficiency and productivity, we believe we are strongly placed to respond to these challenges.

Echo

Echo continues to support over one third of UK water companies operating in the household market with its market leading water billing and customer information software, RapidXtra. Throughout the past year a roadmap has been defined in consultation with clients aligned to their upcoming challenges and priorities as the sector enters Asset Management Programme 7.

It has also been a successful year for Aptumo, Echo's new and innovative utility billing platform built on Salesforce™ and designed to support improved customer experience and drive retail efficiencies. Echo won its first overseas contract for Aptumo to implement the software at Victoria-based water company Coliban Water in Australia to bill and support 90,000 customers. This overseas success was followed by Aptumo's first UK contracts, winning a competitive tender for billing system replacement at SES Water and UK non-household retailer SES Water Business, where Aptumo will handle the billing and contact management of 307,000 customers.

Echo has continued to assist South Staffs Water to extend their customer digital service offerings in the past year, including the launch of a new app and an Alexa service. Complaint reduction has been an additional focus, with a significant and marked reduction in the number of complaints. Echo was delighted and proud to achieve the Institute of Customer Service's ServiceMark for the customer-centricity of its South Staffs Water customer service team.

Echo delivered in line with all challenging contractual targets for its client Northern Ireland Water for the fifth successive year, as well as successfully extending the additional meter and billing contract for a further two years.

There is an increased focus on ensuring the vulnerable are adequately protected in the energy market, with Ofgem currently consulting on its 2025 Consumer Vulnerability Strategy. This places Echo in a strong position as a service partner of choice for field-based services. Echo will continue to strengthen its debt collection and revenue management proposition, widening field-based services and targeting deeper market penetration.

Financial

Overall, Group turnover increased by 3.4% in the year to £266.6m, EBITDA of £77.7m (before infrastructure renewals - see reconciliation on page 25) and was lower than the previous year (£81.2m) largely due to the financial impact of the severe weather on the cost base of South Staffs Water and lower non-regulated profits. Operating profit for the year was £37.0m (2018: £41.4m). There was a reduction in the year in capital investment to £51.2m (2018: £54.8m), with the operational delivery of these programmes still representing a significant achievement.

Employees

The Health and Safety and wellbeing of our employees is of prime importance and we continue developing a strong Health and Safety culture across our operations. During the year, the Group experienced one RIDDOR reportable accident which was minor in terms of injury, but nonetheless, all accidents are considered preventable. We therefore updated processes and training where appropriate, to eliminate the likelihood of any recurrence. All other safety targets were met, and the Group continues to make year-on-year improvements including a reduction in the All Injury Accident Numbers to 60 for the full year (68 in 2017/18).

As always, the development of the Group and its successes cannot be achieved without our employees and their ideas, commitment and flexibility. The Group aims to keep its employees trained to the appropriate level both technically and in people skills and supervising and management capabilities. We thank them for their continued support to the Group.

Outlook

2019/20 is another important year for the Group with the awaited result of South Staffs Water's 2020 to 2025 business plan to Ofwat with Final Determination expected in December 2019. Across the Group we continue to operate in a turbulent political climate, the impact of Brexit, climate change, economic pressures and competitive markets combined with growing customer expectations. We believe we can positively respond to these challenges.

In a year of challenge, South Staffs Water continues its focus on providing the highest-quality water, while remaining affordable, to our customers.

South Staffs Water

Chelmarsh reservoir, Hampton Loade

South Staffs Water

CAMBRIDGE WATER COMPANY

Overview

South Staffs Water is a regulated water-only company, supplying around 1.7 million customers in the South Staffordshire and Cambridge regions.

It has been a very busy year for South Staffs Water. In September 2018, the company submitted its business plan for 2020 to 2025 to Ofwat, the economic regulator of the water sector in England and Wales. Titled 'Making water count', this ambitious plan is the result of extensive engagement and includes the company's largest-ever investment programme to ensure it delivers the things customers have said are important to them. Following Ofwat's initial assessment, certain areas of the plan were re-visited and resubmitted on 1 April 2019. Ofwat will make its final decision on the business plan in December.

Alongside this, business as usual activities have continued. After narrowly missing the company's leakage target in 2017/18, we are pleased to report that it achieved its target in both our South Staffs and Cambridge regions in 2018/19. The company is confident that it will continue to drive leakage levels down in the coming 12 months.

In addition, during 2018/19 we saw a 19% reduction in the number of complaints from customers, and our average response time has reduced from eight days to around six days.

By the end of the year, complaints in our South Staffs region had fallen to their lowest-ever level, improving by more than 30%. We will continue to build on this strong position in the year ahead.

Looking ahead, we are facing a number of challenges over the next year or so – not least the turbulent political climate, the impact of Brexit, environmental pressures resulting from climate change and changes in customers' expectations. We will continue to consider all our operations in the round – building more flexibility and resilience into our systems and processes across the business to ensure we can adapt and respond to these changing circumstances quickly and efficiently.

The highest quality water, today and tomorrow

Water quality is one of the most important areas of South Staffs Water's service. It is also a top priority for its customers. That is why the company has two performance targets covering overall drinking water compliance and the acceptability of water to customers, measured by how often customers make contact to report issues. The business has stretching regulatory targets for both these measures.

We are disappointed to report that the company has not met its target of 100% water quality compliance, as 15 out of 16,958 samples in the South Staffs region and 2 out of 5,000 samples in the Cambridge region did not meet the strict regulatory compliance standards in 2018. Despite this, water quality remains at a very high standard overall at 99.92% compliance. During the year, the company suffered failures at both its Hampton Loade and Seedy Mill water treatment works. While there was no risk to public health, South Staffs Water investigated these failures thoroughly and as well as completing the installation of ultraviolet (UV) treatment at Hampton Loade, it also invested in powder-activated carbon. This is an effective process, which works by quickly absorbing impurities, such as pesticides and organic material, in drinking water. In addition, the company engaged with the Drinking Water Inspectorate (DWI), which enforces water quality standards regularly on these issues throughout the year.

Also the business has not met its stretching regulatory target for acceptability of water, which measures by how often customers contact to report issues with their water supply, such as the colour, taste and smell.

Until 2018/19, the company had made continuous improvement towards its target of 1.23 contacts per thousand of population, delivering a reduction of nearly 30% between 2015 and 2017. But the hot summer in 2018 resulted in a higher

demand for water, which in turn caused higher flow rates in the pipes transporting the water. The higher flow rates caused sediment within the pipes to be disturbed, resulting in a slight increase in contacts from customers in the affected areas. The business remains committed to improving this area of service and will be working to achieve its target during 2019/20, coupled with significant investment in the five years from 2020 to 2025.

Fair and affordable bills for all of our customers

South Staffs Water's household customers continue to enjoy some of the lowest bills in England and Wales. The company is committed to maintaining affordability of bills, as well as supporting its most vulnerable customers when they need it most. During the year, South Staffs Water exceeded its performance commitment in providing extra help to over 30,000 customers in debt, helping them to manage their water accounts and take control of their consumption.

During 2018/19, the business worked with customers to develop a new design for its bill, making it more user friendly and easier to understand. This was the first time it had reviewed its bill design for around 13 years. The bill is more welcoming, making it easier for customers to find their account number and see how much they owe. It is also easier to find contact phone numbers and information on how to engage with the company through social media. Finally, it has included prominent information about Priority Services Register, the help that is available for customers who may be struggling to pay their bill and for unmetered customers, information on how to switch to a water meter. The new bill design was launched in the summer for metered customers, followed by a wider roll-out for all customers.

Excellent customer service, every time

South Staffs Water continues to focus on its customer service performance during 2018/19. Its Service Incentive Mechanism (SIM) score, which is a regulatory measure of customer service performance, decreased slightly from the 2017/18 level to 86.4 and has not met its extremely challenging target of 90. That said, it has met its customer satisfaction survey target of 98%.

Through its PEBBLE fund, South Staffs Water helps to protect the environment and improve the biodiversity of local areas. Each year it makes grants of between £500 and £10,000 available to help community groups and other organisations improve biodiversity in their area by creating, restoring or improving local habitats.


Floating Pennywort on the River Cam

For example, the Cam Valley Forum in its Cambridge region was awarded £4,385 from the PEBBLE fund, among other sources of funding, to carry out work to sensitively remove overhanging branches from the River Cam, as these trap Floating Pennywort. This is an invasive plant, which forms thick, matted clumps of vegetation that blocks out light in rivers and other water courses, thereby altering oxygen levels and impacting on fish and other wildlife. It can also make navigating rivers by boat impossible and increase the risk of flooding. This work came to the attention of the BBC's Countryfile programme, which filmed the Cam Valley Forum team clearing Floating Pennywort from a section of the river in October 2018 for the episode that aired on 1 November 2018.

Also, West Midlands Bird Club was awarded £2,500 from the PEBBLE fund to install a new tern raft on Blithfield Reservoir. Sited in the middle of the reservoir, the raft provides a nesting habitat for Common Terns away from predators and other threats. This is the second raft that the Club has installed on the reservoir with the company's help. The first has proved to be very popular and it is hoped that the second raft will help increase bird numbers at the reservoir.

Using PEBBLE to cause a ripple

In addition, there was a 19% reduction in the number of complaints from customers, and the company's average response time has reduced from nine days to around five days. By the end of the year, complaints in the South Staffs region had fallen to their lowest-ever level, improving by more than 30%.

Following extensive engagement and feedback, in October 2018 South Staffs Water launched a new website for customers in its Cambridge region. The new site was developed in house, which reduces costs to customers. It features monthly performance information on things like water supply, pressure and quality, as well as the number of complaints it has received. It also features improved security and navigation, as well as scrolling news, which are updated regularly. The site is also optimised for smart phones and tablets, as we know that people are increasingly preferring to access information in this way.

In April this year, the company launched a new mobile app. Developed in house and in conjunction with customers, the easy-to-use app is available on Android and Apple devices. It enables customers to:

- submit meter readings or apply for a water meter;
- view and pay bills;
- report a leak; and
- view any issues with our network.

At the time of writing, over 4,000 customers have downloaded the app, and on the app stores it has an average rating of 4.8 out of 5.

Last but not least, in March this year, Echo Managed Services' contact centre was awarded the Institute of Customer Service's (ICS) ServiceMark accreditation for the three years from April 2019 to April 2022. This is a national standard that recognises our achievement in customer service and our commitment to upholding that standard.

Secure and reliable supplies, now and in the future

One of South Staffs Water's highest priorities is to maintain a continuous supply of clean, wholesome drinking water to its customers' taps. This means minimising the risk of supply interruptions and maintaining a stable asset health overall.

We are pleased to report that the business has again performed better than its target for supply interruptions of ten minutes per property. This is despite the impact of the extreme weather in 2018; the freeze/thaw event in March 2018, known colloquially as the 'Beast from the East'; the prolonged period of hot, dry weather; and the occurrence of several significant events, which caused considerable disruption for a number of its customers. For example, in April 2018, a third party contractor hit a 20-inch main in Wednesbury in the South Staffs region. As a result, about 15 million litres of water was released through the damaged main, causing extensive flooding in the local area. An incident team was set up to manage the event, which included isolating and repairing the main and returning our customers' water supply to normal. The company also received nearly 1,000 customer contacts about interruptions to supply and discoloured water.

In January this year, a water main ruptured in Smethwick in the South Staffs region, leaving more than 2,000 properties without water for around 12 hours. This was a serious incident, which was investigated thoroughly. An issue with a pressure sensor caused too much pressure to build in the water main, causing it to rupture. South Staffs Water learned the lessons of this incident and has put in place a more robust way of delivering pressure consistently, using a combination of analogue and digital monitoring processes. The company has also capped the pressure level in the booster that feeds this main to prevent something like this happening again.

Connecting with our communities

In last year's annual report, we reported on the opening of South Staffs Water's community hub in Wednesbury. One year on and we are seeing real benefits from this innovative idea. At the time of writing, nearly 4,000 customers have visited the hub to talk to people face to face or attend a wide range of events. The company has also formed partnerships and relationships with a number of organisations that use the space regularly, such as Citizens Advice, Digital Coaching, JobCentre Plus and Ideal for All. There has also been interest in the concept from other companies in the water sector.

As the provider of an essential public service, it is important to be visible within the local communities. Consequently in May 2018, South Staffs Water bought its first media vehicle. This has proved to be a real asset. During the long, hot summer, for example, it went on the road with the 'Water Warriors', engaging with customers and advising them about ways to save water. In April this year, the company launched its first billing roadshows, visiting seven locations across the South Staffs region, and giving customers the opportunity to discuss face to face about ways to save money on their water bills. The company is planning to hold similar events in the Cambridge region during the coming year, and will report on this in next year's annual report.

South Staffs Water's employees have also continued to participate in a wide range of community and volunteering activities, and the company has exceeded its target by delivering 749 days of community activity during the year.

Environmentally sustainable operations

Water is a precious and finite resource so, we must make sure that adequate water supplies and the natural environment are properly maintained to support future generations. The business also has wider environmental responsibilities and takes care to ensure that its operations do not impact on natural habitats for plants and wildlife.

We are pleased to report that South Staffs Water met its leakage targets for both South Staffs and Cambridge regions in 2018/19 of 70.5 million litres a day (Ml/d) and 13.5 Ml/d, respectively, having narrowly missed them in 2017/18. This gives the company a really solid foundation on which to build for the future. This is important, as the company is planning transformational leakage reductions of 25% in its South Staffs region and 15% in its Cambridge region over the five years from 2020 to 2025.

The business has also exceeded its target for delivering biodiversity benefits, helped by its very successful SPRING (Slug Pesticide Rethink – Ideas for Nurturing Growth) environmental protection scheme and PEBBLE (Projects that Explore Biodiversity Benefits in the Local Environment) fund. During 2018/19, it has delivered improvements on 138 hectares of land, benefiting both the local environment and local communities.

It is disappointing that the company has missed its target for water consumption of 128.9 litres per person per day in 2018/19. This is because the prolonged hot summer meant its customers used more water than usual. It will continue to engage with customers to help them find ways to use water wisely as it has stretching targets in this area in the future. This includes building on the things it learned from the year-long trial in its Cambridge region of a digital water efficiency portal.

The business has not met its target for carbon emissions savings. When it set this target in 2013, the company expected to be able to install solar panels at several locations to save on energy consumption and lower our emissions. Since then, it has found that it is uneconomic to do this, as the solar panels would not generate sufficient energy to offset our costs over their lifespan. This is something that it believes would not be in its customers' best interests. The company is continuing to deliver energy efficiency improvements where they are cost beneficial and delivered carbon emissions savings of 635 tonnes in 2018/19.

Valuing our people

Being active in our local communities is important to us and during 2018/19 our employees have taken part in more than 190 volunteering opportunities – ranging from working on community gardens to helping to deliver water efficiency workshops in local schools.

One of the charities supported in this way, for example, is Newlife, which helps to change the lives of disabled and terminally ill children. Over the year, employees have removed the labels from 71 crates of clothes for this charity, saving it almost £2,500 in staffing costs.

In September 2018, the company relaunched its SSC People Forum, which provides a voice for our employees across all sites within South Staffs and Cambridge regions.

In 2018/19, the company achieved its best-ever performance for the number of accidents – with only four minor incidents across the business, and no reportable incidents under the Health and Safety Executive's RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013). This demonstrates the company's commitment to changing behaviours associated with work-related accidents and a continued understanding among employees of the risks around their roles.

The business has also been proactive in using its internal communications channels to link to external health management initiatives, such as Mental Health Awareness Week. The aim is to raise awareness among its employees. Looking ahead, it is focusing its attention on more targeted health and wellbeing initiatives. This includes providing training for First Aiders and members of its SSC Forum as mental health coaches, and putting in place voluntary buddy arrangements. The outcomes of this work will be reported in next year's annual report.

Our future focus

In September 2018, South Staffs Water submitted its business plan for 2020 to 2025 to Ofwat, the economic regulator of the water sector in England and Wales. Titled 'Making water count', this ambitious plan is the result of extensive engagement and includes our largest-ever investment programme to ensure we deliver the things our customers have said are important to them. Following Ofwat's initial assessment, the company revisited certain areas of its plan, which was resubmitted on 1 April 2019. Ofwat will make its final decision on the business plan in December and we will discuss the outcome of this in next year's annual report.

Looking ahead, the company is facing a number of challenges over the next year or so – not least the turbulent political climate, the impact of Brexit, environmental pressures resulting from climate change and changes in customers' expectations.

South Staffs Water will continue to consider all its operations in the round – building more flexibility and resilience into its systems and processes across the business to ensure it can adapt and respond to these changing circumstances quickly and efficiently.

SSI has continued to increase and develop operations within the rail, power generation, industrial and facilities management markets.

SSI Services

Overview

SSI Services is the Group's specialist infrastructure contracting division. We provide a wide range of services, including design and installation, testing, repair and long-term maintenance. The division's main focus is to manage the legislative and regulatory needs and risks of our clients, principally within regulated environments, using specialist skills, equipment and technologies.

SSI Services has developed a broad customer base across both the public and private sectors. These include all major water utility companies, infrastructure providers, government agencies and local authorities, through to major contractors, industrial processing companies and facilities management companies. Historically, we have mainly worked within the water and wastewater sector. However, in order to manage demand fluctuations and economic risk factors we need to ensure we continue to develop our product offerings, expand our target markets and customer base. We have continued to increase and develop our operations within the rail, power generation, industrial and facilities management markets. SSI Services continue to deliver these services through a number of specialist operating companies with individual brands, using a nationwide mobile operation and workforce operating from 27 regional sites. We provide quality services that represent excellent value for money and we continue to develop strong relationships with our expanding customer base.

Our people

SSI Services has 1,900 employees, operating from over 27 regional sites, all of whom are integral to our success. The majority of these employees operate remotely and often in challenging environments. Health and Safety is therefore at the core of our businesses, and we continue to focus on developing a strong Health and Safety culture throughout all of our operations. During the year, the division delivered over three and a half million man-hours of services and suffered no RIDDOR reportable events. This excellent performance has been achieved through the on-going focus on improving processes and developing appropriate training programmes to achieve a Health and Safety led culture. All other safety targets were also met in the year and the division continues to make year-on-year improvements. This is a true testament to all of our employees and highlights our commitment to Health and Safety.

A challenging year

Following 4 consecutive years of growth 2018/19 proved to be a challenging year for a number of operating companies. Despite the continuing strategy of reducing reliance on the UK water industry sector, this was partly due to the effects of the major water utilities reducing their spend profile towards the end of the current AMP cycle, in addition to the slow-down experienced in the construction sector as a result of Brexit uncertainty. Despite this, there have been a number of positive developments during the year, with Hydrosave successfully securing the new Thames Water leakage contract for the North London region for up to 8 years. OnSite has also secured framework contractor status to Network Rail for drainage services in 5 geographical regions, as well as the drainage and clearance framework for East Midlands and London North Eastern. In addition, SSI Services was successful in continuing its focus on innovation by securing an exclusive licence for the UK and Ireland for the development and operation of an innovative in-pipe leak repair solution which will be launched under the name of HydroSEAL during 2019/20 into the UK water utility sector, as regulatory pressure to achieve leakage reduction targets increases. Trading conditions remain challenging in a number of our target markets which are becoming highly price competitive, requiring innovation and the continued improvement of operational delivery efficiencies in order to remain competitive.

SSI Services is made up of three business areas, namely; Clean Water Services, OnSite and IWS Water Hygiene. In addition, Omega Red, which provides market leading

Whaley Bridge Dam

lightning protection and electrical earthing services, whilst being a subsidiary of a holding company of the Group, also trades as part of, and is managed within, SSI Services.

Clean Water Services

The Clean Water business comprises of four operating units – Hydrosave, Advanced Engineering Solutions (AES), Integrated Water Services Mechanical and Electrical (M&E) and G Stow with a number of common clients across the four businesses.

Hydrosave had another excellent year, with all its key framework leak detection contracts performing strongly and securing the leak detection contract in North London directly for Thames Water from April 2019. The smart networks department continues to make good progress in its development with deployment of flow data logging, air valve monitoring, Customer Side Leakage monitoring and pressure transience monitoring.

AES had a challenging year with the gas division performing strongly through the provision of water bath refurbishments and pressure safety system regulation statutory inspections. In contrast, revenue generation was lower in the water division, with the division being exposed to the effects of the end of AMP cycle on its main water utility sector clients.

The IWS M&E business was also impacted by the effects of the AMP cycle but now has a clear focus on delivering future sustainable profits through broadening the client base and taking a more selective approach to risk and reward.

G Stow, was also exposed to the AMP cycle related reduction in expenditure by several of its key water utilities sector clients, although the business was successful in securing the delivery of two large Groundwater Station refurbishments for NWL and the installation of a new borehole at Seedy Mill.

OnSite

OnSite offers specialist wastewater and clean water services including sewer flow monitoring and rehabilitation, CCTV surveys, sewer lining, mains renewal and other specialist utility and infrastructure services.

OnSite's Rail business had an excellent year, delivering continued growth on a year on year basis since its formation in 2014/15. Significant clients during the year included: Eight20 Alliance, B&M McHugh and Thames Water. The business was also successful in securing framework contractor status to Network Rail for drainage services in 5 geographical regions and the drainage and clearance framework for East Midlands and London North Eastern Railway. The sewer lining business experienced another good year, with increased turnover generated from its largest clients, in addition to increasing its client base through opportunities from other utility clients and by expanding into adjacent industrial sectors.

After receiving an emergency call from Kier (on behalf of the Canal and River Trust) on the morning of Friday 2nd August 2019, OnSite attended Toddbrook Reservoir and joined the team working to protect the residents of Whaley Bridge, Furness Vale and New Mills from a potential catastrophic dam failure. Specialist teams and equipment were immediately dispatched from across our national operations, to support the multi-agency engineering design team.

The heavy rainfall experienced in the preceding days had partially dislodged the large concrete slabs on the overflow spillway undermining the underlying structure of the Whaley Bridge dam. The approach adopted to secure the structural integrity of the dam was to fill the void/shore up the dam with aggregate and grout it in place.

OnSite's first task was to quickly mobilise over 400 tonnes of grouting materials, which arrived at Whaley Bridge by Friday afternoon, ready to support the spectacular airdrop of hundreds of one tonne bags of ballast onto the dam by an RAF Chinook helicopter.

Over the next 48 hours, the RAF airdropped 525 tonnes of aggregate onto the spillway to help secure it. In between drops, OnSite secured the bags of aggregate into place using grout and foam-concrete ensuring maximum contact between the aggregate and the face of the dam. OnSite's teams worked tirelessly, day and night, over that weekend to get the job done in a challenging, dangerous environment. Teams remained on standby until residents were able to return to their homes on 7th August.

The local community are to be commended for their composure during such an emergency and we thank them for the hospitality they showed to our teams.

Whaley Bridge Dam

OnSite Specialist Maintenance also had a successful year and confidence in the business is high with continued growth in 2019/20. In particular, the business has developed a broad range of clients and sectors, delivering a number of specialist services including: bridge injection waterproofing, concrete repairs, chemical resistant coatings, ground stabilisation and reservoir repairs; all of which will provide a good platform for further growth in the future.

OnSite's Pipeline division also delivered ahead of its targets and the order book remains healthy for the new year, with new frameworks secured within the final quarter of the year.

IWS Water Hygiene

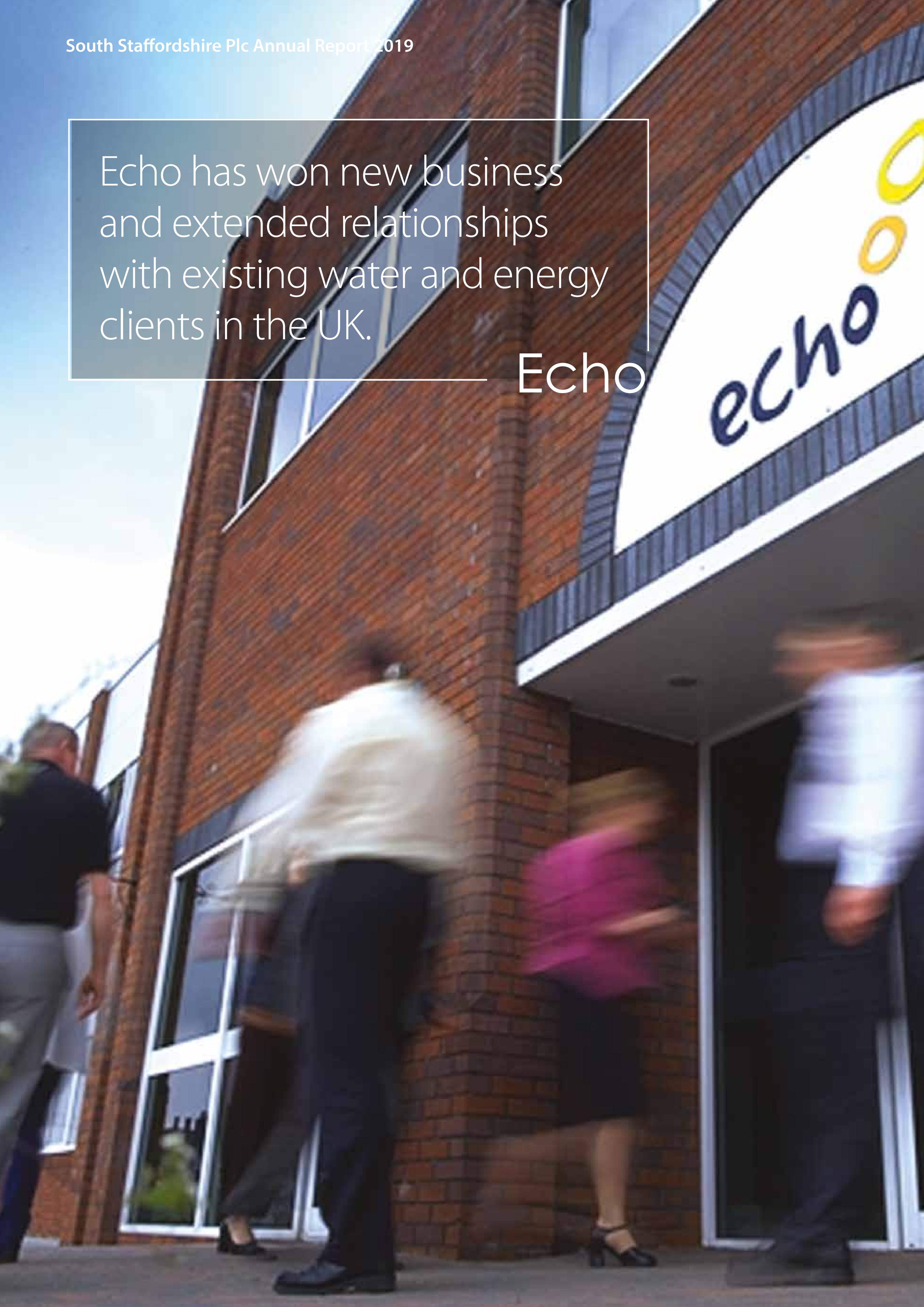
IWS Water Hygiene is a market leading provider of legionella control services, water hygiene risk assessment, maintenance and remedial works, together with a comprehensive water treatment service. We service a wide range of customers including local authorities, housing associations and facilities management companies. The business offers a 24 hours a day, 365 days a year national mobile service. Sales increased by £1.3m during the year with all regions delivering increased profitability. This was facilitated by a focused approach to some challenging business development targets, and also from the full deployment of a mobile work management platform which increased operational and administrative efficiency.

Looking ahead

The outlook for SSI Services remains positive, and our strategy is to be recognised as the leading provider of specialist contracting services to infrastructure owners and operators. The increased focus on leakage reduction requirements by Ofwat in the water utilities sector creates the opportunity for SSI to provide innovative solutions to reduce leakage, in addition to developing efficient leak detection and repair techniques. HydroSEAL, to be launched in 2019/20, is a total solution designed to provide an internal pipeline leakage repair for multiple leaks within a water distribution network, and is applicable to a wide range of pipe materials. HydroSEAL self-detects water leaks in a pipe and automatically repairs holes, fractures, ferrules and joint connections. Our aim is to further develop and maintain a diverse client and sector base to ensure that SSI Services is a resilient business, in particular to further reduce water industry reliance. While there remains continuing market pressure on prices and therefore profit margins, with our focus on continuing to increase operational efficiency and productivity, we believe we are strongly placed to respond to these challenges.

Echo has won new business and extended relationships with existing water and energy clients in the UK.

Echo



Overview

Echo is a specialist outsourcer, operating in the UK utilities sector, providing complex multichannel customer contact services and comprehensive debt and revenue management solutions. Echo is also the developer and owner of RapidXtra, the UK's market leading water billing and customer information software along with the more-newly developed SaaS billing platform, Aptumo.

The past year has continued to be characterised by changing and challenging market conditions. In the water sector, companies have been preparing and finalising their PR19 business plans to answer the regulator's increased focus on innovation, customer service, affordability and resilience. Increasing trust and transparency have also been key themes against a backdrop of continuing cost to serve constraints and increased regulatory scrutiny.

In the UK non-household water market, following a period of initial buoyancy, the rate of new market entrants has slowed, and market consolidation and self-licencing has become more prevalent.

The energy market has experienced a period of instability, with a number of small and medium suppliers exiting the market throughout the year. In addition, the UK Smart meter rollout has impacted on the volume of debt warrant executions being outsourced and completed due to client engineer resource being prioritised to the smart meter rollout programme. This constraint has also impacted upon revenue protection services, other than those with an identified immediate safety risk.

Echo's ability to offer innovative and cost-effective solutions to meet client challenges, despite these changing market conditions, has led to both new business and extended relationships with existing clients across the utilities sector.

Market leading customer billing

Echo continues to support over one third of UK water companies operating in the household market with its market leading water billing and customer information software, RapidXtra. Throughout the past year a vibrant roadmap has been defined in consultation with clients aligned to their upcoming challenges and priorities as the sector enters AMP 7.

It has been a successful year for Aptumo, Echo's new and innovative utility billing platform built on Salesforce™ and designed to support improved customer experience and drive retail efficiencies. Echo won its first overseas contract for Aptumo to implement the software at Victoria-based water company Coliban Water in Australia to bill and support 90,000 customers.

This overseas success was followed by Aptumo's first UK contracts, winning a competitive tender for billing system replacement at SES Water and UK non-household retailer SES Water Business, where Aptumo will handle the billing and contact management of 307,000 customers.

End-to-end collections and revenue protection services

The importance and benefits of customer segmentation within debt collection have become increasingly prominent in the past year, with utility companies drawing on insight to ensure appropriate and tailored recovery strategies for every customer. Echo has aligned its service to this priority, investing in external data to create deeper customer understanding and developing new insight and analytical processes to drive tailored strategies.

Recognising that debt is just another part of the customer journey, Echo's offering leverages the importance of a customer experience mind-set throughout recovery processes; championing early intervention and a joined up approach between in-house and external teams. Echo continues to expand its UK-wide field-based collections propositions focused around building sustainable customer relationships.

Echo has continued to grow and strengthen its UK-wide revenue protection investigation service, delivered through its wholly owned

subsidiary Grosvenor Services Group, to include the provision of extended ancillary services and an extended client list that includes four of the big six UK energy companies. The business has also successfully kept ahead of the latest developments in the market, such as tamper evolution in the new smart meter era, through its membership of the UK Revenue Protection Association and close, collaborative client relationships.

A further highlight in the year has been the success of Grosvenor's in-house research - focused on consumer attitudes to and awareness of energy theft - in raising the awareness of this growing crime amongst consumers, housing associations and in the rented accommodation sector. Through this, Grosvenor has supported its clients and the wider sector in raising the profile of action against energy thieves.

Customer contact services

Echo has continued to assist its client South Staffs Water to extend their customer digital service offerings in the past year, including the launch of a new app and an Alexa service. Complaint reduction has been an additional focus, with a significant and marked reduction in the number of complaints received from customers. Echo has also supported South Staffs Water in the design of future service and debt collection strategies as part of the PR19 business planning period. Finally, Echo was delighted to achieve the Institute of Customer Service's ServiceMark for the customer-centricity of its South Staffs Water customer service team.

In Northern Ireland, Echo delivered in line with all challenging contractual targets for its client Northern Ireland Water for the fifth successive year, as well as successfully extending the additional meter and billing contract for a further two years. An additional focus in the year has been on innovation and continuous improvement to support Northern Ireland Water in improving their customer service and collections activities.

Echo took the decision to close its Bristol-based multi-tenant, multi-sector outsourced contact centre at the end of the year as the company re-focused its strategy on its core water and energy markets to maximise the opportunities within these markets over the coming years.

Looking to the future

2019/20 promises to be a year rich in opportunities across Echo's businesses. Echo will focus on sustainable growth within its core water and energy markets across its full service and software portfolio.

In the water sector, the drive to deliver PR19 promises whilst

Echo's South Staffs Water Customer Service Team achieves ServiceMark

Echo Managed Services and its client South Staffs Water have been awarded a prestigious accreditation highlighting both outstanding achievement in – and commitment to – customer service excellence.

Awarded by independent body, the Institute of Customer Service, ServiceMark is an internationally recognised benchmark of an organisation's achievement in customer service, and its commitment to upholding those standards. It is awarded based on customer satisfaction feedback and an assessment of employee engagement within an organisation's customer service strategy.

An independent survey of South Staffs Water's customers indicated that their satisfaction index of 81.0 was well above the UK average score of 73.8 for the utilities sector in the latest UK Customer Satisfaction Index, and higher than that of all the water and energy companies included in the published index.

Echo's South Staffs Water customer service team was commended across a number of performance metrics – from credibility to creativity and professionalism. Assessors highlighted the company's drive to continuously improve customer experience, its strong customer service leadership, eagerness to act on customer feedback and general pride taken in providing quality service to South Staffs Water's customers.

reducing operating costs will be key to meet regulatory expectation and to deliver customer benefits. Innovation is anticipated to be an important theme in the year ahead – with companies leveraging new technology and fresh thinking to cut costs, be more digitally-enabled and put customers first.

As a true customer engagement specialist, Echo is well-positioned to support both existing and new clients in achieving their stretching objectives. Its service and software propositions will continue to be closely aligned to the retail operation needs of UK water companies and the sector's regulatory drivers as the market enters the new AMP.

With Ofwat also consulting on a future strategy to create a new and ambitious vision for the future, the importance of everyday service excellence and delivering customer value in the water sector will become increasingly important. This places Echo, with its customer service expertise, in a strong position as a service partner of choice.

Echo will continue to support clients with their digital agenda, offering an integrated service and system solution that incorporates AI-enabled, next-generation billing software, multi-channel contact centre services founded on customer-driven process and experience, and a wholly-owned offshore subsidiary to support back-office activities and automation. Echo's new billing software, Aptumo - built on the Salesforce Platform™ - will provide a clear strategic pathway to retain a dominant UK position, enabling clients to take advantage of leading edge technology and the digitisation and service enhancements that follow. The UK and Australian water markets will be the primary focus in the year ahead whilst also exploring other markets and geographies.

The future energy market is anticipated to look increasingly different from today, with many changes to be initiated in the next few years to make the network more flexible and cost-reflective, and the market more dynamic and competitive. There is an increased focus on ensuring the vulnerable are adequately protected in this future market, with Ofgem currently consulting on its 2025 Consumer Vulnerability Strategy. This places Echo in a strong position as a service partner of choice for field-based services. Echo will continue to strengthen its debt collection and revenue management proposition, widening field-based services and targeting deeper key sector market penetration.

The Group is committed to supporting its local communities and protecting the natural environment.

Corporate Social Responsibility

South Staffordshire Plc

Overview

Corporate Social Responsibility (CSR) remains a key priority for the Group. The Group is committed to supporting the local communities that it serves and operates in and continues to carefully consider and focus on the natural environment. The Group has had a successful year in managing the Health and Safety of its employees but knows further improvements are achievable. Customers remain at the centre of all that we do.

Employees

The health, safety, wellbeing and training of all Group employees is fundamental to the growth and success of the Group. We provide a positive and inclusive working environment, which ensures our businesses remain safe and satisfying places to work.

- Health and Safety

The Group continued its year-on-year improvement in Health and Safety performance as demonstrated by a 71% improvement in the RIDDOR frequency rate, a 5% improvement in the Lost Time frequency rate and a 12% improvement in the All Injury Accident frequency rate.

Each of the Group's businesses take individual responsibility for the Health and Safety of its employees. A Group level Health and Safety Strategy Forum, led by the Group Chief Executive and supported by the Head of Group Health and Safety, continues to oversee activities across the Group in this important area of the business.

A large part of the success in 2018/19 was down to each business proactively managing health and safety and closely monitoring their own performance against their own Business Safety Plans. 2019/20's Business Safety Plans contain business initiatives to address the causes of 2018/19's accidents, among other initiatives.

The Business Safety Plans have been taken forward into 2019/20 by focusing on accountability by subdividing each Safety Plan into departmental Safety Plans, with accountable managers named and responsible for delivery of specific parts of the overall Business Safety Plan.

Numerous health and safety initiatives were undertaken across the Group during the 2018/19 year.

The Group's initiatives for 2019/20 include:

- 45001 accreditation
- Lone Worker solutions
- Senior Management Team Safety tours
- Reduce HAVs exposures
- Control of Contractors including Permit to Work system

Effective leadership, commitment and a constant health and safety message all remain very relevant in the Group's pursuit of continued improvement. Employee engagement is being enhanced through involvement in the investigation process, the Hazard Reporting App was developed in 2018/19 and is scheduled for rollout in 2019/20.

The majority of our businesses have external accreditations, e.g. OHSAS 18001/ISO 45001 for their health, safety and environmental management systems. Many Group companies also hold the ISO 9001 quality management accreditation and/or Achilles and some hold industry specific accreditations.

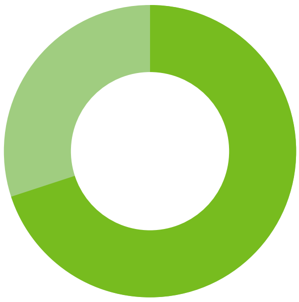
Employees have access to specialist occupational health advisors, who can provide proactive health surveillance and advice in order to help keep our employees fit and healthy. Employee assistance programmes are also available to employees across the Group, where employees can receive free advice and counselling on any issues, whether work related or personal. In addition to focusing on reducing accidents at work, there is a continuing focus on general employee wellbeing and mental health issues across the Group as this matter becomes better understood and discussed nationally.

- Training, development and engagement

The Group is committed to providing a safe, positive and rewarding working environment. South Staffs Water's Apprenticeship Programme continues to deliver valuable structured development and represents a commitment to investing in talent for the business. The business has a strong ethos for competency and quality and all employees are encouraged to continually learn and develop and, in turn, employee engagement and retention is strong. During March 2019, working with sector colleagues

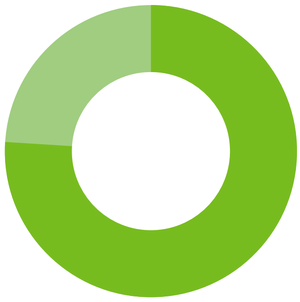
Analysis of Group employees by gender

Directors and Executives



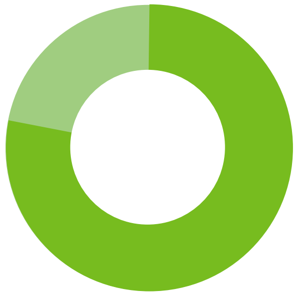
Male 70% Female 30%

Senior Management



Male 76% Female 24%

Other Employees



Male 78% Female 22%

and Water UK, the company helped shape Industry positioning on the Social Mobility Pledge. The pledge is a cross-party campaign to improve social mobility across the UK. Signing up to that pledge demonstrates the company's commitment to partner with schools and colleges to let them know more about the business and to give access to jobs and apprenticeship opportunities.

Echo has continued to offer a range of training and development initiatives for employees. Its Grosvenor Services contact centre team achieved accreditation from the UK Credit Services Association through the Collector Accreditation Initiative. In Northern Ireland, membership of the Chartered Institute of Credit Management has provided training and accreditation opportunities, and Echo's software teams have enhanced their knowledge of the company's new software through the SalesForce Trailhead programme. In addition, Echo's memberships with the Institute of Customer Service and the Call Centre Management Association have enabled employees to benefit from seminars, best practice benchmarking sessions and specialist round table groups. Echo has also offered apprenticeships in the past year, in its marketing and debt collection areas.

During the year 2018/19, the Developing Managers Programme continued to be delivered through SSI Services. The programme, aimed at training managers to gain greater management skills, has been well received and has had a positive impact in the business units. This programme continues to be supported by the Training For Success modules, covering legislation updates and personal development. A number of apprenticeship programmes have been put in place ranging from developing engineering skills to administrative skills.

- Equality and fair treatment

We are committed to providing a positive working environment, free from discrimination and unfair treatment. We welcome diversity and provide equal opportunities for employment, training and promotion, having regard to employees' particular aptitudes and abilities, regardless of their gender, race, age, disability or any other protected characteristics. If an employee were to become disabled, we would make reasonable adjustments to allow them to continue to add valued contribution and performance, and support them in every way.

The Group takes steps to promote gender diversity including aiming to attract more diverse applicants to vacancies, further developing flexible working arrangements and encouraging more diversity in engineering and technical roles.

Human rights are not considered to be a material risk for the Group's businesses, due to existing regulatory requirements in the UK and the nature of our supply chain.

Environment

South Staffs Water continues to work closely with landowners and the Environment Agency to deliver innovative catchment management solutions to mitigate our operational impact on the natural environment and improve the quality of raw water that supplies our treatment works. It now has over 80 participants within its innovative 'SPRING' and 'PEBBLE' schemes, which encourage sustainable farming practices and biodiversity.

In Northern Ireland, Echo is certified to ISO14001 which covers the aspects and impacts relevant to its activities. The business has increased the focus on reducing its carbon footprint both through travel to and from work, and within the field services team. Fuel efficiency is tracked for all field staff and the business continues to implement initiatives to reduce the negative impact of its operations.

Companies within SSI Services are ISO 9001, 14001 and 18001 accredited and are currently transitioning to achieve ISO 45001. As part of SSI Services' commitment to the reduction of its carbon footprint, it has been working with its Fleet Services business to implement the issue of new technologies to reduce emissions and fuel consumption across its significant fleet of vehicles with all commercial vehicles now sponsoring Euro 6 engines and hybrid technology in cars.

Communities

A total of over £10,000 was raised from the company's lottery, customer donations, and World Water Day.

Each of our businesses have provided support to their local communities and organised or attended charitable and community events;

- South Staffs Water has exceeded its target by delivering 749 days of community activity during the year, ranging from working on community gardens to helping to deliver water efficiency workshops in local schools. One year on since the opening of South Staff Water's community hub, nearly 4,000 customers have visited to talk to people face to face or attend a wide range of events. The company has also formed partnerships and relationships with a number of organisations that use the space regularly, such as Citizens Advice, Digital Coaching, JobCentre Plus and Ideal for All, we have had interest in the concept from other companies in the water sector.
- Echo organised a number of charitable events within the year supporting amongst others WaterAid, Macmillan cancer support, Dementia NI, the Children's Heartbeat Trust and ELSSA (Essential Life Saving Skills Africa). The business also took part in a number of drives to help the local and wider community through volunteer days with local animal shelters and hospices. A Family Appeal was also launched in December where employees donated toys, clothes and vouchers for underprivileged children.
- SSI Services has continued to broaden its CSR programme and has supported a number of employees undertaking challenges for various charities. By sponsoring employees, SSI Services has made donations to, amongst others, the British Heart Foundation, Cystic Fibrosis Trust, Macmillan Cancer Support, Acorns Children's Hospice Trust and Cancer Research UK. In 2019/20, SSI Services aims to double its CSR contributions and will focus on supporting charities which benefit the environment. SSI Services is pleased to announce that it is hoping to partner with the Woodland Trust, the UK's largest woodland conservation charity.

Customers

The Group is committed to improving customer satisfaction, service quality and building long-term relationships with customers, all of which are imperative to the future success of the Group.

Reducing the volumes of complaints received at South Staffs Water was a key area of focus throughout the year. We saw a 19% reduction in the number of complaints from customers, and our average response time has reduced from nine days to around five days. By the end of the year, complaints in the South Staffs region had fallen to their lowest-ever level, improving by more than 30%.

All Echo sites participated in the Institute of Customer Service's National Customer Service Week in October 2018, an opportunity to raise awareness of customer service and the vital role it plays in successful business practice. Echo marked the occasion with a week of challenges and activities related to key customer service themes, involving all employees.

Echo's South Staffs Water customer service team received ServiceMark accreditation from the Institute of Customer Service highlighting both outstanding achievement in, and commitment to, customer service excellence. ServiceMark is an internationally recognised benchmark of an organisation's achievement in customer service, and its commitment to upholding those standards. It is awarded based on customer satisfaction feedback and an assessment of employee engagement within an organisation's customer service strategy.

SSI Services had continued to focus on developing a culture of customer excellence. This has been supported by customer awareness training that has taken place throughout the division. In addition, independent customer service review meetings have taken place to gain a better understanding of how well the division delivers to its customers.

The Group once again achieved its challenging cash flow target for the year.

Financial Review

South Staffordshire Plc

Overview

The Group monitors its financial performance through its success in achieving or outperforming certain targeted Key Performance Indicators. In the year ended 31 March 2019, the Group met its key financial target for cash flow and net debt. While turnover and profitability was slightly less than expected.

Turnover and profit

Group turnover increased by 3.4% to £266.6m in the year (2018: £257.9m). Turnover generated by South Staffs Water increased to £128.8m (2018: £124.3m), with appointed turnover increasing in line with the allowed below inflation increase and additional income from the hot, dry summer in 2018. External turnover from the non-regulated service businesses grew by £4.3m to £137.9m (2018: £133.6m), with SSI Services receiving the full year benefit of acquisitions made in 2017/18 and continued delivery on important framework contracts and projects in other parts of SSI Services.

Group EBITDA (before infrastructure renewals, see reconciliation opposite) of £77.7m was £3.5m lower than the previous year (2018: £81.2m). This included the impact on profitability in the year of the hot summer and the legacy costs from the freeze thaw event at the end of the previous financial year for South Staffs Water, £1.3m additional costs in total. The performance also included lower profits for the non-regulated businesses with some parts of SSI Services experiencing a challenging year due to effects of the major water utilities reducing their spend profile towards the end of the current AMP cycle, in addition to the slow-down experienced in the construction sector as a result of Brexit uncertainty. These trading conditions led to a number of operational exceptional costs within SSI of £1.8m. As previously stated earlier in the report, the Echo division closed the Bristol office resulting in exceptional costs of £0.9m. Group operating profit was £37.0m (2018: £41.4m), with the expected reduction largely reflecting the higher level of depreciation charges (£1.5m) deducted from EBITDA following the continued investment in the fixed asset base mainly in South Staffs Water, however there was a lower level of infrastructure renewals expenditure (£0.3m). Operating profit for South Staffs Water (after allocation of central items) was £31.4m (2018: £32.2m) with non-regulated operating profit of £5.6m (2018: £9.2m).

As expected, there was an increase in net finance charges in the year of £0.4m to £12.8m, largely due to the year-on-year increase in non-cash indexation charges on debt in South Staffs Water (£0.2m).

Overall, Group profit before tax was £24.2m (2018: £28.9m).

Tax

The tax charge for the year increased to £5.2m (2018: £4.2m) with the increase being mainly due to the impact of prior year adjustments (2019: charge £0.6m, 2018: credit £0.7m). A reduction in the future UK corporation tax rate from 18% to 17% was substantively enacted in October 2016 and will take effect in April 2020, and therefore deferred tax balances were reduced accordingly during the year ended 31 March 2017.

In both years the main driver for the tax charge being less than the statutory rate of 19% (2018: 19%), of pre-tax profits was the impact of group relief claimed from intermediate holding companies without payment (2019: £0.7m, 2018: £1.6m) partly offset by Group

Reconciliation of operating profit to reported EBITDA (before infrastructure renewals)

	2019 £'000	2018 £'000
Operating profit	37,018	41,386
Depreciation	29,656	28,155
Infrastructure renewals	9,807	10,078
Amortisation of goodwill	3,943	3,967
Amortisation of capital contributions	(2,707)	(2,413)
EBITDA (before infrastructure renewals)	77,717	81,173

goodwill amortisation charges not being deductible for corporation tax purposes.

The Group's approach to tax is explained on page 30.

Cash flow and dividends

The Group continues to place significant emphasis on its cash flow. Group cash flow from operating activities was £64.1m (2018: £69.5m), including lower year-on-year investment required in working capital, which was also lower than the budget set at the start of the year. Capital investment (net of contributions, disposals and capital creditor movements) decreased to £41.4m (2018: £45.2m) due mainly as expected to decrease capital investment by South Staffs Water in the fourth year of the AMP6 investment period, along with decreased investment in the non-regulated businesses particularly Echo with the reduction in expenditure on the new billing platform. Overall, free cash flow (cash flow from operations less interest, tax and capital expenditure) of £12.4m (2018: £16.5m), was ahead of our target. Total dividends paid and proposed in the year were £27.0m (2018: £29.9m).

Financing, net debt and liquidity

Group net debt reported for covenant purposes at 31 March 2019 amounted to £398.6m with the increase from 31 March 2018 (£376.1m) being largely due to the additional borrowing through private placement loan notes (£43.0m) which have replaced expiring private placement loan notes of £20.5m and a term loan of £7.9m and the increase in the value of index-linked debt in South Staffs Water due to indexation for the year of £5.8m. Group net debt for statutory accounting reporting purposes under FRS102 at 31 March 2019 amounted to £417.4m (2018: £395.8m) with the value fully reconciled to the value used for covenant purposes in the notes to the consolidated cash flow statement on page 55 along with a detailed analysis of the Group's net debt.

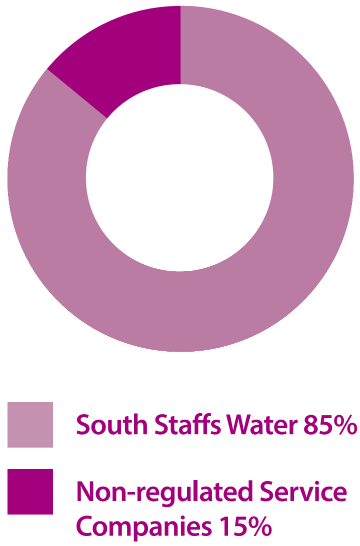
In South Staffs Water, net debt for covenant reporting purposes was £248.8m (2018: £240.7m) being 65.5% (2018: 66.1%) of its Regulated Capital Value (RCV) of £380.1m (2018: £364.3m), representing the PR14 Final Determination RCV uplifted for actual inflation. The expectation for this ratio for the remainder of AMP6 is in the region of 66%.

The Group and South Staffs Water have maintained, and continue to forecast to maintain, significant headroom in respect of all borrowing covenants which include both interest cover and leverage covenants. Standard and Poor's continues to rate South Staffs Water as BBB+, well within investment grade.

At 31 March 2019, the Group had available £24.9m of undrawn bank borrowing facilities (2018: £27.5m), in addition to its cash balances of £3.9m (2018: £7.6m), providing significant liquidity headroom of £28.8m (2018: £35.1m) and with financing already secured to refinance borrowings that are due to mature in the next 12 months.

Group turnover

Analysis of Group operating profit



Risk management

The Directors acknowledge that risks exist in all businesses with the Group's approach to risk reflecting its status as a Group comprising a regulated business, with a long-term water supply license, and also other divisions operating in regulated markets.

As part of its normal activities, the Board of Directors, assisted by the Senior Management team, regularly carry out robust assessments of the principal risks facing the Group, including those risks that have the potential to threaten individual business models, future operational or financial performance, solvency and liquidity. There is regular monitoring of the Group's risk management and material internal control systems to review their continuing relevance to the Group's businesses and their effectiveness, ensuring that appropriate risk management activities are in place or are planned to mitigate the risks identified. It is accepted that risks can emerge and change quickly, therefore risk identification and mitigation activities will need to be able to respond to this and that, at any given point in time, enhancements to mitigating actions may be required.

Risks are assessed both on a gross basis (likelihood and consequence before mitigating controls) and a net basis (likelihood and consequence after mitigating controls) so that the Directors and the Senior Management team can properly assess the overall significance of the risk and the estimated effectiveness of mitigating actions, as well as if further actions are required.

The Directors accept that not all risks can be mitigated entirely, but aim to ensure that risk management activities reduce the overall estimated impact of risks, on a net basis, to a level that is considered to be acceptable and that do not impact on the long-term viability of the Group and its businesses. The Directors believe that the most significant risk areas currently faced by the Group along with the related mitigating actions are summarised below with no significant changes in the ratings assigned to each risk from the previous year.

Details of the Group's principal financial risks are provided in note 28 to the accounts.

Principal Group risks

The following section lists the Group's principal risks, and details what each risk means for the Group, and the actions being taken to manage and mitigate the impacts.

Principal group risks

Risks	What does it mean for us?	How are we managing the risk?
Business Plan outcomes#	During the year, Ofwat published its initial assessment of our business plan. It noted a number of areas that required further evidence. We resubmitted our business plan in April this year and will receive our final determination in December. There is a risk that our final determination will not allow sufficient funding to deliver the outcomes to which we have committed in our plan.	We firmly believe our resubmitted business plan addressed Ofwat's challenges, and provides further evidence and support. As part of the resubmission process, we have: • engaged third parties, where appropriate, to provide additional evidence and support for our proposals; • responded to Ofwat's challenges, and actively reviewed the feedback on the draft determinations of the three fast-track companies; • continued to respond to information requests from Ofwat; and • continued to engage with our customers.
Resilient supply of good quality water#	A failure to provide a secure supply of clean, safe drinking water or meet our long-term demand requirements could result in adverse public relations, damaging our customers' trust in us.	We have carried out significant work during the year to mitigate this risk, including completing the installation of UV treatment at our Hampton Loade Water Treatment Works. We also have a number of controls in place to reduce the probability of having insufficient water resources, including: • our water resources management plans for each region; • drought plans that are consistent with our water resources management plans and business plan; • collaborative cross-sector engagement; and • continued investment to maintain our assets.
Asset reliability and resilience#	We have a number of assets that are critical to the provision of clean, safe drinking water. The reliability and resilience of these assets could cause risks around: • delivery capacity, with loss of supplies; and • the impact on our ODIs, including our performance targets for bursts, leakage, low pressure and customer satisfaction.	We were able to demonstrate our strong resilience during the freeze/thaw event and the prolonged hot, dry spell that followed it. We have learned lessons from both events and recognise the need for continual improvement. As part of this, we are considering our long-term plans in the context of managing and maintaining our assets and supply capabilities. We have also: • undertaken significant investment expenditure on our key water treatment works; • carried out a risk-based review of all our assets to ensure they are ready and capable of delivering clean, safe drinking water; and • established preferred portfolios for our business plan, with preparatory activity to be carried out before 2020.
Health and safety*	Our risks associated with health and safety include: • things that affect the wellbeing of our people, our contractors and members of the public, including injury and fatalities; • non-compliance prosecutions; • external investigations; and • reputational damage.	We have continued to make good progress in this area and have an aspirational goal of being a zero injury workplace. In a continued drive to improve accident rates and reduce risk further, we are: • continuing to drive a culture that puts health and safety first; • focusing on prompt hazard identification and reporting; • fully utilising the incident and accident database; • looking for improvements, sharing best practice and learning from others; • conducting strategic health and safety working groups; and • carrying out Director and senior management workplace audits.
Political, regulatory and economic environment*	Risks in this area include, but are not limited to: • regulatory reform – for example, in May this year Ofwat published an early view of its future strategy for regulating the water sector; • changes in UK Government policy that may impact on our ability to deliver our strategic outcomes; • the impact of Brexit and the risks this could present to key supplies; • the effects of an economic downturn; and • regulatory compliance. In addition, renationalising the water companies continues to be a key policy for the Labour Party and remains a possibility in the event of a change of government. One of the main risks for us is around enforced changes to ownership.	To mitigate risks in this area, we are: • carrying out a full assessment of the key points of Ofwat's emerging strategy, with a view to responding with our comments; • working with Water UK, which regularly engages with all political parties to demonstrate our value and the benefits our customers receive as a result of our operational performance and continued investment in our network infrastructure; • continuing to engage with our customers and report on our performance; • a full 'no deal' impact review was completed; and • the business also operated an Event Management Team in preparedness for the planned exit.

Risks	What does it mean for us?	How are we managing the risk?
Technology systems and security*	The loss of critical IT infrastructure could have a major impact on our business, with specific risks around: • external failures – for example, loss of communication links, power or the Internet; • system failures – for example, failure of hardware or software and reduced performance; • data integrity, including the loss or corruption of files; • IT change management; • lack of access to technical skills; and • cyber attacks.	Our Information Security Steering Group works in tandem with our fellow Group companies to focus on protecting the business and driving improvements through: • the creation of an Information Security Control team; • reviewing and improving our business continuity and resilience. Our IT services provider has achieved ISO 27001 certification; • continued engagement in national and international industry forums; • providing information security awareness training for our people; and • collaboration with others across the water sector to manage threats to national infrastructure.
Environmental*	We have a number of environmental obligations and reputational outcomes with which we must comply, including: • the Water Framework Directive; • the National water resources and fisheries Environmental Programme (NEP); • PR14 catchment management schemes and other water quality national environment programme schemes; • adherence to and renewal of abstraction licences; and • pollution incidents arising from mains flushing and burst main events. We also have a wider obligation to look after our environment.	We have various controls in place to mitigate the impact or reduce the probability of non-compliance with our environmental obligations. To deliver these obligations, we: • engage with our customers and other stakeholders, responding to their expectations; • are continuing to work on delivering the sector's environmental programme (WINEP); • regularly monitor our abstraction licence usage; • take sample discharges to give us an early warning of potential pollution failures; • monitor water efficiency and biodiversity through monthly reporting of our performance targets; and • measure our biodiversity and carbon emissions performance against our targets. We also have an established catchment management team, which is making progress in both our South Staffs and Cambridge regions. We are expanding our SPRING environmental protection scheme, which makes grants available to farmers to improve facilities for pesticide use and prevent other water quality problems at source. We summarise all our environmental obligations in our Water Industry Strategic Environmental Requirements (WISER) submission.
Financial*	This is about us having sufficient financial resources to finance our business over the long term, with risks around: • reduced access to capital markets; • the potential for a lower credit rating; • higher funding costs; and • levels of fixed-cost embedded debt. • Changes in risk scoring by the leading rating agencies (Fitch, Moody's and S&P) could lead to some or all of the above.	To mitigate financial risks, we have: • engaged with external advisors on options for reducing our cost of embedded debt; • reduced our gearing levels; • refinanced; • employed hedging strategies; and • put in place rolling credit facilities. • We also monitor markets regularly, and have regular cash flow reporting and monitoring processes in place.
Customer service*	The impact of increasing customer expectations and standards of customer service may lead to: • failure to meet our customers' expectations; • a reduction in our SIM score and poor performance in dealing with complaints; and • an increase in the number of customers in debt.	In mitigating the customer service risk, we have: • Made further investment in order to improve customer service; • Addressed at weekly meetings South Staffs Water's SIM insight and monthly at an Executive Steering Group; • Significantly increased customer engagement.

* Affects all of the Group's operations.
# Affects South Staffs Water's operations only.

Brexit

Following the vote by the United Kingdom in June 2016 to leave the European Union (EU) the country is expecting to exit the EU in October 2019. Whilst the Group has a relatively low amount of trading with the EU and therefore limited risk, the impact on the Group is most likely to arise from the resulting increased uncertainty in macroeconomic conditions, in particular but not limited to, inflation and interest rate changes and the availability and the terms of capital funding. The Group continues to monitor this matter and its impact on macroeconomic conditions.

Group Approach to Tax

The following statement complies with the requirements of Finance Act 2016 for large groups to make their tax strategies available to the public.

The South Staffordshire Plc Group ('the Group') takes seriously its legal and social responsibilities for meeting its tax obligations. The Group currently has no material operations outside the United Kingdom, and therefore the following has specific reference to UK taxation, although the same principles are applied in other jurisdictions where applicable.

The Group is committed to complying with tax laws in a responsible manner, balancing its obligations to the Government and the public with its duty to manage its affairs efficiently in order to deliver cost-effective services to its customers while generating an economic return to its investors. The Group makes timely and accurate tax returns that reflect its fiscal obligations to the Government.

In particular, the Group:

- Do not engage in aggressive tax planning that is not linked with commercial and economic activity;
- Do not engage in artificial tax arrangements;
- Seek to maintain a transparent and collaborative relationship with HM Revenue & Customs, principally through the Group's HM Revenue & Customs' dedicated Customer Compliance Manager;
- Seek independent professional tax advice on material matters where the application of tax law is complex or uncertain.

The Group will make use of applicable tax incentives provided by the Government within the framework outlined above. These may include, for example, preferential rates of capital allowances or enhanced tax relief for research and development costs and certain designated capital assets that add efficiency to the Group's operations. Such incentives have been put in place by the UK Government to encourage appropriate business investment.

It should be noted that, for the Group's regulated water supply business, South Staffs Water, such incentives will generally have the effect of reducing its customers' water bills under the funding model adopted by the economic water sector regulator, Ofwat.

In addition to corporation tax, the Group contributes significantly to the UK Exchequer by means of a number of other taxes and levies, including but not limited to:

- Employment taxes, National Insurance and the Apprenticeship Levy
- Carbon taxes and other energy related taxes and levies
- Fuel duty and other vehicle related taxes
- Business rates
- Stamp duty on property and share transactions
- Regulatory charges and licences such as water abstraction charges.

The Group's approach to risk management applies to tax as it does to other business areas. This includes identifying, assessing and managing tax risk across the entire Group, with significant issues escalated to the Group Chief Financial Officer, Group Chief Executive and/or the Board for consideration. The Group Internal Audit function will review significant risk areas where considered appropriate.

The Group has identified economic uncertainty as a risk area. This includes risk in relation to the possibility of unexpected tax law and policy changes by the Government. The Group carefully monitors published tax legislation, guidance and policy documents to ensure it can assess the compliance requirements and the economic implications for the Group. The Group will, where considered appropriate engage with HM Revenue & Customs where its tax position is likely to be materially affected by such policy changes.

Long-Term Viability and Financial Resilience

The Group has prepared a detailed business plan which states its long-term strategic objectives and operational plans and the key business issues that the Group faces both now and those anticipated in the future and how the Group proposes to address these issues.

As part of this business planning process, the Group has assessed its future prospects and, as part of this assessment, has prepared operational forecasts including expectations of its performance in important operational matters. The Group has also prepared consolidated financial forecasts for the three-year period to 31 March 2022, which reflect the stated strategic objectives and operational plans, and include but are not limited to trading forecasts with turnover, operating and capital maintenance costs along with cash flow projections including operating cash flows, the planned investment programme, tax and finance related cash flows. The level of net debt is also projected through the period and is compared to the level of gearing as permitted in the Group's borrowing covenants as is its interest cover.

In order to assess the long-term viability and financial resilience of the Group to possible changing circumstances, sensitivity analysis has been applied to these financial forecasts to assess the impact on profitability, cash flows, liquidity, borrowing capacity and compliance with borrowing covenants of severe but plausible adverse changes to important assumptions made within these base projections, including those that are outside of the control of the Group. They include an increase in the required level of capital investment and operating costs (including those arising from principal risk events occurring - see principal risks above) and the level of inflation and interest rates. Other scenarios for the first year of AMP7 relevant to South Staffs Water only have been considered. The Directors have selected these assumptions as they believe it is these that could most significantly impact on the longer term viability of the Group and that could most materially deviate from the Group's base assumptions over the longer term.

The period to 31 March 2022 covered by the assessment is considered to be appropriate for a Group of this size, complexity and structure.

Based on the business plan, the related long-term financial projections and associated sensitivity analysis detailed above the Board of Directors has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment to 31 March 2022. This expectation is based on the assumption that the Group continues to maintain its existing access to capital markets to fund its required investment programme, to refinance borrowings in advance of their maturity date and provide sufficient liquidity as it has a track record of achieving and, as such, have prepared the financial statements on a going concern basis.

The Strategic Report on pages 4 to 31 is approved on behalf of the Board of Directors.

A P Page
Group Chief Executive
26 September 2019

Board of Directors


1.


2.


3.


4.


5.

1. Steve Johnson
Non-Executive Chairman

Appointed as Non-Executive Chairman in July 2018. Steve is an Asset Manager Director at Infracapital, a leading European infrastructure investor. Steve has 35 years of experience in the energy and utility sectors and was CEO of Electricity North West for eight years. Steve's dedication to the industry was recognised in June 2016 through the award of an MBE for services to energy networks. Prior to this he was Managing Director of Morrison Utility Services, which followed 17 years at United Utilities. Steve has also held positions as Non–Executive Director of South West Water and Chairman of Energy Networks Association from 2011 to 2014.

2. Adrian Page
Group Chief Executive

Appointed as Group Chief Executive in January 2013, having been Group Finance Director since April 2004. Previously Group Finance Director of South Staffordshire Group Plc from 1998 to 2002. Prior to this Adrian was with ACT Group and KPMG. Adrian is also a Director of South Staffordshire Water PLC and the Water Companies Pension Scheme Trustee Company.

3. Peter Antolik
Non-Executive Director
& Arjun Infrastructure
Partners Representative

Appointed to the Board in July 2018 as part of the investment in the Group by investors advised by Arjun Infrastructure Partners. Peter is a Partner of Arjun Infrastructure Partners (AIP) and his background covers regulated companies, transport regulation, and the management of infrastructure funds and investments. Peter joined AIP from the Office of Rail and Road and was previously the Strategy and Regulation Director of Thames Water. Peter has previously worked with Macquarie Bank, creating and managing the European infrastructure funds. He was also an Executive Director in JP Morgan's Infrastructure Investment Fund and started his career with Accenture.

4. Satoru Tamiya
Non-Executive Director
& Mitsubishi Corporation
Representative

Appointed as a Director in April 2016, following Mitsubishi Corporation's investment in the Group. Satoru is Head of the Overseas Investment Team within the Water Business Department of Mitsubishi Corporation. Prior to taking this role, Satoru performed a number of roles within the power generation and renewable energy businesses of Mitsubishi.

5. Michihiko Ogawa
Non-Executive Director
& Mitsubishi Corporation
Representative

Appointed as a Director in July 2018. Michi joined Mitsubishi Corporation in 2011 and is a Manager in the Water Business Department. Prior to joining Mitsubishi Corporation, Michi worked for Japan Bank for International Cooperation where he was involved in financing multiple utility and transportation infrastructure projects.

Executive Team

1. Adrian Page
Group Chief Executive

Appointed as Group Chief Executive in January 2013, having been Group Finance Director since April 2004. Previously Group Finance Director of South Staffordshire Group Plc from 1998 to 2002. Prior to this Adrian was with ACT Group and KPMG. Adrian is also a Director of South Staffordshire Water PLC and the Water Companies Pension Scheme Trustee Company.

2. Phil Newland
Managing Director of South Staffs Water

Appointed Managing Director of South Staffs Water in April 2014 having previously been Managing Director of Echo since April 2006. Prior to joining Echo, Phil was a Management Consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

3. Dave Taylor
Managing Director of SSI Services

Appointed Managing Director of SSI Services in May 2015, having been the Managing Director and founder of OnSite Specialist Maintenance, formerly Data Contracts, for several years before moving into a divisional role at SSI Services as Commercial Director in January 2015.

4. Monica Mackintosh
Managing Director of Echo

Appointed Managing Director of Echo Managed Services in December 2018. Monica has been a member of Echo's Board for seven years and during this time has successfully headed up both the software and customer service areas of the business.

5. Garry Clarke
Group Chief Financial Officer and Company Secretary

Appointed as Group Chief Financial Officer in April 2019, having held several CFO and GFD Board roles in manufacturing and financial services during his career to date. Garry is responsible for the Group's central Finance and IT services. Garry is also Group Company Secretary and a member of the Governance Committee for the South Staffordshire Group Pension Plan. Prior to this Garry has worked within Sole Owned, Private Equity, Plc and Multinational US businesses.

Directors' Report

The Directors have pleasure in presenting their Annual Report, together with the audited Group financial statements, for the year ended 31 March 2019.

Business review

The Strategic Report on pages 4 to 31 provides detailed information relating to the Group, its strategy and the operations of its businesses, future developments and the Group's financial results and position for the year ended 31 March 2019.

Details of the principal risks and uncertainties facing the Group are set out in the Strategic Review on pages 28 to 29.

Financial results

The Group's turnover was £266.6m (2018: £257.9m), with operating profit of £37.0m (2018: £41.4m) and profit before tax of £24.2m (2018: £28.9m). The Group's financial results and position are explained in more detail in the Financial Review section of the Strategic Report on pages 24 to 31 and shown in the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement on pages 49, 50 and 54.

Directors

Details of the Directors who held office during the year and subsequently are provided in the table below.

No Director had any material interest in any contract of significance with the Company or Group during the year under review. The Company maintains directors' and officers' liability insurance in respect of legal action that might be brought against its Directors and officers.

To the extent permitted by law, the Company indemnifies each of its Directors and other officers of the Group against certain liabilities that may be incurred as a result of their positions within the Group.

Retirement and re-election of directors

In accordance with the Companies Act 2006 and the Articles of Association, Mr Johnson, Mr Antolik and Mr Ogawa retire having been appointed during the year and being eligible, will offer themselves for re-election.

Corporate Social Responsibility

South Staffordshire Plc and its subsidiary companies regards compliance with relevant environmental laws, the adoption of responsible social and ethical standards and the health, safety, well-being and development of its employees, including disabled persons, as integral to its businesses. A report of the Group's practices and activities in this regard is provided on pages 20 to 23.

Acquisitions

Details of business acquisitions made in the year can be found in note 27 to the financial statements.

Corporate governance

A detailed report on corporate governance is set out on pages 36 to 48.

Financial and treasury risk

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

Capital investment

Capital expenditure before contributions from third parties and excluding infrastructure renewals during the year amounted to £51.2m (2018: £54.8m).

Payment of suppliers and commercial arrangements

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 2019 represent 54 days of purchases during the year (2018: 59 days). The Group is not reliant on any single commercial arrangement.

Going concern

Each year the Directors consider the appropriateness of the assumption of preparing the financial statements on a going concern basis. This

	Appointed	Date resigned
Mr S Johnson (Chairman)	3 July 2018	
Mr A Page (Group Chief Executive)	4 December 2003	
Mr R Kumar*	30 July 2013	3 July 2018
Mr R Miller	19 October 2017	3 July 2018
Mr R Ammoun	30 July 2013	3 July 2018
Mr S Tamiya	28 April 2016	
Mr P Antolik	3 July 2018	
Mr M Ogawa	3 July 2018	

* Non-Executive Chairman from 19 October 2017 until 3 July 2018

is based upon a review of the Company's and the Group's business plan, budget, financial forecasts to 31 March 2022 (and the related sensitivity analysis performed on these forecasts), the investment programme, the forecast compliance with borrowing covenants, other key financial metrics, the availability of undrawn borrowing facilities and surplus cash to provide liquidity. The Group's strong track record of renewing or replacing its borrowing facilities when they mature and the status and development of its plans for refinancing borrowings that mature in the next 12 months have also been considered.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report from pages 4 to 31. The financial performance and position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review of the Strategic Report on pages 24 to 31. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts. Additional details in respect to the long-term viability and financial resilience of the Group are provided in the Financial Review section of the Strategic Report on pages 24 to 31.

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

A resolution proposing the reappointment of Deloitte LLP as auditor will be put to the Board of Directors.

Approved by the Board of Directors and signed on its behalf by

Garry Clarke
Company Secretary
26 September 2019

Current Board of Directors and Advisors

Board of Directors	Steve Johnson - Chairman Adrian Page Peter Antolik Satoru Tamiya Michihiko Ogawa
Secretary	Garry Clarke
Registered Office	Green Lane, Walsall, West Midlands, WS2 7PD Telephone: 01922 638282 Registered in England, Number 04295398
Auditor	Deloitte LLP, Statutory Auditor 2 New Street Square, London, EC4A 3BZ, United Kingdom

Corporate Governance Report

Principles of Corporate Governance
The Group seeks to apply the principles of the UK Corporate Governance Code ("the UK Code"), where considered applicable to a private, unlisted group including a regulated company. The Directors consider the annual report and financial statements to comply with the Walker Guidelines for Disclosure and Transparency in Private Equity, regularly monitoring corporate governance and reporting best practice, as well as the applicability of any developments to the Group. Any changes to the Group's governance and reporting arrangements considered appropriate are implemented within agreed timescales.

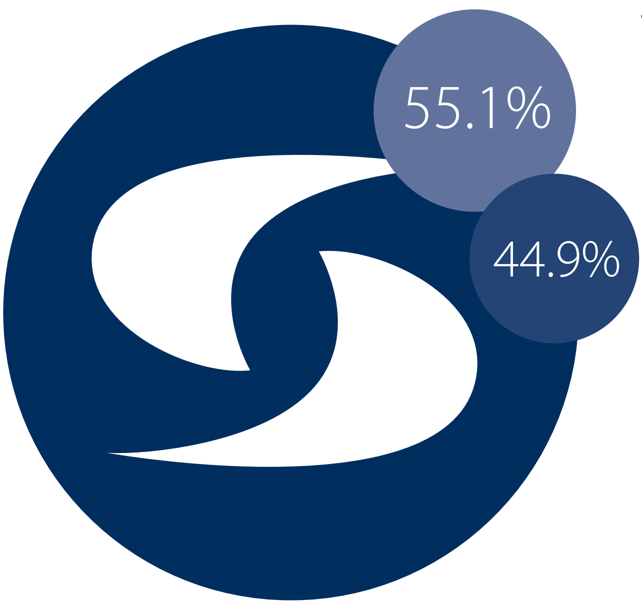
South Staffordshire Water PLC continues to apply the principles of its own Corporate Governance Code (the "SSW Code"), which supports Ofwat's published principles on board leadership, transparency and governance and which draws on certain principles of the UK Code that may be applicable to a privately owned regulated company. A copy of the SSW Code can be found on South Staffs Water's website (www.south-staffs-water.co.uk). In January 2019, Ofwat published updated principles on Board leadership, transparency and governance, which came into effect on 1 April 2019. The Company supports these updated principles, and South Staffordshire Water PLC will be reviewing and updating the SSW Code to incorporate these principles – in particular, taking account of principle 2.1, which focuses on the requirement for their Board to establish the company's purpose, strategy and values, and be satisfied that these and its culture reflect the needs of all those it serves.

As the immediate parent company of South Staffordshire Water PLC, South Staffordshire Plc and its Board of Directors recognise the responsibilities that come from providing a public service. The Company is therefore fully committed to maintaining high standards of leadership, transparency and governance as a parent of a regulated business. The Company maintains an open dialogue with all of its subsidiaries and fully supports South Staffordshire Water PLC in complying with its statutory and regulatory obligations, including but not limited to the SSW Code, and ensuring that it can make strategic and sustainable decisions that are in the long-term interests of the regulated business.

The Board can confirm, on behalf of Arjun Infrastructure Partners Limited, that it, as the ultimate controlling party of the Group for the year ended 31 March 2019, also fully supports these principles of board leadership and governance.

There have been no material changes to Corporate Governance arrangements in the Group during the year. The Board confirms that, to the best of its knowledge, there are

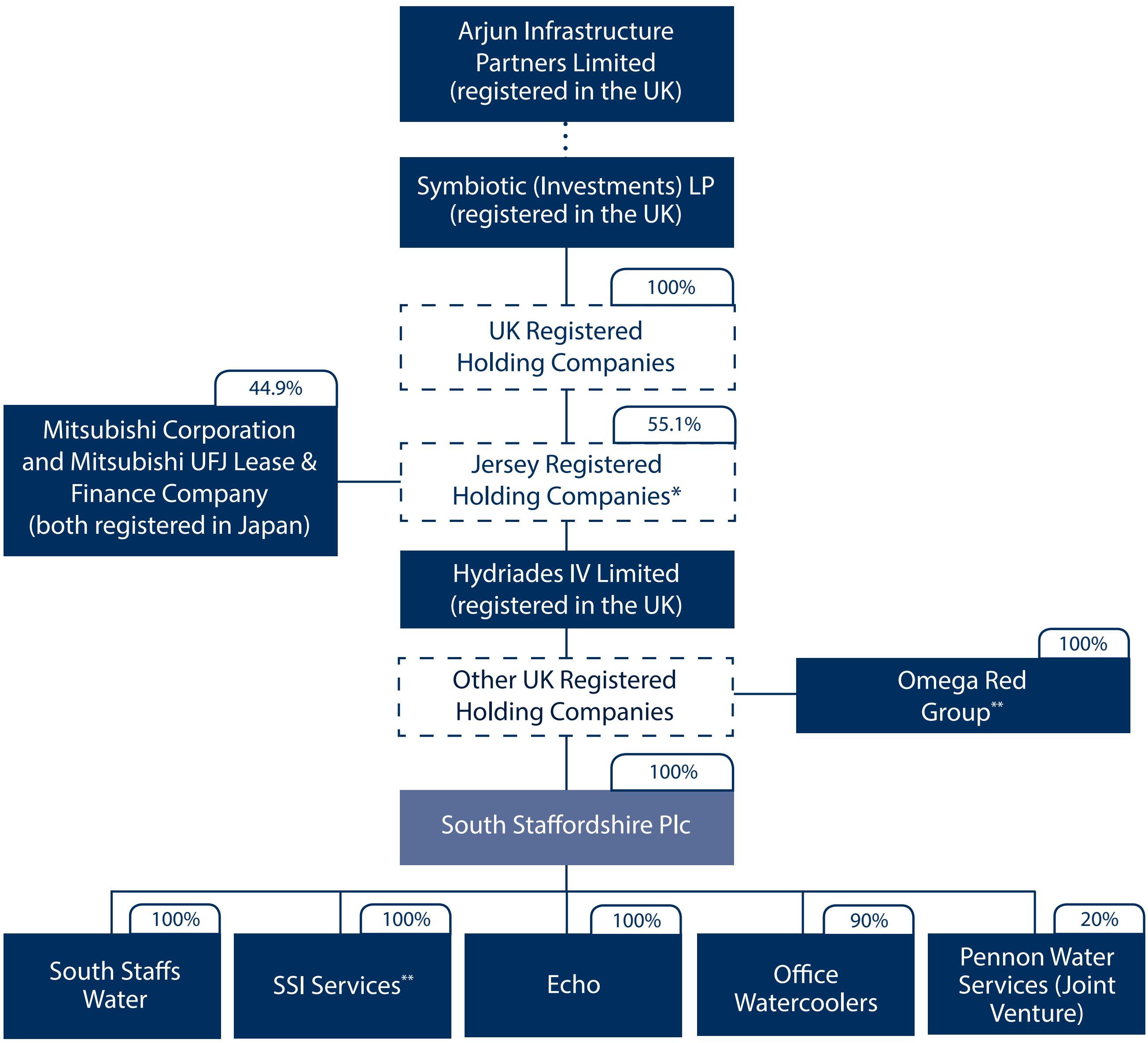
Our investors as at 31 March 2019



Long-term pension scheme and institutional investors, advised and managed by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018

Simplified Group structure as at 31 March 2019



* Jersey registered holding companies are UK resident for tax purposes.

** Omega Red Group is managed within the SSI Services division.

% represents economic equity interest held.

Corporate Governance Report

no issues or risks at the Group level which may negatively impact on South Staffordshire Water PLC.

Details of how the Group preserves value over the long-term, business models and how these and the group strategy are delivered are provided within the Strategic Report.

Group structure

Until 3 July 2018, the company was controlled by the Global Infrastructure Fund of the investment business KKR & Co. L.P. (KKR), which is quoted on the New York Stock Exchange and which held a majority controlling interest in the Group, together with certain co-investors.

On 3 July 2018, the Global Infrastructure Fund of KKR together with its co-investors, sold their 75% equity stake in the Group to pension funds and other institutional investors advised and managed by Arjun Infrastructure Partners Limited. These investors then sold a 19.9% stake to Mitsubishi UFJ Lease & Finance Company.

South Staffordshire Plc, as the immediate parent company of South Staffs Water, ensures through its comprehensive knowledge of its subsidiaries and the water sector that it understands the duties and obligations of a regulated company. This includes Condition P of its licence and, although some Directors sit on both Boards, South Staffordshire Water PLC acts where applicable, with the support of the Group, as if it were a separate listed company. South Staffordshire Plc provides management, professional and administrative support services to South Staffordshire Water PLC and other subsidiaries at cost.

There was no direct interaction between South Staffordshire Water PLC and the ultimate controlling party, Arjun Infrastructure Partners Limited during the year.

Details of the borrowings of the Group are provided in the Financial Review section of the Strategic Report, the financial statements, including the analysis of net debt and the notes to the consolidated cash flow statement and financial statements. Similarly, details of the borrowings of South Staffordshire Water PLC are provided in its own Report and Accounts.

During the year there were a number of UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydriades IV Limited. There are also intermediate holding companies above Hydriades IV Limited which are registered in Jersey but which are resident in the UK for tax purposes. In March 2016, Mitsubishi Corporation acquired a 25% equity interest in one of these companies, Selena Bidco Limited, and therefore holds a 25% equity interest in the South Staffordshire Plc Group.

Three of the UK holding companies have loans payable to South Staffordshire Water PLC and South Staffordshire Plc, which bear interest which is paid in full each year. One of the loans payable to South Staffordshire Water PLC was repaid on 24 May 2019. Any UK tax losses surrendered to South Staffordshire Water PLC from other companies in the structure are paid for at face value.

From 3 July 2018, with the change in the Group structure set out on page 37 there are a number of UK registered entities above the companies registered in Jersey and the ultimate controlling party is now Arjun Infrastructure Partners Limited, a company registered in the UK.

Arjun Infrastructure Partners Limited, AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure Partners Limited) and Mitsubishi Corporation have signed Condition P undertakings in accordance with South Staffordshire Water's Instrument of Appointment. The companies giving the Condition P undertakings agree to:

i) provide South Staffordshire Water PLC with all information needed to comply with its obligations; and to procure that their subsidiaries will;
ii) refrain from taking any action which might cause South Staffordshire Water PLC to breach any of its obligations; and
iii) ensure that the Board of South Staffordshire Water PLC contains no less than three Independent Non-Executive Directors, or such higher number to ensure that the Independent Non-Executive Directors are the largest single group on the Board, who are persons of standing with relevant experience.

The Board

The Board is collectively responsible for the long-term success of the Group's businesses. During the year the Board comprised of one Executive Director and four Non-Executive Directors. As part of the change in ownership of the Group, on 3 July 2018, three of the Non-Executive Directors representing KKR and their co-investors resigned and were replaced by three new Non-Executive Directors. Details of the skills and experience of the current Directors are contained in the Board of Directors' biographies on page 32.

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 Board sets standards of conduct to promote the success of the Company and the Group, provides leadership, and reviews the Group's internal controls, risk management activities and governance structure. It approves major financial and investment decisions over senior management thresholds and evaluates the performance of the individual businesses, as well as the Group as a whole, by monitoring reports received directly from the subsidiary businesses and those prepared at a Group level. The Non-Executive Directors, headed by the Chairman, are responsible for overseeing this work, and scrutinising management performance. They constructively challenge and help develop proposals on strategy.

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

On joining the Board, Directors receive induction material appropriate to their needs. This may include information on the Group structure, the financing structure, the regulatory and operating framework and business models of the businesses within the Group and strategic and financial plans. The Board carries out site visits to maintain familiarity with the Group's operations and to refresh their skills and knowledge. The Board also keeps up to date with legal and regulatory changes and developments by receiving written updates from both internal and external advisers.

The Board maintains a flexible approach to Board matters with the delegation of power to a Committee, with precise terms of reference for specified routine purposes. Both the terms of reference and composition of the Committees are reviewed to ensure their ongoing effectiveness.

The Directors are supported by an Executive Team and by other senior managers who are responsible for assisting them in the development and achievement of the Group's strategy, and reviewing the financial and operational performance of the Group, as well as its individual businesses. Senior management is responsible, along with the Board, for monitoring policies and procedures along with any other matters that are not reserved for the Board. There are procedures providing a regime of authorisation levels for key decision-making. Details of the skills and experience of the Executive Team are contained in their biographies on page 33.

The Board regularly considers its own performance, the performance of the individual Directors and various Committees. The Board is satisfied that its membership contains an appropriate balance of different skills and experience, as well as that each Director continues to contribute effectively, allocating appropriate time and commitment to their role. All Directors are aware of the procedure for those wishing to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary, who is also responsible for monitoring corporate governance matters. The Board is responsible for the appointment and removal of the Company Secretary.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association, and to the extent permitted by law, the company indemnifies each of its Directors and other Officers against certain liabilities that may be incurred as a result of their positions with the company. The indemnity was in force throughout the tenure of each Director during the last financial year and is currently in force.

Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on Institute of Chartered Secretaries and Administrators best practice.

The matters include, but are not limited to:

- Approval of capital and operating budgets
- Review and approval of any material changes to the Group's capital structure
- Review and approval of the Group's strategy

Corporate Governance Report

- Review and approval of financial reports
- Review and approval of major contracts
- Powers to delegate authority.

Whilst South Staffordshire Water PLC acts, where applicable, as though it were a separate public listed company, a limited number of matters in respect of this subsidiary company also need the approval of the Board of South Staffordshire Plc. These include:

- Material submissions to Ofwat, particularly in respect of Price Reviews and major structural reform
- Contracts that are material either strategically or by reason of size, according to specified limits
- Appointment and removal of any Director, in its role as shareholder
- Prosecution, defence or settlement of litigation above £1 million or being otherwise material
- Material changes to pension arrangements where operated on a Group basis.

Organisational structure

A defined organisation structure for the Group exists with clear lines of responsibility, accountability and appropriate division of duties.

The Board sets overall strategy, and has delegated the necessary authority to management and business departments in order to deliver that strategy. This is communicated to employees by way of published policies and procedures and regular staff briefings.

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

Board membership

Senior Executives of KKR and its co-investors in the Group holding positions on the Board of the Company up until 3 July 2018 were Ram Kumar, Ryan Miller and Roger Ammoun. On 3 July 2018 following the sale of the Group, these three directors were replaced as Non-Executive Directors of the Company by three new Non-Executive Directors; Peter Antolik representing Arjun Infrastructure Partners Limited, Michihiko Ogawa representing Mitsubishi Corporation and Steve Johnson who was appointed Non-Executive Chairman. Satoru Tamiya who represents Mitsubishi Corporation was a director throughout the year. From 3 July 2018, Peter Antolik became a Director of holding companies above South Staffordshire Plc in the Group structure. Adrian Page, Group Chief Executive of South Staffordshire Plc, is also a Director of South Staffordshire Water PLC and is a Director of all of South Staffordshire Plc's subsidiaries, as well as all of the UK registered holding companies in the Group structure up to Hydriades IV Limited.

Board meetings

The Board holds regular scheduled meetings throughout the year, and during the year ended 31 March 2019 there were five scheduled meetings of the Board. In addition, there were three management meetings, attended by the Executive Team and shareholder representatives, during the year ended 31 March 2019.

All Board members are provided with sufficient information prior to any Board meeting to allow appropriate preparation to ensure that they can properly discharge their duties. Key information provided in these reports includes reports on operational performance, regulatory matters, Health & Safety and financial performance, in addition to a report on corporate matters and any specific items for consideration or approval.

The attendance by individual Directors who held office during the year at scheduled meetings of the Board during the year ended 31 March 2019 and while they were in post is shown in the table opposite.

Risk Management

The Group's approach to risk reflects its status as the parent company of a regulated and licensed water undertaking providing an essential public service and balances the need to manage exposure to risk whilst, at the same time, aiming to continually develop the Group's operational and financial performance.

South Staffordshire Water PLC's approach to risk reflects its status as a regulated and licensed water undertaking providing an essential public service. As detailed in the Strategic Report, a strong risk management and control framework is in place both in South Staffs Water and at a Group level to understand and manage identified current and emerging risks.

The non-regulated businesses operate principally in regulated environments and, as such, must also have strong risk management activities.

Risk management is discussed at Board level both in terms of the Group and its individual businesses. As detailed above, the Group's individual businesses are required to monitor risk and its management.

Any changes in significant business risks or controls to mitigate the significant risk is reported to the Audit Committee.

Further details in respect of the Group's risk management can be found in the Financial Review section of the Strategic Report on pages 24 to 31.

Details in respect of the Company's going concern assumptions can be found in the Long Term Viability and Financial Resilience statement presented on page 31.

Relations with Shareholders

There is a regular and detailed dialogue between the Executive Team, the Board and shareholders to ensure that shareholders' objectives and priorities are carefully considered. This dialogue is achieved through regular management and Board meetings that shareholders and the Executive Team attend, with major shareholders having representation on the Board of Directors, and also through other less formal communication.

Director	Role	Board Meetings Attended
Mr Steve Johnson	Chairman	4/4
Mr Adrian Page	Group Chief Executive – South Staffordshire Plc	5/5
Mr Peter Antolik	Non-Executive Director & Arjun Infrastructure Partner representative	3/4
Mr Satoru Tamiya	Non-Executive Director & Mitsubishi Corporation representative	5/5
Mr Michihiko Ogawa	Non-Executive Director & Mitsubishi Corporation representative	4/4
Mr Ram Kumar	Non-Executive Director & KKR representative	1/1
Mr Ryan Miller	Non-Executive Director & KKR representative	0/1
Mr Roger Ammoun	Non-Executive Director & KKR Co-investor representative	0/1

Audit Committee Review

Chairman during the year ended 31 March 2019:	Steve Johnson (Meetings attended 2/2)
Other members during the year ended 31 March 2019:	Michihiko Ogawa (Meetings attended 2/2) Peter Antolik (Meetings attended 1/2)
Meetings are also regularly attended by:	Deloitte LLP (the Group's external independent auditor), the Group Chief Executive, the Group Financial Officer and Company Secretary, the Group Internal Audit Manager and, representatives from the Group's owners; Arjun Infrastructure Partners Limited and Mitsubishi Corporation

Role and Responsibilities

The main role and responsibilities of the Audit Committee during the year ended 31 March 2019 included:

- Monitoring the integrity of financial statements and reviewing significant financial reporting judgements contained therein
- Reviewing the Group's internal financial controls
- Monitoring and reviewing the effectiveness of the Group's Internal Audit function
- 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 material external audits and approving the auditor's remuneration
- Reviewing and monitoring of Group risk management processes and systems.

Work of the Audit Committee

The Committee review and challenge Internal Audit reports, individual papers from management, external auditor reports and the Group risk register. The Committee also reviews areas of accounting judgement and estimation and where appropriate makes comment; recommendations; and seeks further management clarification as required.

During the year, Audit Committee activities including the following:

- Review of the Group business risk register and risk mitigation
- Business planning for South Staffordshire Water 2020 to 2025
- Review of internal controls
- SO 27001 Information System Security Risk Management controls
- Review of supporting data in respect of Outcome Delivery Incentives for South Staffs Water
- Long-term viability audit work.

In order to facilitate the Group's risk management process, key risks facing each business within the Group and the Group as a whole are regularly reviewed, documented and summarised by senior management. Every six months the management teams of each business formally discuss, review, approve and document the relevant business risks. The objective of this process is to ensure that each management team is identifying, prioritising and rating all key business risks, and implementing and amending, where necessary, appropriate procedures and controls as required to mitigate these risks. It also allows management to highlight, document and prioritise as appropriate any outstanding actions with respect to the implementation of these procedures and controls. The Internal Audit function also critically assesses the risks, controls and procedures identified and the rating assigned to them. This information is reviewed by the Audit Committee annually.

The Group's external auditor, Deloitte LLP, receive Audit Committee papers and provide detailed reports regarding audit planning and the results of its external independent audit.

The responsibilities of the external independent auditor in the area of financial reporting for 2018/19 are set out in its report on pages 47 to 48.

Financial Control

Financial Reporting and Planning

The Board of Directors, supported by the Audit Committee, recognises the need to present a fair, balanced, understandable and clearly defined assessment of the Group's operational and financial performance and position, including its future prospects. This is provided by a review of the Group's operations, including the future outlook and the Group's performance as set out in the Strategic Report of each year's Annual Report.

Business plans, annual budgets and investment proposals for each business, and for the Group, have been formally prepared, reviewed and approved by the Board, supported by the Audit Committee. These include profit and loss, investment plans and cash flow budgets. Actual financial results and cash flows, including a comparison with budgets and forecasts, are regularly reported to the Board with variances being identified and used to initiate any action deemed appropriate. Details of the Group's actual and forecast future compliance with its borrowing covenants are also prepared on a regular basis, and forecasts of the Group's level of its undrawn and available borrowing facilities and cash balances for liquidity purposes are also prepared and reported to the Board.

Sensitivity analysis has been carried out on the Group's longer term financial forecasts to ensure the Company has the ability to withstand certain severe but plausible events in order to demonstrate and provide the Board with evidence of its long-term viability and financial resilience.

Internal Control

The Board, supported by the Audit Committee, attaches considerable importance to its system of internal control and for reviewing its effectiveness, including its responsibility for taking reasonable steps for the safeguarding of the assets of the Company and the Group and for preventing and detecting material fraud and other material irregularities. Such a system is designed to manage rather than eliminate the risk, and can nonetheless provide only reasonable and not absolute assurance against misstatement or loss. There is an established internal control framework within the Group that is continually reviewed and updated, taking into account the nature of the Group's operations and its structure.

Internal Audit

The Internal Audit work covers financial and operational risk assurance, regulatory assurance, testing of legal and regulatory compliance and financial controls, as well as other business commercial support work. An annual Internal Audit plan is produced and approved by the Audit Committee, with progress and key findings reported to the Audit Committee.

Specific topics covered by Internal Audit during the year included, but were not limited to:

- Group business risk register including risk mitigation
- Business planning for South Staffordshire Water 2020 to 2025
- Proposed South Staffs Water wholesale tariffs
- Review of internal controls
- ISO 27001 Information System Security Risk Management controls
- Review of supporting data in respect of Outcome Delivery Incentives for South Staffs Water
- Long-term viability internal audit work.

The Internal Audit arrangements in operation are considered appropriate to the size and complexity of the Group, with the Audit Committee continuing to review these arrangements on a regular basis.

External Independent Auditor

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

In evaluating the external independent auditor, the Audit Committee assesses the calibre of the external audit firm, the audit scope and plan which is reported to the Audit Committee in advance of the work commencing, and the level and nature of audit communications, and findings including the reporting to the Audit Committee of the audit results.

The external audit firm, Deloitte LLP, has been the Company's auditor since 2002, with a change in the audit Partner occurring every 5 years. Based on current legislation, Deloitte LLP can be re-appointed for all financial years up to and including the year to 31 March 2023. Thereafter, auditor rotation is required once every 10 years with this extendable to 20 years if a tender is conducted after 10 years.

Non Audit fees in relation to specific parts of the regulatory accounts totalled £16,561 (2018: £16,126).

Remuneration and Nomination Committee Reviews

Remuneration Committee Review

Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	1/1
Mr Peter Antolik (appointed 03/07/2018)	Member	1/1
Mr Satoru Tamiya (appointed 03/07/2018)	Member	1/1
Mr Ram Kumar (resigned 03/07/2018)	Former Chair	0/0
Mr Adrian Page (resigned 03/07/2018)	Member	0/0

Role of the Remuneration Committee

The Remuneration Committee is responsible for the Group's remuneration policy and the setting of the remuneration packages of the Board and the Executive Team. No Director is involved in determining his or her own remuneration.

During the year ended 31 March 2019 the key terms of reference for the Committee were to:

- Agree remuneration that will ensure that the Chief Executive and the Executive Team are provided with appropriate incentives to achieve high standards of performance and successful delivery of the Group's strategy and reward them for their individual contributions to the success of the Group
- Determine such remuneration packages and arrangements with regard to any relevant legal requirements and associated guidance and to obtain reliable, up-to-date information about remuneration in other organisations for comparison purposes
- Approve the design of, and determine targets for, any performance related remuneration packages for the Chief Executive and the Executive Team
- Ensure that contractual terms on termination are fair and that failure is not rewarded
- Oversee any material changes in employee benefit structures throughout the Group
- Ensure that remuneration packages are designed to attract, retain and motivate high-calibre senior executives
- Determine the Chief Executive's remuneration package and those of the Executive Team and to set other key annual objectives.

	Executive Director		Executive Team*		Total	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Basic Salary	249	243	644	616	893	859
Benefits	17	17	48	44	65	61
Bonus	84	92	154	195	238	287
Total Emoluments	**350**	**352**	**846**	**855**	**1,196**	**1,207**
Group Money Purchase Pension Contributions	56	58	51	54	107	112
Total Remuneration**	**406**	**410**	**897**	**909**	**1,303**	**1,319**

* Excluding the Executive Director.

** In addition to the above, the Chairman received a fee of £34,000 in respect of their service in the year.

Remuneration Policy

The total remuneration package of the Chief Executive and Executive Team includes basic salary, benefits (including car, fuel and private medical insurance), an annual bonus that is linked to individual business and Group targets, as well as personal performance related objectives and contributions in respect of Group pension schemes. Performance related objectives are designed to encourage and reward continuing improvement in the Group's operational performance, its financial performance and value. Some Executive bonus arrangements allow for deferral of payment of a proportion of an awarded annual bonus subject to continued employment after two years from award.

Service Contracts

The Chief Executive is employed on a service contract of no fixed term, with a notice period of 12 months by the Company and 12 months by the individual. The Chief Executive is entitled to basic pay, private medical insurance, a car allowance, fuel and payments made by the Group in respect of a money purchase pension scheme, in addition to an annual performance-related bonus, which is designed to achieve long-term value creation and high standards of operational and financial performance. Further details in respect of the Director's remuneration are provided on the previous page (along with the remainder of the Executive Team) and in note 5 to the Accounts, on page 60.

The remuneration of the Chairman is determined by the Board. As the other Non-Executive Directors for the year ended 31 March 2019 are representatives of the Group's shareholders, they do not receive any remuneration from the Group.

Nomination Committee Review

Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	0/0
Mr Peter Antolik (appointed 03/07/2018)	Member	0/0
Mr Satoru Tamiya (appointed 03/07/2018)	Member	0/0
Mr Ram Kumar (resigned 03/07/2018)	Former Chair	0/0
Mr Adrian Page (resigned 03/07/2018)	Member	0/0

Role of the Nomination Committee

Meetings are convened as required and during the year ended 31 March 2019 no meetings were held.

During the year ended 31 March 2019 the key terms of reference of the Nomination Committee included:

- Preparing an appropriate specification for any relevant executive Board position or for the Executive Team
- Ensuring successful candidates have the necessary skills, experience, information and knowledge to fulfil their duties
- Consideration of succession planning for Executive Directors and the Executive Team.

External search advisors can be appointed to assist the Nomination Committee where considered appropriate, but are not considered necessary in all appointments.

Diversity

In considering appointments to the Board of Directors, the Nomination Committee will consider a wide range of factors, including, but not limited to, skills, experience, competencies, gender representation and diversity.

Details of the number of men and women by employment category employed by the Group can be found in the Strategic Report on page 22.

Directors' Responsibilities Statement

The following statement, which should be read in conjunction with the independent auditor's statement of its 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 independent auditor in relation to the accounts.

The Directors are responsible for preparing the Annual Report and Financial Statements, including the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each 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), including FRS 102 "The Financial Reporting Standard applicable in the UK". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of the Company and their roles are listed on page 32.

Independent Auditor's Report

Opinion

In our opinion the financial statements of South Staffordshire Plc (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Scott Bayne FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
30 September 2019

Consolidated Profit & Loss Account

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Group turnover	2	266,588	257,909
Operating costs before goodwill amortisation	3	(225,675)	(212,638)
Group operating profit before goodwill amortisation and share of associate		40,913	45,271
Share of associate operating profit		48	82
Group operating profit before goodwill amortisation		40,961	45,353
Goodwill amortisation	11	(3,943)	(3,967)
Total operating profit		37,018	41,386
Finance charges (net)	7	(12,827)	(12,443)
Profit on ordinary activities before taxation		24,191	28,943
Taxation on profit on ordinary activities	8	(5,181)	(4,164)
Profit on ordinary activities after taxation		19,010	24,779
Less profit after tax of non-controlling interests	26	(85)	(52)
Profit for the financial year		18,925	24,727
Earnings per share Basic and diluted	10	147.6p	192.9p

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	2019 £'000	2018 £'000
Profit for financial year	18,925	24,727
Movement on hedging reserve	112	2,125
Deferred tax impact of movement in hedging reserve	(19)	(336)
Actuarial (loss)/gain relating to retirement benefit surplus	(1,258)	17,528
Change in assumption for GMP equalisation relating to retirement benefit surplus	(1,300)	—
Deferred tax on GMP equalisation relating to retirement benefit surplus	221	—
Deferred tax impact of actuarial (loss)/gain	214	(2,980)
Fair value adjustment - FRS102 transition	(1,543)	—
Exchange movements on translation of overseas operations	38	(25)
Total consolidated comprehensive income for the year	15,390	41,039

The results in both statements above are derived from continuing operations.

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

Consolidated Balance Sheet

As at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets - goodwill	11	20,424	23,592
Investment in associate	12	1,162	1,460
Tangible assets	13	554,251	534,123
		575,837	559,175
Current assets			
Stocks	17	3,410	2,922
Debtors - amounts recoverable within one year	18	88,855	71,767
Debtors - amounts recoverable in more than one year	18	83,938	99,061
Retirement benefit surplus	22	65,846	67,158
Cash at bank and in hand		3,894	7,634
		245,943	248,542
Creditors – amounts falling due within one year			
Borrowings	19	(28,382)	(74,329)
Trade and other payables	20	(91,977)	(94,651)
		(120,359)	(168,980)
Net current assets		125,584	79,563
Total assets less current liabilities		701,421	638,737
Creditors – amounts falling due in more than one year			
Borrowings	19	(392,867)	(329,071)
Trade and other payables	20	(16,256)	(12,595)
Capital contributions	15	(152,310)	(146,496)
Provisions for liabilities - deferred tax	21	(52,239)	(51,222)
		(613,672)	(539,384)
Net assets		87,749	99,353
Capital and reserves			
Share capital		5,449	5,449
Share premium account		10,882	10,882
Revaluation reserve		17,625	17,860
Capital redemption reserve		1	1
Merger reserve		(253)	(253)
Currency translation reserve		16	(22)
Hedging reserve		(5,715)	(5,808)
Profit and loss account		59,411	70,937
Shareholders' funds		87,416	99,046
Non-controlling interests	26	333	307
Total capital employed		87,749	99,353

A statement of movement of reserves is given in the Consolidated Statement of Changes in Equity.

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

The financial statements of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 26 September 2019.

A P Page
Group Chief Executive

Company Balance Sheet

As at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	16	102,721	102,721
Tangible assets	13	1,210	937
		103,931	103,658
Current assets			
Stocks	17	96	—
Debtors - amounts recoverable within one year	18	5,772	9,032
Debtors - amounts recoverable in more than one year	18	60,764	60,714
Retirement benefit surplus	22	51,401	52,975
Cash at bank in hand		28,272	15,332
		146,305	138,053
Creditors – amounts falling due within one year			
Borrowings	19	(28,382)	(72,321)
Trade and other payables	20	(7,221)	(8,871)
		(35,603)	(81,192)
Net current assets		110,202	56,861
Total assets less current liabilities		214,633	160,519
Creditors – amounts falling due in more than one year			
Borrowings	19	(131,767)	(68,137)
Trade and other payables	20	(820)	(748)
Provisions for liabilities - deferred tax	21	(8,701)	(8,829)
		(141,288)	(77,714)
Net assets		73,345	82,805
Capital and reserves			
Share capital		5,449	5,449
Share premium account		10,882	10,882
Capital redemption reserve		1	1
Hedging reserve		—	(348)
Profit and loss account		57,013	66,821
Shareholders' funds		73,345	82,805

The profit in the year ended 31 March 2019 for the Company is £19,363,000 (2018: £36,819,000).

A statement of movement of reserves is given in the Company Statement of Changes in Equity.

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

The financial statements of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 26 September 2019.

A P Page
Group Chief Executive

Consolidated Statement of Changes in Equity

As at 31 March 2019

	Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Revaluation Reserve £'000	Profit & Loss Account £'000	Currency Translation Reserve £'000	Hedging Reserve £'000	**Shareholders' Funds £'000**	Non-controlling Interests £'000	**Total Capital Employed £'000**
Balance at 31 March 2017	5,449	10,882	1	(253)	18,095	61,361	3	(7,597)	**87,941**	213	**88,154**
Profit for the financial year	—	—	—	—	—	24,727	—	—	**24,727**	52	**24,779**
Exchange movements on translation of overseas operations	—	—	—	—	—	—	(25)	—	**(25)**	—	**(25)**
Change in value of hedging instruments - cash flow hedges	—	—	—	—	—	—	—	1,975	**1,975**	—	**1,975**
Deferred tax on change in value of hedging instruments	—	—	—	—	—	—	—	(336)	**(336)**	—	**(336)**
Actuarial gain relating to retirement benefit surplus	—	—	—	—	—	17,528	—	—	**17,528**	—	**17,528**
Deferred tax on actuarial gain relating to retirement benefit surplus	—	—	—	—	—	(2,980)	—	—	**(2,980)**	—	**(2,980)**
Amounts transferred / recycled to profit and loss	—	—	—	—	(235)	235	—	180	**180**	—	**180**
Deferred tax on amounts recycled to profit and loss	—	—	—	—	—	—	—	(30)	**(30)**	—	**(30)**
	5,449	10,882	1	(253)	17,860	100,871	(22)	(5,808)	**128,980**	265	**129,245**
Acquisition in the year	—	—	—	—	—	—	—	—	—	47	**47**
Dividends (note 9)	—	—	—	—	—	(29,934)	—	—	**(29,934)**	(5)	**(29,939)**
Balance at 31 March 2018	5,449	10,882	1	(253)	17,860	70,937	(22)	(5,808)	**99,046**	307	**99,353**
Profit for the financial year	—	—	—	—	—	18,925	—	—	**18,925**	85	**19,010**
Exchange movements on translation of overseas operations	—	—	—	—	—	—	38	—	**38**	—	**38**
Fair value adjustment - FRS102 transition*	—	—	—	—	—	(1,543)	—	—	**(1,543)**	—	**(1,543)**
Change in value of hedging instruments - cash flow hedges	—	—	—	—	—	—	—	(66)	**(66)**	—	**(66)**
Deferred tax on change in value of hedging instruments	—	—	—	—	—	—	—	11	**11**	—	**11**
Actuarial loss relating to retirement benefit surplus	—	—	—	—	—	(1,258)	—	—	**(1,258)**	—	**(1,258)**
Deferred tax on actuarial loss relating to retirement benefit surplus	—	—	—	—	—	214	—	—	**214**	—	**214**
GMP equalisation relating to retirement benefit surplus	—	—	—	—	—	(1,300)	—	—	**(1,300)**	—	**(1,300)**
Deferred tax on GMP equalisation relating to retirement benefit surplus	—	—	—	—	—	221	—	—	**221**	—	**221**
Amounts transferred / recycled to profit and loss	—	—	—	—	(235)	235	—	178	**178**	—	**178**
Deferred tax on amounts recycled to profit and loss	—	—	—	—	—	—	—	(30)	**(30)**	—	**(30)**
	5,449	10,882	1	(253)	17,625	86,431	16	(5,715)	**114,436**	392	**114,828**
Acquisition in the year	—	—	—	—	—	—	—	—	—	16	**16**
Dividends (note 9)	—	—	—	—	—	(27,020)	—	—	**(27,020)**	(75)	**(27,095)**
Balance at 31 March 2019	5,449	10,882	1	(253)	17,625	59,411	16	(5,715)	**87,416**	333	**87,749**

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

* The fair value adjustment relates to prior period movements on the fair value assessment of Cambridge Water Plc assets upon transition to FRS102.

Company Statement of Changes in Equity

As at 31 March 2019

	Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Hedging Reserve £'000	**Shareholders' Funds £'000**
Balance at 31 March 2017	5,449	10,882	1	46,057	(1,010)	**61,379**
Profit for the financial year	—	—	—	36,819	—	**36,819**
Change in value of hedging instruments - cash flow hedges	—	—	—	—	798	**798**
Deferred tax a change in value of hedging instruments	—	—	—	—	(136)	**(136)**
Actuarial gain relating to retirement benefit surplus	—	—	—	16,722	—	**16,722**
Deferred tax on actuarial gain relating to retirement benefit surplus	—	—	—	(2,843)	—	**(2,843)**
	5,449	10,882	1	96,755	(348)	**112,739**
Dividends (note 9)	—	—	—	(29,934)	—	**(29,934)**
Balance at 31 March 2018	5,449	10,882	1	66,821	(348)	**82,805**
Profit for the financial year	—	—	—	19,363	—	**19,363**
Change in value of hedging instruments - cash flow hedges	—	—	—	—	418	**418**
Deferred tax on change in value of hedging instruments	—	—	—	—	(70)	**(70)**
Actuarial loss relating to retirement benefit surplus	—	—	—	(1,591)	—	**(1,591)**
Deferred tax on actuarial loss relating to retirement benefit surplus	—	—	—	270	—	**270**
GMP equalisation relating to retirement benefit surplus	—	—	—	(1,000)	—	**(1,000)**
Deferred tax on GMP equalisation relating to retirement benefit surplus	—	—	—	170	—	**170**
	5,449	10,882	1	84,033	—	**100,365**
Dividends (note 9)	—	—	—	(27,020)	—	**(27,020)**
Balance at 31 March 2019	5,449	10,882	1	57,013	—	**73,345**

Consolidated Cash Flow Statement

For the year ended 31 March 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Cash inflow from operating activities			64,116		69,542
Corporation tax paid			(3,009)		(799)
Net cash inflow from operating activities	(a)		61,107		68,743
Cash flows from investing activities:					
Purchase of tangible fixed assets		(50,855)		(55,929)	
Proceeds from sale of tangible fixed assets		986		691	
Capital contributions received		8,515		10,047	
Interest received		5,628		5,800	
Investment in associate		—		(303)	
Cash consideration for subsidiaries acquired (including costs)		(880)		(7,068)	
Cash balances of subsidiaries acquired (net)		23		2,774	
Net cash outflow from investing activities			(36,583)		(43,988)
Cash flows from financing activities:					
Interest paid		(12,990)		(12,877)	
Equity dividends paid		(27,020)		(29,934)	
Repayment of bank loans		(9,940)		(12,100)	
Drawdown / additions to bank loans		—		25,379	
Bank loan issue costs paid		(614)		(225)	
Repayment of private placement loan notes		(20,500)		—	
Drawdown / additions to private placement loan notes		43,000		—	
Private placement loan notes issue costs paid		(200)		—	
Net cash outflow from financing activities			(28,264)		(29,757)
(Decrease) in cash and cash equivalents			(3,740)		(5,002)
Cash or cash equivalents brought forward			7,634		12,636
Cash or cash equivalents carried forward			3,894		7,634

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in that paid £50,855,000 (2018: £55,929,000) and additions in the fixed asset note of £51,206,000 (2018: £54,816,000) is due to an increase in the year of creditors due relating to capital purchases of £351,000 (2018: £1,113,000 decrease).

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2019

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

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Total operating profit		37,018		41,386
Depreciation	29,656		28,155	
Amortisation of goodwill	3,943		3,967	
Amortisation of capital contributions	(2,707)		(2,413)	
Defined benefit pension scheme contributions (employer)	—		(4,196)	
Share of associate operating profit	(48)		(82)	
Profit on disposal of tangible fixed assets	(872)		(618)	
		29,972		24,813
(Increase) in stocks	(473)		(241)	
(Increase) in debtors	(2,326)		(1,790)	
(Decrease) / increase in creditors	(75)		5,374	
		(2,874)		3,343
Cash inflow from operating activities		64,116		69,542
Corporation tax paid		(3,009)		(799)
Net cash inflow from operating activities		61,107		68,743

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2019

(b) Reconciliation of Movement in Net Debt

	2019 £'000	2018 £'000
Decrease in cash	(3,740)	(5,002)
Increase in drawings on short-term bank loans	2,058	12,142
	(1,682)	7,140
Finance lease repayments (non-cash)	—	218
Repayment of bank term loans	7,882	—
Issue of bank loans	—	(25,379)
Bank loan issue costs paid	614	225
Bank loan issue cost amortisation (non-cash)	(208)	(320)
Repayment of private placement loan notes	20,500	—
Issue of private placement loan notes (net of issue costs cash)	(42,800)	
Private placement issue cost amortisation (non-cash)	(71)	(93)
Movement on index-linked debt (non-cash)	(5,823)	(5,617)
Increase in net debt in the year	(21,588)	(23,826)
Net debt brought forward	(395,766)	(371,940)
Net debt carried forward	(417,354)	(395,766)

(c) Analysis of Net Debt

	Balance at 1 April 2018 £'000	Acquisitions and disposals £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2019 £'000
Cash at bank and in hand	7,634	23	(3,763)	—	3,894
Drawings on short-term bank loans	(2,058)	—	2,058	—	—
	5,576	23	(1,705)	—	3,894
Irredeemable debenture stock	(1,652)	—	—	—	(1,652)
Index-linked debt (net of issue costs)	(223,932)	—	—	(5,823)	(229,755)
Bank loans (net of issue costs)	(134,822)	—	8,496	(208)	(126,534)
Private placement loan notes (net of issue costs)	(40,936)	—	(22,300)	(71)	(63,307)
Net debt	(395,766)	23	(15,509)	(6,102)	(417,354)

Non-cash movements represent indexation, amortisation of issue costs, amortisation of the discount/premium on index-linked debt and non cash reduction in finance leases. The book value of net debt detailed above differs from the value used for covenant reporting purposes of £398,568,000 (2018: £376,118,000). Index-linked debt used for covenant reporting purposes is the indexed principal whereas, in accordance with applicable accounting standards, the book value represents amortised cost. Also, bank loans and private placement loan notes for covenant reporting purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. A reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 March 2019 £'000	31 March 2018 £'000
Book net debt (as reported above)	(417,354)	(395,766)
Exclude book premium on issue of index-linked debt	13,447	13,768
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	7,673	7,840
Exclude unamortised issue costs	(2,549)	(2,170)
Exclude accrued interest	215	210
Net debt reported for borrowing covenants	(398,568)	(376,118)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics of the Group.

Notes to the Financial Statements

1 Statement of Accounting Policies

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

(a) General Information and Basis of Accounting

South Staffordshire Plc (the Company) is a privately owned Public Limited Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 35.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The functional currency of the Company and Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company and Group operates. The Company and Group meet the definition of a qualifying entity under FRS 102, and has therefore taken advantage of the disclosure exemptions available to them in respect of financial instruments.

(b) Basis of Consolidation

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

Certain group reorganisations which took place in previous years have been accounted for using merger accounting principles, in order to meet the overriding requirement under section 393 of the Companies Act 2006 for financial statements to present a true and fair view. The transactions accounted for using these principles did not meet all of the conditions for merger accounting under the Companies Act 2006, namely that the fair value of any non-equity consideration must not exceed 10 per cent of the nominal value of equity shares issued as consideration. However, the Directors consider that in substance the consideration for these transactions comprised equity share capital with no net cash impact and that the alternative approach of acquisition accounting, with the restatement of separable assets and liabilities to fair values, the creation of goodwill, as well as 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 their rights relative to the others remained unchanged. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 2006 requirements.

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

(c) Turnover

South Staffs Water turnover includes amounts billed together with an estimation of amounts for water supply services provided but remaining unbilled at the year-end.

Software licence income is recognised within turnover once software implementation and customer acceptance are complete unless there is an agreement to pay a rental charge for the product, in which case, turnover is recognised based on the value of the rental charge each month. Income from separate software maintenance contracts is recognised evenly over the contract period to which it relates. Income generated through the performance of software development and consultancy 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 which 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.

(d) Dividends

Dividends are recognised if they have been paid or if they have been approved by the shareholders before the year-end.

(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 to 20 years.

(f) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (including water mains, impounding and pumped raw water storage reservoirs and dams), specialist operational assets (including pumping stations, treatment stations, boreholes and service reservoirs), land and buildings, as well as other assets including fixed plant and equipment.

Infrastructure Assets

Infrastructure assets principally comprise two separate regional networks of systems that are intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of their components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks is treated as an addition, which is included at cost. Infrastructure renewals expenditure, which is the annual expenditure required to maintain the operating capability of the network, is not considered to represent an increase in capacity or network enhancement and is therefore not capitalised within tangible fixed assets but is expensed within operating costs for the year. In accordance with FRS 102, new infrastructure assets are depreciated on a straight line basis over their useful economic life of 100 years. The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 is being depreciated over the estimated remaining economic life of 80 years.

Other Assets

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

Boreholes	100 years
Buildings and Service Reservoirs	Up to 80 years
Fixed Plant	Up to 30 years
Water Meters	Up to 15 years
Office Equipment	Up to 10 years
Mobile Plant	Up to 10 years
Motor Vehicles	3–7 years

Specialised operating assets includes boreholes, buildings and service reservoirs and pumping / treatment station plant.

(g) Capital Contributions

Capital contributions, including those in respect of infrastructure assets, are treated as deferred income and released as a credit to operating costs over the estimated useful lives of the assets concerned.

(h) Leased Assets

Assets financed by leasing and hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are included in tangible fixed assets, and the net obligation to pay future rentals is included as borrowings within creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis.

(i) Investments

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

Notes to the Financial Statements

1 Statement of Accounting Policies (continued)

(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. 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 the rate of the relevant forward exchange contracts.

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

(l) Pensions

The profit and loss charge or credit in respect of defined benefit pension schemes represent:

- The cost or credits associated with benefit changes, settlements and curtailments. These are charged or credited against operating profit.

- The net interest charge or credit on the net defined benefit deficit or surplus. This is charged or credited within finance charges (net).

Actuarial gains and losses are charged or credited directly to the consolidated statement of comprehensive income net of deferred tax. The defined benefit scheme liabilities, valued using the projected unit method and the fair value of scheme assets, are recognised in the relevant balance sheet as a net retirement benefit surplus or obligation before the related deferred tax, which is reported separately.

Pension scheme surpluses have been recognised in the statement of financial position as the recoverability of the surplus in the form of a refund or a reduction in future contributions does not depend on the future decisions of the trustees of the scheme. The recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

In accordance with the agreed policy in the Group, as the South Staffordshire section of the defined benefit Water Companies Pension Scheme is a multi-employer scheme with deferred members of the scheme being employees of a number of companies in the Group, this section is accounted for in the individual company accounts of South Staffordshire Plc, the holding company of the participating companies in the Group. The Cambridge Water section of the defined benefit Water Companies Pension Scheme is accounted for in the accounts of Cambridge Water Plc. The defined benefit scheme of G. Stow Plc is accounted for in the accounts of G. Stow Plc.

In respect of the Group defined contribution schemes the amounts charged to the profit and loss account are the contributions payable in respect of 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, unless the specific criteria under FRS 102 for capitalisation of development costs have been met, in which case, the costs are capitalised and depreciated over the estimated useful life of the subsequent revenue streams.

(n) Taxation

Current 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 future tax rates anticipated at the time of reversal that have been enacted at the balance sheet date.

(o) Financial Instruments

Financial Assets

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

Financial Liabilities

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

(p) Hedge Accounting

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

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity (net of tax) in a hedging reserve. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. The amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account.

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

(q) Related Party Transactions

As of 31 March 2019, the Company was an indirectly wholly owned subsidiary undertaking of Hydriades IV Limited, the ultimate parent company in the United Kingdom at that date. As such, the Company has taken advantage of the exemption from disclosing transactions with other members of the Group headed by Hydriades IV Limited, as consolidated financial statements for this company in which the accounts of the Company and its subsidiaries are included, are publicly available. The Group has no other related party transactions requiring disclosure other than those disclosed in note 30.

Notes to the Financial Statements

Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements. These are based on historical experience, future forecasts, and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed, and amended where necessary, on a regular basis. However, it is also recognised that the actual outcomes may still differ from the judgements, estimates and assumptions made. Provided below are details of the principal accounting judgements, estimates and assumptions that the Directors have made when applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The more significant judgements were:

Hedge accounting

In applying the Group's interest rate hedging strategy and the corresponding hedge accounting applied in the financial statements, a judgement has been made that there will be highly probable floating interest rate payments over the term of the interest rate derivatives. Underlying this judgement is the assessment that the future refinancing of bank facilities is highly probable. The basis for this judgement includes South Staffs Water's long-term 25-year water supply licence, its related long-term business model and regulated asset base, its ability to access capital markets including the bank debt market, its strong investment grade credit rating, and also the stability and predictability of the regulated UK water sector as a whole.

Tangible fixed assets – Determining costs which are capital in nature

Judgement is required to determine whether costs incurred when work is carried out on assets of South Staffs Water are capital or revenue in nature. This work includes repairs, like-for-like replacement, new assets or replacement of assets with an element of asset enhancement or increased capacity. Identifying which element of expenditure represents capital expenditure rather than revenue expenditure, may include judgement that the South Staffs Water's two regional infrastructure networks each represent single infrastructure assets. In order to apply the appropriate accounting, a judgement is made as to whether it is probable that the expenditure will generate future economic benefits, as well as if the costs can be measured reliably.

The key accounting estimates were:

Accrued income

An estimate of water consumption by metered customers of South Staffs Water since the date of the last water bill and the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from South Staffs Water's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2019 was £11,786,000 (2018: £11,132,000).

Amortised cost of index-linked borrowings

In order to record the Group's index-linked borrowings at amortised cost an estimate of the long-term average inflation rate (Retail Price Index - RPI) per annum to the maturity of the instrument is required to be made. In forming this estimate, financial market data such as the long-term yields for fixed rate and index-linked (RPI) gilts is obtained and considered with the difference between these yields being the market implied long-term inflation assumption. The net book value of index-linked borrowings as at 31 March 2019 was £229,755,000 (2018: £223,932,000). A reconciliation of the book value of net debt and the value for covenant reporting purposes is provided in the notes to the consolidated cash flow statement.

Bad and doubtful debt provision

The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year-end, requires judgement. For South Staffs Water, this judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually calculated as a percentage of the total amount billed in each year. This information is used in order to estimate the level of debt outstanding at the end of the year which is expected to be irrecoverable after following the processes of collection that South Staffs Water adopts. This estimate represents the year-end bad and doubtful debt provision of South Staffs Water which was £32,123,000 as at 31 March 2019 (2018: £34,055,000).

Intangible Assets - Goodwill

The outcome of the Group's annual impairment test for goodwill is dependent on the forecast cash flows of each cash-generating unit together with key management assumptions, which are subject to inherent estimation and uncertainty including future profit growth. The total net book value of Group intangible assets as at 31 March 2019 is £20,424,000 (2018: £23,592,000).

Management have performed a goodwill assessment as at the reporting where they considered both internal and external factors. These include but are not limited to, latest performance, future performance and wider market factors in both the regulated water and non-regulated market. Based on the assessment, management have not identified any impairment.

Tangible fixed assets – Assessment of useful economic lives

There is a requirement to estimate the useful economic lives of tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the businesses forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of assets lives. The total net book value of Group tangible fixed assets as at 31 March 2019 is £554,251,000 (2018: £534,123,000).

Defined benefit pension schemes

Judgements, assumptions and estimates are required to appropriately record the assets and liabilities of defined benefit pension schemes in the balance sheet at each period end. The Directors use the services of professional actuaries to advise on the most appropriate valuations for these assets and liabilities in accordance with the relevant accounting standard. The net accounting surplus for these assets and liabilities as at 31 March 2019 in the consolidated balance sheet is £65,846,000 (2018: £67,158,000).

Notes to the Financial Statements

2 Segmental Information

Turnover

	2019 £'000	2018 £'000
South Staffs Water	128,767	124,335
Inter-divisional	(43)	(34)
South Staffs Water (external)	128,724	124,301
Non-regulated service businesses	181,011	178,061
Inter-divisional	(43,147)	(44,453)
Non-regulated service businesses (external)	137,864	133,608
Group turnover	266,588	257,909

Operating Profit

	2019 £'000	2018 £'000
South Staffs Water (including non-household retail associate)	31,426	32,203
Non-regulated service businesses	5,592	9,183
Total operating profit	37,018	41,386

The Directors do not consider the turnover and operating profit of acquisitions in the year or the previous year to be material to the Group and as such these have not been separately disclosed.

Reconciliation of operating profit to reported EBITDA (before infrastructure renewals)

	2019 £'000	2018 £'000
Operating profit	37,018	41,386
Depreciation	29,656	28,155
Infrastructure renewals	9,807	10,078
Amortisation of goodwill	3,943	3,967
Amortisation of capital contributions	(2,707)	(2,413)
EBITDA (before infrastructure renewals)	77,717	81,173

Net Operating Assets

	2019 £'000	2018 £'000
South Staffs Water	352,361	338,614
Non-regulated service businesses	42,642	40,766
Net operating assets	395,003	379,380
Net debt (book value)	(417,354)	(395,766)
Goodwill	20,424	23,592
Loans receivable from parent undertakings in more than one year	88,797	88,797
Other non-operating net liabilities	(8,932)	(9,356)
Corporation tax payable	(3,796)	(3,230)
Retirement benefit surplus	65,846	67,158
Provisions for liabilities - deferred tax	(52,239)	(51,222)
Net assets	87,749	99,353

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

Notes to the Financial Statements

3 Operating Costs before Goodwill Amortisation

	2019 £'000	2018 £'000
Other operating income (note 6)	(1,425)	(1,191)
Raw materials and consumables	30,322	28,653
Staff costs (note 4)	91,683	85,569
Depreciation (non-infrastructure assets)	25,974	24,600
Depreciation (infrastructure assets)	3,682	3,555
Infrastructure renewals expenditure	9,807	10,078
Amortisation of capital contributions	(2,707)	(2,413)
Own work capitalised	(8,715)	(8,542)
Operating lease rentals:		
plant and machinery	741	210
other	3,601	3,648
Other operating costs	72,712	68,471
	225,675	212,638

The Group auditor's remuneration is analysed as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	39	24
The audit of other Group undertakings pursuant to legislation	190	177
Total audit fees	229	201
Other services pursuant to legislation	50	49
Total non-audit fees	50	49

4 Staff Costs

	2019 £'000	2018 £'000
Wages, salaries and bonuses	81,201	75,552
Social security costs	7,854	7,564
Pension costs	2,628	2,453
	91,683	85,569

	2019 Number	2018 Number
Average number of employees (full-time equivalents)		
South Staffs Water	420	410
Non-regulated service businesses	2,336	2,324
	2,756	2,734

5 Directors' Remuneration

The remuneration of the Directors of the Company, is set out below.

	2019 £'000	2018 £'000
Emoluments	384	352

No Directors holding office at 31 March 2019 (31 March 2018: Nil) accrued benefits in respect of service in the year under a Group defined benefit pension scheme during the year and 1 Director was a member of a Group money purchase pension scheme during the year (2018: 1 Director). There were £56,000 of contributions paid by the Group in respect of money purchase pension schemes in respect of Directors during the year (2018: £58,000).

The highest paid Director received emoluments of £350,000 (2018: £352,000) during the year. There were £56,000 of Group contributions in respect of money purchase pension schemes for the highest paid Director (2018: £58,000).

None of the Directors had a material interest in any contract to which the Group was party during the year or the preceding year. Further details of the remuneration of the Executive team are provided in the Remuneration Committee Review on page 44.

Notes to the Financial Statements

6 Other Operating Income

	2019 £'000	2018 £'000
Profit on disposal of tangible fixed assets	872	618
Rental income	553	573
	1,425	1,191

7 Finance Charges (net)

	2019 £'000	2018 £'000
Interest payable and similar charges		
Index-linked debt (cash)	7,604	7,385
Index-linked debt (non-cash)	5,822	5,617
Bank term loan, drawings on short-term bank loans and other interest payable (net)	4,103	3,894
Private placement loan notes	1,912	1,808
Share of interest payable in associate	384	301
Irredeemable debenture stock	68	68
	19,893	19,073
Interest receivable		
Interest receivable from associate	(370)	(273)
Interest on loans to parent undertakings	(5,628)	(5,800)
	13,895	13,000
Other finance income (net)		
Defined benefit pension scheme interest credit (net)	(1,246)	(737)
Amounts recycled from hedging reserve	178	180
	12,827	12,443

Notes to the Financial Statements

8 Taxation on Profit on Ordinary Activities

The tax charge for the year comprises:	2019 £'000	2018 £'000
Current tax		
UK corporation tax at 19% (2018: 19%)	3,656	4,044
Adjustment in respect of prior years	(19)	(5,415)
Foreign tax	114	67
Total current tax charge/credit	3,751	(1,304)
Deferred tax		
Origination and reversal of other timing differences	857	751
Adjustment in respect of prior years	573	4,717
Total deferred tax charge	1,430	5,468
Total tax charge	5,181	4,164

Tax included in the consolidated statement of comprehensive income	2019 £'000	2018 £'000
Deferred tax		
Actuarial (loss)/gain on pension scheme	(214)	2,980
Movement in hedging reserve	19	366
Total tax charge	(195)	3,346

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	24,191	28,943
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2018: 19%)	4,596	5,499
Expenses not deductible for tax purposes including goodwill (net)	837	1,053
Deferred tax provided at lower rate	(99)	(88)
Adjustments in respect of prior years	553	(698)
Group relief received not paid for	(736)	(1,621)
Difference in foreign tax rates	30	19
Total tax charge	5,181	4,164
Effective rate of tax	21.4%	14.4%

Deferred tax has been recognised at 17% on the basis of the expected reversal period.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will only come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential unprovided deferred tax amounts to £1,858,000 (2018: £1,858,000).

9 Dividends Paid or Proposed

	2019 £'000	2018 £'000
Ordinary interim dividend paid of 210.8p (2018: 233.5p) per share	27,020	29,934

Notes to the Financial Statements

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:

	2019 £'000	2018 £'000
Profit for the financial year and profit for earnings per share	18,925	24,727

	2019 Number of Shares	2018 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	12,819,856	12,819,856

	2019	2018
Earnings per share	147.6p	192.9p

11 Intangible Assets - Goodwill

Group

	£'000
Cost	
At 1 April 2018	55,368
Acquisitions in the year (note 27)	775
At 31 March 2019	56,143
Amortisation	
At 1 April 2018	31,776
Charge for the year	3,943
At 31 March 2019	35,719
Net Book Value	
At 31 March 2019	20,424
At 31 March 2018	23,592

Details of goodwill arising on the acquisitions made in the year are provided in note 27.

12 Investment in Associate

Group

	£'000
Balance at 1 April 2018	1,460
Loss on ordinary activities after taxation	(298)
Balance at 31 March 2019	1,162

The Group's 20% share of EBITDA of the associate, Pennon Water Services Ltd (PWSL), for the year was £48,000 (2018: £82,000). The equity method of accounting has been adopted.

During the year the Group provided wholesale water services to the retailer PWSL and turnover of £20,267,000 (2018: £22,299,000) in relation to these transactions was recognised. There was a trade debt outstanding of £1,000 (2018: £1,774,000) at the year end.

The Group has an outstanding interest bearing loan balance due from PWSL of £6,717,000 (2018: £6,717,000) which remained outstanding at 31 March 2019 and during the year the Group received interest of £370,000 (2018: £273,000).

Notes to the Financial Statements

13 Tangible Fixed Assets

Group	Land and Buildings £'000	Infra-structure Assets £'000	Fixed Plant & Equipment £'000	Specialised Operational Assets £'000	Total £'000
Cost					
At 1 April 2018	28,834	468,744	245,849	241,461	984,888
Additions	70	11,853	25,074	14,209	51,206
Disposals	(107)	—	(1,498)	—	(1,605)
Acquisitions	180	—	157	—	337
Fair value adjustment	—	—	—	(1,543)	(1,543)
At 31 March 2019	28,977	480,597	269,582	254,127	1,033,283
Depreciation					
At 1 April 2018	8,644	181,494	152,308	108,319	450,765
Charge for the year	610	3,682	18,563	6,801	29,656
Disposals	(23)	—	(1,469)	—	(1,492)
Acquisitions	—	—	103	—	103
At 31 March 2019	9,231	185,176	169,505	115,120	479,032
Net Book Value					
At 31 March 2019					
Owned	19,746	295,421	99,794	138,657	553,618
Leased	—	—	283	350	633
	19,746	295,421	100,077	139,007	554,251
Net Book Value					
At 31 March 2018					
Owned	20,190	287,250	93,259	132,789	533,488
Leased	—	—	282	353	635
	20,190	287,250	93,541	133,142	534,123

Freehold land of £2,517,000 (2018: £2,337,000) included above is not subject to depreciation.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,375,000 (2018: £7,375,000) less accumulated depreciation of £6,742,000 (2018: £6,739,000). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £29,000 (2018: £143,000).

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £31,341,000 at 31 March 2019 (2018: £36,537,000).

Notes to the Financial Statements

13 Tangible Fixed Assets (continued)

Company	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 April 2018	80	1,473	1,553
Additions	—	502	502
Disposals	—	(17)	(17)
At 31 March 2019	80	1,958	2,038
Depreciation			
At 1 April 2018	—	616	616
Charge for the year	—	229	229
Disposals	—	(17)	(17)
At 31 March 2019	—	828	828
Net Book Value			
At 31 March 2019	80	1,130	1,210
Net Book Value			
At 31 March 2018	80	857	937

Freehold land of £80,000 (2018: £80,000) included above is not subject to depreciation.

None of the tangible fixed assets of the Company were financed by finance leases or hire purchase agreements at either year end.

14 Capital Commitments

Group capital commitments outstanding at 31 March 2019 were £7,501,000 (2018: £10,572,000).

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

15 Capital Contributions

Group	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2018	136,388	10,108	146,496
Capital contributions received in the year	5,728	2,787	8,515
Amortised in the year	(1,716)	(985)	(2,701)
Balance at 31 March 2019	140,400	11,910	152,310

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

16 Fixed Asset Investments

			Company
	Investment in Associate £'000	Shares in Subsidiary Undertakings £'000	Total £'000
At 1 April 2018 and 31 March 2019	1,982	100,739	102,721

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

Notes to the Financial Statements

As at 31 March 2019, the Company's trading subsidiary undertakings, all of which are incorporated in the United Kingdom with the exception of Echo India Private Limited, which is incorporated in India and OnSite Utility Services Canada Limited, which is incorporated in Canada, and all of which have only ordinary shares in issue, were as follows:

Company Name	Direct Ordinary Shareholding	Indirect Ordinary Shareholding	Nature of Business
South Staffordshire Water PLC	100%		Regulated water supply
Aqua Direct Limited	100%		Supply of spring and mineral water
Office Watercoolers Limited	90%		Rental of water cooling units and sale of spring water
Echo Managed Services Limited	100%		Customer management
Echo Northern Ireland Limited		100%	Customer management
Inter-Credit International Limited		100%	Customer credit management
Grosvenor Services Group Limited		100%	Customer credit management
Echo India Private Limited		100%	Software development support services to UK parent company
SSI Services (UK) Limited	100%		Holding company for those companies listed below
OnSite Central Limited		100%	Sewer and wastewater asset inspection, relining, surveying, cleaning and flow monitoring. Clean water asset installation, repair, maintenance and refurbishment
OnSite Utility Services Canada Limited		100%	Sewer and wastewater asset inspection, surveying and cleaning
Integrated Water Services Limited		100%	Mechanical and electrical and water hygiene services
Hydrosave UK Limited		100%	Water main leak detection services and clean water network management services
Immerse Asset Management Limited		100%	Water efficiency and bill management services
G. Stow Plc		100%	Borehole drilling and refurbishment
Advanced Engineering Solutions Limited		100%	Pipeline engineering

Other subsidiaries of the Company as at 31 March 2019, which were all non-trading companies as at that date, were as follows:

365 Environmental Services Limited
Aquastations Water Coolers Limited
Aquaven Limited
Brocol Consultants Limited
Cambridge Water Plc
Data Contracts Specialist Maintenance Limited
Debt Action Limited
Freshwater Coolers Plc
Greenacre Pumping Systems Limited
Green Compliance Water Division Limited
Grosvenor Legal Services Limited
Ion Water and Environmental Management Limited
IWS M&E Services Limited
IWS Pipeline Services Limited
IWS Water Hygiene Services Limited
Lingard Limited
OnSite Specialist Maintenance Limited
Phoenix Water Coolers Limited
Portadam Limited
Perco Engineering Services Limited
Pump Services Limited
Rapid Systems Limited
Recoup Revenue Management Limited
Smart Water Coolers Limited
South Staffordshire Infrastructure Services Limited
South Staffordshire Water Holdings Limited
Subaqua Solutions Limited
Wells Water Treatment Services Limited
Woodside Environmental Services Limited

As at 31 March 2019, the registered address of the above subsidiaries is Green Lane, Walsall, WS2 7PD, with the exception of Aqua Direct Limited (Elmhurst Spring, Lichfield Road, Elmhurst, Lichfield, Staffordshire, WS13 8HQ), Echo Northern Ireland Limited (Capital House, Wellington Place, Belfast, Northern Ireland, BT1 6FB), Echo India Private Limited (304, 3rd Floor, Laxmi Chamber, Plot No. D-223, VikasMarg, Laxmi Nagar, New Delhi - 110092), OnSite Utility Services Canada Limited (Three Bentall Centre, Vancouver, British Columbia, Canada, V7X 1L3), Cambridge Water Plc (90 Fulbourn Road, Cherry Hinton, Cambridge, CB1 9JN) and Debt Action Limited (Capital House, 3 Upper Queen Street, Belfast Northern Ireland, BT1 6PU).

Notes to the Financial Statements

17 Stocks

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Stores and raw materials	3,410	2,922	96	—

18 Debtors

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amounts recoverable within one year				
Trade debtors	47,110	46,851	—	—
Other debtors	1,015	504	113	203
Amounts owed by Group undertakings	—	—	4,618	7,952
Amounts owed by parent undertakings	15,364	364	—	—
Prepayments	3,474	2,479	1,041	877
Accrued income	21,892	21,569	—	—
	88,855	71,767	5,772	9,032
Amounts recoverable in more than one year				
Loans receivable from parent undertakings	73,797	88,797	48,797	48,797
Amounts owed by Group undertakings	—	—	5,250	5,200
Loan to associate	6,717	6,717	6,717	6,717
Other amounts owed by parent undertakings	3,424	3,547	—	—
	83,938	99,061	60,764	60,714
	172,793	170,828	66,536	69,746

19 Borrowings

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amounts falling due within one year				
Short-term bank loans and overdraft	—	2,058	—	50
Bank loans	7,882	51,803	7,882	51,803
Private placement loan notes	20,500	20,468	20,500	20,468
	28,382	74,329	28,382	72,321
Amounts falling due in more than one year				
Bank loans	118,653	83,019	88,960	47,669
Index-linked debt	229,755	223,932	—	—
Private placement loan notes	42,807	20,468	42,807	20,468
Irredeemable debenture stock	1,652	1,652	—	—
	392,867	329,071	131,767	68,137
Total borrowings	421,249	403,400	160,149	140,458

Notes to the Financial Statements

Analysis of Net Debt

	Balance at 1 April 2018 £'000	Acquisitions and disposals £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2019 £'000
Cash at bank and in hand	7,634	23	(3,763)	—	3,894
Drawings on short-term bank loans	(2,058)	—	2,058	—	—
	5,576	23	(1,705)	—	3,894
Irredeemable debenture stock	(1,652)	—	—	—	(1,652)
Index-linked debt (net of issue costs)	(223,932)	—	—	(5,823)	(229,755)
Bank loans (net of issue costs)	(134,822)	—	8,496	(208)	(126,534)
Private placement loan notes (net of issue costs)	(40,936)	—	(22,300)	(71)	(63,307)
Net debt	(395,766)	23	(15,509)	(6,102)	(417,354)

Non-cash movements represent indexation, amortisation of issue costs, amortisation of the discount/premium on index-linked debt and non-cash reduction in finance leases. The book value of net debt detailed above differs from the value used for covenant reporting purposes of £398,568,000 (2018: £376,118,000). Index-linked debt used for covenant reporting purposes is the indexed principal whereas, in accordance with applicable accounting standards, the book value represents amortised cost. Also, bank loans and private placement loan notes for covenant reporting purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. A reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 March 2019 £'000	31 March 2018 £'000
Book net debt (as reported above)	(417,354)	(395,766)
Exclude book premium on issue of index-linked debt	13,447	13,768
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	7,673	7,840
Exclude unamortised issue costs	(2,549)	(2,170)
Exclude accrued interest	215	210
Net debt reported for borrowing covenants	(398,568)	(376,118)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics of the Group.

20 Trade and other Payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amounts falling due within one year				
Trade creditors	41,928	44,318	221	395
Payments received in advance	25,227	25,508	—	—
Other creditors	19,035	19,719	5,775	5,421
Corporation tax payable	3,796	3,230	1,137	1,747
Other taxation and social security	1,991	1,458	88	890
Derivative financial liabilities	—	418	—	418
	91,977	94,651	7,221	8,871
Amounts falling due in more than one year				
Payments received in advance	3,716	—	—	—
Derivative financial liabilities	2,153	1,669	—	—
Other creditors	10,387	10,926	820	748
	16,256	12,595	820	748

Derivative financial liabilities represent the market value of floating to fixed rate interest rate swaps.

Notes to the Financial Statements

21 Provisions for Liabilities

Group

	Deferred Tax £'000
At 1 April 2018	51,222
Profit and loss account charge	1,430
Credit to other comprehensive income	(446)
Amounts acquired with subsidiary undertakings	33
At 31 March 2019	52,239

Company

	Deferred Tax £'000
At 1 April 2018	8,829
Profit and loss account charge	241
Credit to other comprehensive income	(369)
At 31 March 2019	8,701

A further analysis of deferred tax is set out in note 23.

22 Retirement Benefit Surplus

Group

Surplus of defined benefit pension schemes

	£'000
At 1 April 2018	67,158
Net finance income	1,246
Actuarial loss (net)	(1,258)
GMP equalisation adjustment	(1,300)
At 31 March 2019 (note 29)	65,846

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

Company

Surplus of defined benefit pension scheme

	£'000
At 1 April 2018	52,975
Net finance income	1,017
Actuarial loss (net)	(1,591)
GMP equalisation adjustment	(1,000)
At 31 March 2019	51,401

23 Deferred Tax

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Deferred tax liabilities are provided as follows:				
Accelerated capital allowances	41,460	41,085	(21)	(17)
Tax losses	(19)	—	—	—
Timing differences in respect of hedging reserves	(1,312)	(1,332)	—	(71)
Timing differences in respect of retirement benefits	11,267	11,417	8,738	9,006
Other timing differences	843	52	(16)	(89)
	52,239	51,222	8,701	8,829

Notes to the Financial Statements

24 Called up Share Capital

Group and Company	2019 £'000	2018 £'000
Authorised		
47,058,824 ordinary shares of 42.5p each	20,000	20,000
Issued and fully paid		
12,819,856 ordinary shares of 42.5p each	5,449	5,449

25 Operating Lease Commitments

At 31 March 2019, the Group and the Company were committed to making the following total minimum payments under non-cancellable operating leases:

Group	2019 Buildings £'000	2019 Other £'000	2018 Buildings £'000	2018 Other £'000
Amounts due:				
within one year	982	2,731	518	2,505
between two and five years	1,772	2,604	1,266	3,026
after five years	188	—	355	—
	2,942	5,335	2,139	5,531

Company	2019 Motor Vehicles £'000	2018 Motor Vehicles £'000
Amounts due:		
within one year	43	45
between two and five years	24	24
	67	69

26 Non-controlling Interests

	2019 £'000	2018 £'000
At 1 April	307	213
Profit on ordinary activities after taxation	85	52
Acquisition in the year	16	47
Dividends paid to non-controlling party	(75)	(5)
At 31 March	333	307

27 Acquisitions

On 24 May 2018, Office Watercoolers Limited acquired the entire issued ordinary share capital of Aquastations Water Coolers Limited, a point of use water cooler company based in Hertfordshire.

On 30 August 2018, Office Watercoolers Limited acquired the entire issued ordinary share capital of Phoenix Water Coolers Limited, a point of use water cooler company based in Essex.

During the year both acquisitions were hived up in to the immediate parent company, Office Watercoolers.

The acquisition method of accounting has been adopted.

Notes to the Financial Statements

27 Acquisitions (continued)

A summary of the acquisitions, including the consideration, the assets and liabilities acquired (both based on the provision of fair values), the related goodwill and the impact of the transaction on group cash flow and net debt are set out below:

	Total £'000
Consideration:	
Cash consideration	842
Deferred consideration	35
Acquisition expenses - paid	39
	916
Book value of net assets acquired:	
Tangible fixed assets	234
Stocks	15
Debtors	239
Cash at bank and in hand (net)	23
Creditors and provisions	(354)
Minority interest adjustment at 10%	(16)
Net assets (book value and fair value)	141
Goodwill on acquisition	775
Cash consideration paid during the year (including acquisition expenses)	880
Cash acquired (net)	(23)
Net cash outflow and increase in net debt in the year	857

There was no material difference between the book value of the net assets acquired and their provisional fair value.

The above goodwill is being amortised over an estimated useful economic life of 10 years.

28 Financial Assets and Liabilities

The Group's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial assets and liabilities, trade creditors and trade debtors. Borrowings as at 31 March 2019 represent bank term loans, private placement loan notes, finance lease obligations, index-linked debt and irredeemable debenture stock. The purpose of the Group's borrowings is to finance the Group's operations. It is, and has been throughout the year and the previous 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 interest rates and long and short-term borrowings while not exposing the Group to significant risk of market movements (see below). As at 31 March 2019, derivative financial liabilities represent floating to fixed interest rate swaps used as cash flow hedges to reduce the Group's risk to changes in LIBOR.

Interest Rate Risk Profile

Borrowings	2019 £'000	2018 £'000
Retail Price Index-linked borrowings	229,755	223,932
Fixed rate borrowings	102,255	123,220
Floating rate borrowings	89,239	56,248
	421,249	403,400

The above borrowings are stated at their book value as opposed to the value used for borrowing covenant purposes. A reconciliation between book and covenant net debt is provided on page 55. The floating rate borrowings comprise sterling denominated short-term bank loans (revolving credit facilities) that bear interest at rates based on LIBOR. Fixed rate financial liabilities include fixed rate bank term loans of £7,882,000 (2018: £15,763,000) and floating rate bank term loans with principal values of £30,000,000 (2018: £65,000,000) that are effectively swapped to fixed rate by cash flow hedges using floating to fixed interest rate swaps where cash flows under the swaps have commenced. 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 (2018: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2019 of £180,896,000 (2018: £176,447,000), and a fair value of £356,124,000 (2018: £328,808,000) and the £35,000,000 (2018: £35,000,000) Retail Price Index-linked bond which had a book value at 31 March 2019 of £48,167,000 (2018: £47,486,000) and a fair value of £60,270,000 (2018: £59,686,000).

Notes to the Financial Statements

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
2019		
Sterling	2.6	4.0
2018		
Sterling	3.6	1.8

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2019 were as follows:

	2019 £'000	2018 £'000
Expiring in one year or less	—	22,900
Expiring in more than one year but not more than two years	—	—
Expiring in more than two years but not more than five years	24,904	4,598
	24,904	27,498

Financial Risks

The Group's activities result in it being subject to a limited number of financial risks, principally credit risk, as the Group has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of risks to a level that is considered acceptable. The Group has formal principles for overall risk management, as well as specific procedures 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 cash flows to changes in LIBOR and RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of Group borrowings that are linked to this variable rate and by entering into an appropriate value of floating to fixed interest rate swap contracts. Risks associated with increases in RPI are effectively managed by hedging against the revenues and the Regulatory Asset Value of South Staffs Water, 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 service the interest due on the loans. The total carrying value of financial assets subject to credit risk, net of provisions, at 31 March 2019 was £147,614,000 (2018: £146,780,000).

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 the maturity of credit facilities, actual and forecast cash flows and ensuring that the payment of its obligations are matched with cash inflows and availability of free cash and adequate credit facilities. The table above details the undrawn committed borrowing facilities available to the Group to manage this risk.

Security Over Assets

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate. Index-linked debt, debenture stock and bank debt issued by South Staffordshire Water PLC, is not secured on any assets. The Company's bank loans and its private placement loan notes are secured against the shares of the Company and certain subsidiaries.

Notes to the Financial Statements

28 Financial Assets and Liabilities (continued)

Sensitivity Analysis

The following analysis is intended to illustrate the sensitivity to reasonably possible movements 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 during the year. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2019 £'000	2018 £'000
RPI + 0.25%	(553)	(527)
RPI - 0.25%	553	527
LIBOR +1.00%	(542)	(649)
LIBOR -1.00%	542	649

The impact on the pre-tax profit and loss account for the year to 31 March 2019 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2018 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 stated change to the variables occurred on 1 April 2018.

Maturity of Financial Assets and Liabilities

The maturity profile of the Group's financial liabilities recorded at repayment value, not book value, was as follows:

	2019 £'000	2018 £'000
Borrowings		
In one year or less, or on demand	28,382	74,482
In more than one year, but not more than two	—	28,381
In more than two years, but not more than five	119,330	75,402
In more than five years, but not more than twenty	43,000	—
In more than twenty years	211,749	205,487
	402,461	383,752
Other financial liabilities		
In one year or less, or on demand	91,977	94,650
In more than one year but not more than two	896	954
In more than two years but not more than five	5,407	1,950
In more than five years but not more than twenty	9,953	9,691
Total	510,694	490,997

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £210,097,000 (2018: £203,835,000) included in the table above are stated at the principal amount indexed by the appropriate RPI value to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in 2045 is £358,265,000 (2018: £358,265,000) and at redemption in 2051 is £118,379,000 (2018: £118,379,000).

Group debtors recoverable in more than one year of £98,938,000 (2018: £99,061,000) principally represent loans receivable from the Company's parent undertakings of £88,797,000 (2018: £88,797,000) with £15,000,000 (2018: £15,000,000) due to be repaid between two and five years and £73,797,000 (2018: £73,797,000) having no fixed repayment date and £6,717,000 receivable from the associate (2018: £6,717,000).

Trade Debtors

Before accepting orders from certain 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 varying nature of the Group's businesses 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 2019 in respect of such provisions was £3,313,000 (2018: £3,586,000). Total Group trade debtors (net of provisions) as at 31 March 2019 were £47,297,000 (2018: £46,851,000). The total amount of the provision included in the above, as at 31 March 2019 was £34,993,000 (2018: £36,615,000). 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 external party at 31 March 2019 was £503,000 (2018: £1,774,000), representing 1% (2018: 4%) of the above Group net trade debtor total. Individually significant debtors are principally due from customers with investment grade credit ratings including utilities, government agencies and local authorities.

Notes to the Financial Statements

An ageing analysis of invoiced trade debtors that are past due but not impaired is provided below:

South Staffs Water	<1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	>5 years £'000	Total £'000
2019	9,266	2,427	1,619	1,126	831	555	15,824
2018	8,477	2,189	1,441	957	418	347	13,829

Non-regulated service businesses	<1 month £'000	1-2 months £'000	>2 months £'000	Total £'000
2019	5,362	1,124	2,378	8,864
2018	7,191	2,098	4,576	13,865

Non-regulated service business' debtors that are considered to be impaired of £2,800,000 (2018: £2,492,000) were all more than 2 months past due. An ageing analysis of debtors of South Staffs Water 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
2019	3,989	3,128	2,662	2,517	2,276	17,621	32,193
2018	3,940	3,383	3,384	3,298	3,226	16,892	34,123

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 18 approximates to their fair value.

29 Pension Retirement Benefits

The Group operates a number of funded pension schemes for the benefit of its employees. The Group participates in the Water Companies Pension Scheme, by way of two separate sections, which provide benefits based on pensionable pay at certain points in time (indexed as appropriate). At 31 March 2019, both of these sections had ceased future accrual of benefits with the South Staffordshire section ceasing future accrual from 1 April 2015 and the Cambridge section from 31 December 2010. In the previous year the Group acquired a further defined benefit pension scheme as part of the acquisition of G Stow Plc which is also closed to new entrants and had ceased accrual of benefits prior to acquisition. The Group also operates a number of defined contribution pension schemes. The assets of all of these schemes are held separately from those of the Group, being invested by professional fund managers.

Details of the accounting policy for pension schemes are provided in note 1. As both of the sections of the Water Companies Pension defined benefit scheme are closed to future benefit accrual, from 1 April 2015 only funding deficit contributions have been paid into the Scheme (with these being £Nil in the year ended 31 March 2019 and £4,196,000 in the year ended 31 March 2018) with these contributions paid increasing the assets of the sections. No current service contributions are now paid and with effect from 1 April 2015 there is no current service cost charge to the profit and loss account. The amount charged to the consolidated profit and loss account for the defined contribution schemes in the year was £2,628,000 (2018: £2,453,000). A pension asset has been fully recognised for both sections at both 31 March 2019 and 31 March 2018 as the Group would benefit from a refund of any surplus assets following a complete run-off of the scheme (i.e. following the final benefit payment from the scheme). There were no overdue contributions at either year-end.

On 25 October 2018, the High Court issued a judgment in the Lloyds Bank case in relation to gender equality in Guaranteed Minimum Pension rights that has an impact on the Group's defined benefit pension liabilities. This has increased the assumption to £1.3 million (Company: £1.0 million) which has been expensed to the retained profit reserves for the allowance following this judgment.

Additional disclosures regarding the Group's defined benefit pension schemes are required under provisions of FRS 102. Valuations each year are undertaken by a qualified actuary using assumptions that are consistent with the requirements of FRS 102. The market value of investments has been calculated using the bid price.

The major assumptions used were as follows:

	31 March 2019 %	31 March 2018 %
Rate of increase in pensions	2.5	2.5
Discount rate	2.4	2.6
Annual inflation RPI	3.5	3.4
Annual inflation CPI	2.5	2.4

	31 March 2019 No. of Years	31 March 2018 No. of Years
Life expectancy of male aged 60 at accounting date	26.1	26.8

Notes to the Financial Statements

29 Pension Retirement Benefits (continued)

The market value of the assets in the Group's schemes and the present value of these schemes' liabilities at the balance sheet date were:

Valuation	2019 %	2019 £'000	2018 %	2018 £'000
Equities	5	15,207	3	8,338
Bonds/gilts and debt instruments	86	249,170	78	233,136
Diversified growth funds	8	24,017	11	31,301
Emerging markets multi asset funds	—	—	7	21,990
Cash	1	2,237	1	2,528
Market value of scheme assets		290,631		297,293
Present value of scheme liabilities		(224,785)		(230,135)
Surplus before deferred tax (note 22)		65,846		67,158
Related deferred tax liability		(11,199)		(11,417)
Surplus after deferred tax		54,647		55,741

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

	2019 £'000	2018 £'000
Opening present value of scheme liabilities	230,135	256,668
Acquisitions	—	9,204
Interest cost	5,740	6,815
Actuarial loss/(gain)	6,910	(20,039)
GMP equalisation adjustment	1,300	—
Benefits paid	(19,300)	(22,513)
Closing present value of scheme liabilities	224,785	230,135

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

	2019 £'000	2018 £'000
Opening market value of scheme assets	297,293	301,329
Acquisitions	—	9,240
Interest on scheme assets	6,984	7,551
Actuarial gain/(loss)	5,654	(2,511)
Contributions (employer)	—	4,196
Benefits paid	(19,300)	(22,511)
Closing market value of the scheme assets	290,631	297,293

The total return on assets of the Group's schemes over the year to 31 March 2019 was a gain of £12,346,000 (2018: gain of £5,575,000).

An analysis of the movement in the surplus of the Group's schemes during the year ended 31 March 2019 is provided in note 22.

Notes to the Financial Statements

30 Related Party Transactions

Historical agreements were put in place with a holding Company in the Group structure to offset the impact on South Staffordshire Water PLC of certain hedging relationships entered into with a third party bank, on both cash flow, and the profit and loss account. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2019 was £3,788,000 (2018: £3,911,000). This amount has been recognised within debtors in the Group Consolidated Balance Sheet. In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account of South Staffordshire Water PLC and the Group have been netted off with no overall impact.

During the year South Staffordshire Water PLC provided wholesale water services to the retailer Pennon Water Services Ltd (PWSL) and its subsidiary SSWB Ltd and turnover of £20,267,000 (2018: £22,299,000) in relation to these transactions was recognised and £1,000 outstanding at the year end (2018: £1,774,000). Also at 31 March 2019, an amount of £348,000 was payable to PWSL for cash collected during the year that has not been paid over (2018: £516,000). As South Staffordshire Water PLC provides management services, a fee of £140,000 is payable from PWSL and remains outstanding at year end (2018: £145,000).

The Group has an outstanding interest bearing loan balance due from PWSL of £6,717,000 (2018: £6,717,000) which remained outstanding at 31 March 2019.

31 Post Balance Sheet Events

On 28 May 2019, the £15,000,000 intercompany loan from South Staffordshire Water PLC to Aquainvest Ventures Limited was settled in full (see note 18).

On 5 July 2019, Office Watercoolers Limited acquired the entire issued ordinary share capital of Brightwater Limited, a bottled water cooler company based in Lancashire.

On 31 July 2019, Office Watercoolers Limited acquired the entire issued ordinary share capital of Waterflo Limited, a point of use water cooler company based in Greater Manchester.

32 Ultimate Controlling Party

The Company's immediate parent undertaking is Aquainvest Acquisitions Limited. During the year the ultimate parent company in the United Kingdom was Hydriades IV Limited, registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Plc at 31 March 2019. The consolidated accounts for Hydriades IV Limited can be obtained from the Company's registered office, Green Lane, Walsall, West Midlands, WS2 7PD.

The ultimate controlling party is Arjun Infrastructure Partners Limited a Company registered in England and Wales, which controls and manages and is the General Partner of a UK registered investment entity that acquired a majority equity interest of a holding company of the Group.

Contact Details

South Staffordshire Plc

South Staffordshire Plc

Group Chief Executive: Adrian Page

Green Lane, Walsall, West Midlands, WS2 7PD
Telephone: 01922 638 282

www.south-staffordshire.com

South Staffs Water

South Staffordshire Water PLC

South Staffs Water

Cambridge Water Company

Managing Director: Phil Newland

South Staffs Water
Green Lane, Walsall, West Midlands, WS2 7PD
Telephone: 01922 638 282

www.south-staffs-water.co.uk

Cambridge Water
90 Fulbourn Road, Cambridge, CB1 9JN
Telephone: 01223 706 050

www.cambridge-water.co.uk

SSI Services

SSI Services (UK) Ltd

Managing Director: Dave Taylor

Green Lane, Walsall, West Midlands, WS2 7PD
Telephone: 01922 638 282

www.ssi-services.co.uk

Integrated Water Services Ltd

Mechanical & Electrical Services
Managing Director: Simon Dray

Water Hygiene
Managing Director: Colin Davis

Green Lane, Walsall, West Midlands, WS2 7PD
Telephone: 01922 638 282

www.integrated-water.co.uk

G Stow Plc

Director: Mark Farina

Lupton Road, Hithercroft Ind Est, Wallingford, OX10 9BS
Telephone: 01491834 444

www.gstowplc.com

OnSite Central Ltd

Managing Director: Alan Plante
89 Blackpole West, Blackpole, Worcester, WR3 8TJ
Telephone: 01905 340 054

www.onsite.co.uk

SSI Services (continued)

Omega Red Group Limited*

Managing Director: Neil Shailer

Dabell Avenue, Blenheim Industrial Estate, Bulwell,
Nottingham, NG6 8WA
Telephone: 0115 877 6666

www.omegaredgroup.com

Hydrosave UK Ltd

Managing Director: Simon Dray

Swallow Court, Kettering Venture Park, Kettering, NN15 6XX
Telephone: 01536 515 110

www.hydrosave.co.uk

Advanced Engineering Solutions Ltd

Managing Director: Simon Dray

South Nelson Road, South Nelson Industrial Estate,
Cramlington, Northumberland, NE23 1WF
Telephone: 01670 739999

www.aesengs.co.uk

* A subsidiary of Hydriades Limited (a parent company of South Staffordshire Plc).

Echo

Echo Managed Services Ltd

Managing Director: Monica Mackintosh

Green Lane, Walsall, West Midlands, WS2 7PD
Telephone: 0845 12 12 122

www.echo-ms.com

Grosvenor Services Group Ltd

Managing Director: Lloyd Birkhead

St David's House, 11 Drake House Crescent,
Waterthorpe, Sheffield, S20 7HT
Telephone: 0333 1231471

www.grosvenorservices.co.uk

Office Watercoolers

Office Watercoolers Ltd

Managing Director: Ken Skelton

Waterloo House, 112-116 Anglesey Court
Towers Business Park, Rugeley,
Staffordshire, WS15 1UL
Telephone: 0845 60 90 902

www.office-coolers.com

Aqua Direct

Aqua Direct Ltd

Director: Helene James

Elmhurst Spring, Lichfield Road,
Elmhurst, Lichfield,
Staffordshire, WS13 8HQ
Telephone: 01543 493 613

www.aqua-direct.co.uk

South Staffordshire Plc

Green Lane
Walsall
West Midlands
WS2 7PD

Tel: +44 (0)1922 638282

www.south-staffordshire.com