

South Staffordshire Water PLC
**Unaudited interim report
and financial statements**
For the six months ended
30 September 2022

Contents



About South Staffordshire Water	2	Operational performance	8
Chair's foreword	3	Board, Directors and Executive team	14
Managing Director's introduction	4	Directors' responsibilities statement	18
Financial performance	6	Financial statements	20

About South Staffordshire Water

**We operate
Cambridge Water
and South Staffs
Water**



**We are part of the South
Staffordshire Plc group of
companies**

**We are a water only
company, and do not
take away and treat
waste water**



**We are regulated
by Ofwat, the
Environment
Agency and the
Drinking Water
Inspectorate**



**We provide clean water to more
than 1.7 million people and
42,500 businesses every day**



**We have been a
successful, privately-
run business for
nearly 170 years**



Chair's foreword



What an extraordinary year it's been. Just when we thought we were emerging from a pandemic that had changed our lives and habits beyond recognition, we have now entered a period of instability and uncertainty that challenges us all even more. The dark shadow of war once again haunts central Europe; the impact on the entire world is enormous; we are facing severe inflationary pressures and a cost of living crisis; and government ministers and Prime Ministers – and policies – seem to change with bewildering speed.

But through it all we at Cambridge Water and South Staffs Water have a simple task that remains the same, day in, day out: to deliver clean water to all our customers, at an affordable price. I have enduring admiration for all of our staff who, through thick and thin, and through all the uncertainties and challenges, continue to achieve that essential objective.

We are very conscious of the fact that the cost of living crisis is affecting a large number of our customers; and we are determined to do what we can to help them through this difficult period. That's why we've put in place an enhanced 'social tariff' provision, so that anyone who is experiencing genuine difficulty can reach out to us, and we will help them with the affordability of their water supply.

Our task of delivering the water our customers need hasn't been made any easier by the very hot, dry summer we have just experienced. The impact of climate change is already making its presence felt,

and the summer drought has been just one example. This has had an impact on water supplies across the whole country, not least in our Cambridge and South Staffs regions. As a result we've stepped up our programme of tackling leakage, and finding ways to encourage and advise customers on how to use water wisely; and we've been working closely with the National Drought Group and with Water UK to find better ways of tackling this problem across the country as a whole.

There is a longer-term challenge, however, to ensure the sustainability of water supplies into the future, and this is especially important in our Cambridge region. For Cambridge, all water at the moment is drawn from below ground, and we have to be very careful that we don't deplete the levels of water in the underground aquifers to the extent that the environment above ground is irreparably damaged. This is especially true in ensuring that the precious chalk streams of Cambridgeshire can survive and thrive.

We are therefore now working hard to prepare plans for the development of a new Fenland Reservoir, in a pioneering partnership with Anglian Water, to ensure that in the longer term we can sustain good water supplies for everyone who needs them.

Over the course of the next two years a lot of our focus will have to be on the preparation of our next five-year plan, the 'PR24' submission that we will make to our regulator Ofwat. We have three main ambitions for this: to continue to improve our efficiency and effectiveness as a company, striving always to be one of the best performers in the country; to ensure affordability for our customers, especially in hard financial times; and to ensure also the long-term sustainability of water and of the environment. Our task remains the same as it has been for nearly 170 years: the delivery of good clean water for people. And we remain committed to that as a company.

A handwritten signature in black ink, appearing to read 'Chris Smith'.

Lord Chris Smith

Managing Director's introduction

At South Staffordshire Water, we have a long history of successfully and efficiently delivering high-quality water to our customers at an affordable price. Key to this is making sure we always prioritise the services that matter most to them – and that they expect and pay for.



We've continued to make steady progress against our service performance targets over the six months from April to September, and are on track to meet or exceed most of them by the end of the reporting year. But we still have to guard against complacency and all our people are working hard to make sure we keep our performance where we want it to be.

In particular, we're holding steady with our performance for C-MeX, the main regulatory measure of customer experience, having ended the 2021/22 reporting year in 4th place overall among the England and Wales water companies. This is testament to the work of the teams who go above and beyond to ensure excellent service for customers at every touch point with us.

We're also continuing to outperform our target for the number of customers who receive financial support from us. During the summer, for example, we announced that we would double the number of customers who can be helped with our Assure social tariff. Given the impact the current cost of living crisis is having on household budgets, I think it's crucial for us to provide help where we can and actively support those customers who are struggling to pay their bills.

An important focus of our work during the first half of the year has been on delivering our long-term ambitions, including how we'll secure resilient and sustainable water supplies for our customers now and in the future. Central to this is the work we've been carrying out in partnership with Anglian Water to build a new reservoir in the Fens, which we hope will be operational by the late 2030s. We're following a regulatory gated process under the auspices of RAPID (the Regulators' Alliance for

Progressing Infrastructure Development) and submitted our gate 2 documentation in mid-November for consideration by Ofwat, the Environment Agency and the Drinking Water Inspectorate.

Another important focus for us has been on managing demand for water in the face of a sustained period of hot, dry weather and prevailing drought conditions. We've been seeing an increased demand for water across our Cambridge Water and South Staffs Water supply areas since the start of the COVID-19 pandemic in 2020. So we've been looking at ways to reduce individual water use among our customers – what we call per capita consumption, or PCC.

As well as launching water efficiency campaigns and sharing messages with our customers on using water wisely, we've also been exploring ways to bring forward planned investment from the 2025 to 2030 planning period to accelerate our metering installation programme. In addition, we're developing a smart network across both regions to help us identify potential problems on our pipes and pumping stations before customers are impacted.

This includes enabling more proactive leakage identification and management. We believe this work, in combination with our ongoing mains replacement programme, will help us achieve our ambitious target of reducing leakage by 12.8% in our Cambridge region and 15% in our South Staffs region by 2025 compared with 2019. It also includes carrying out work to develop our environment programme for the five years from 2025 to 2030, which we've submitted to the Environment Agency.

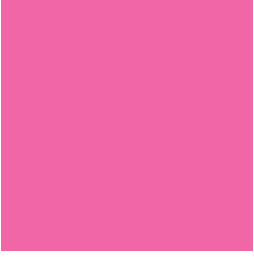
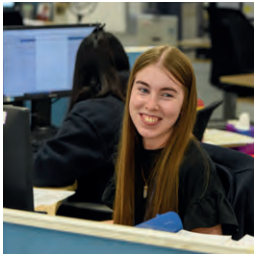
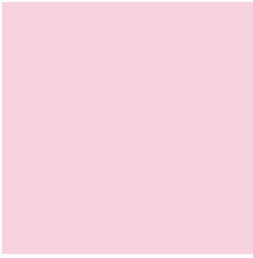
One of the features of this is work we're doing with farmers and landowners in our water catchments to tackle the potential impacts of pollution before it affects our water sources. Another critically important aspect is our project to restore and protect the rare chalk stream habitats that are a feature of our Cambridge region, while at the same time continuing to have sufficient water available to us to supply our customers in the face of the twin challenges of climate change and population growth.

Security has also been at the forefront of our thinking during the first half of the year. In August, our parent company, South Staffordshire Plc, was the target of a criminal cyber-attack. Because of the robust systems and controls we've got in place, this incident didn't affect our ability to supply clean, safe and high-quality water to all our customers. We've been working closely with the relevant Government and regulatory organisations since the attack, including putting measures in place to increase the security of our IT network. At the time of writing, our investigations into the attack were still ongoing.

Before I finish, I'd like to take this opportunity to thank all our people for their continued hard work in delivering the best for our customers during the first half of the year. They've faced challenging operational circumstances at times, and have done so with grace and humour, and a commitment to a job well done. It's my honour to lead and work with such passionate and customer-focused people.

A handwritten signature in dark ink, appearing to read 'Andy Willicott'.

Andy Willicott



Strategic report

Financial performance

Our financial performance during the first half of the year has remained strong, alongside our uninterrupted supply and continued support to our customers. With rising inflation impacting our business, our people and our customers, we are experiencing significant upward pressure on energy and chemical costs. We agreed a 5% pay award for our people and continued to offer our customers who struggle to pay their bills financial support through enhancing our existing assistance programmes.

We use several financial key performance indicators (KPIs), which include, but are not limited to the following.

	September 2022	September 2021
Turnover £m	69.2	68.3
Operating costs £m	(62.4)	(52.2)
EBITDA £m ¹	24.0	29.7
Operating profit £m ²	12.7	18.9
Net debt £m ³	253.2	237.9
Gearing ⁴	56.3%	59.0%

Notes:

1. EBITDA reconciliation is shown below.

	2022	2021
Operating profit £m	12.7	18.9
Depreciation: non-infrastructure assets £m	10.9	10.8
Depreciation: infrastructure assets £m	2.1	1.7
Capital contributions £m	(1.7)	(1.7)
EBITDA £m	24.0	29.7

2. Operating profit less depreciation and amortisation of capital contributions.

3. Net debt £m is reported for borrowing covenants (see page 27). Net debt for September 2021 has been restated. The prior period restatement on page 28 gives further detail around the restatement.

4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 27 for details). Gearing for September 2021 has been restated. The prior period restatement note on page 28 gives further detail around the restatement.

Turnover

Our turnover in the year to date has increased by £0.9m. We have seen changes in consumption trends through our measured customer base and increases in regulated tariffs and inflation. Non-appointed revenues have remained largely in line with the prior year except for the cessation of a rental property in our Cambridge region.

As reported at year end, we have been more transparent with our disclosure of commissions earned, showing both the turnover and the associated operating costs. Commissions are earned on the collection of amounts billed for other water companies for sewerage services they provide to customers, and through an agreement to identify customers to offer insurance policies.

Operating profit

Alongside the increased turnover noted above, our costs have increased as a result of sustained water demand across both our Cambridge and South Staffs regions. Demand has remained consistent with last year, with significant peaks in the summer leading to continued upward pressure on production costs, such as power and chemicals, coupled with further inflationary pressures. We have experienced unprecedented price increases in power and chemicals; however, we have largely mitigated the power increases through a fixed price on the wholesale energy market.

We have incurred significant uplifts in Environment Agency abstraction charges, and our net labour costs have increased and include a 5% annual pay award.

Our sites continued to keep health and safety at the forefront and remained safe, with measures still in place to protect our workforce and supply chain partners.

We have continued with our Infrastructure renewals expenditure in line with our AMP7 (2020 to 2025) plans and we have seen an increase in contributions compared with the previous year, which is shown within 'Other Operating Income'.

As noted on our external website, in August 2022 South Staffordshire PLC, the parent company of South Staffordshire Water PLC, was the target of a criminal cyber-attack. The key priority for us was and continues to be to maintain safe public water supplies. This incident has not affected our ability to supply safe water to our customers. We are still experiencing some disruption to our corporate IT network. The relevant Government and regulatory authorities have been contacted and we will keep them, as well as our customers, updated as our investigations continue.

Following the cyber-attack we actively paused the introduction of our much anticipated new billing system Aptumo, which was planned for July 2022. Implementation is now planned for later in the financial year.

We have reviewed our offerings in place for future support for our customers such as our Assure social tariff, which offers bill discounts for eligible customers. We have amended the criteria to receive this support to be able to help more customers in need. We continued to ensure our customers in vulnerable circumstances know we were there for them with targeted communications and support through our Priority Services Register. In September 2022 we received a grant from Cambridge City Council to help support pensioners in our Cambridge region with a contribution towards their water bills.

Capital investment

We have continued to make progress in delivering our ambitious capital programme to ensure our assets remain in good condition and continue to provide high-quality, reliable water supplies to our customers. The upgrade programme is continuing at Hampton Loade and Seedy Mill, the two largest water treatment works in our South Staffs region, and we are on track with our new primary contractors.

Treasury, net debt and borrowing covenants

The main purpose of our financial instruments, including derivatives, is to

finance our operations and limit risk from fluctuations in external indices outside our control. This includes entering floating to fixed interest rate swaps, where this is considered appropriate. During the first half of the year and the previous year, our policy has been not to carry out any trading in financial instruments. Our policy in relation to cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest, and long- and short-term borrowings.

To support the long-term financing needs of the business £60m of new long-term fixed rate funding was drawn from Pricoa Private Capital ('Pricoa'), with £20m drawn in September 2021 and a further £40m drawn in June 2022.

Our net debt includes index-linked debt, bank loans and debenture stock less cash. During the year to date we have revalued our index-linked debt to reflect the increases in actual RPI in the period. This has significantly increased our financing costs. The reconciliation between covenant net debt and book net debt is shown in the notes to the cash flow. Standard & Poor's (S&P) continues to rate the company as BBB+ in negative outlook with Moody's rating us at Baa2; both are within investment grade.

Dividend payment

As per the dividend policy the business usually makes two dividend payments: one interim and one final. Ahead of the business making the decision on the interim dividend payment, the Board carefully considered the impact of the cyber-attack and has taken the decision not to pay an interim dividend, but to review this position later in the financial year.

Taxation

As reported at September 2022 the company is in a tax loss position. The corporation tax charge has decreased from previous year, due to the impact of the changes in the deferred tax rate being accounted for in the prior year.

Operational performance

Performance against our targets



We are pleased with how we have performed against our targets during the first half of the year and are currently on track to meet or exceed most of them by the end of the 2022/23 reporting year.

One area where we have continued to focus our attention is our customer service performance. The main regulatory measure of this is C-MeX, which explores how satisfied customers are with how we have performed and how likely they would be to recommend us to their family or friends. The principal aim of this measure is to drive all the water companies in England and Wales to always deliver an excellent experience for our household customers. As we reported in our most recent [annual report and financial statements](#), we ended the 2021/22 reporting year in 4th place for the sector overall. Our performance has continued to hold steady during the first half of the year, and we are currently on track to improve on this further in the second half of the year.

We have also continued to increase our support for customers who may find themselves in vulnerable situations or who

may struggle to pay their water bills. We currently offer a range of financial support, including special tariffs for customers on low incomes, flexible payment options and payment breaks. And, because we recognise the impact the current cost of living crisis is having on our customers' ability to pay their water bills, in July we made additional funding available to enable us to support twice as many customers through our Assure social tariff, enabling us to exceed our target for the year of 36,000 customers receiving some form of financial support. We are also exceeding our target for the percentage of household customers who are on our Priority Services Register and are continuing to extend the reach of this service through awareness-raising campaigns.

And we have continued to provide a reliable supply of clean water to our customers, maintaining a low level of supply interruptions and an improving level of customer contacts about water quality. In addition, we are continuing to maintain our Compliance Risk Index (CRI) score within acceptable levels. CRI is the main

regulatory measure for water quality. It is designed to illustrate the risk arising from treated water compliance failures and takes into account the cause and location of these failures, among other things.

We have also continued with our capital programme to ensure we continue to maintain the resilience and reliability of our network of treatment works, pipes and pumping stations. This is particularly important for us given the high levels of water demand we have seen across our Cambridge and South Staffs regions over the past couple of years. A key feature of our capital investment is the £60 million upgrade programme at the critically important Hampton Loade and Seedy Mill water treatment works in our South Staffs region. We remain on track to deliver these upgrades in line with the targets laid down by the Drinking Water Inspectorate.

We will continue to drive improvements in performance against all our targets, and will share how we have done in the annual report and financial statements that we will publish at the end of the 2022/23 reporting year.

Delivering for our customers and communities



Our customer and community promises

We will offer a great customer experience and get feedback to help us keep improving. We will offer our customers the right level of support for their individual needs and help everyone learn how to use water wisely

We are committed to always deliver the best for our customers and communities – and have a long history of doing exactly this. From the two-way engagement with customers through our H2Online community to working in partnership with other agencies through our award-winning community hub, we are passionate about sharing our work, and providing help and support to all those who need it.

We have also continued to drive improvements in the services we deliver to our retailer and developer services customers during the first half of the year. In June, for example, the water retail market operator, MOSL, confirmed that we had achieved the biggest improvement (+10.6%) in the market for operational performance standards.

In addition, we have continued to make steady progress against the regulatory

D-MeX measure of experience for the service we provide to developers, self-lay providers, builders, and new appointments and variations (NAVs). This includes changing the way we communicate with these customers, simplifying paperwork and making content changes to our developer service web pages to make the information we share more straightforward.

As a small local water company, we recognise how important it is to be embedded at the heart of the communities we serve. As well as getting involved with local events such as Chase Pride, the Cambridge Big Weekend and the Lichfield Fuse Festival, we also got mobile – with our people travelling to different parts of our Cambridge and South Staffs regions to engage with customers who, for whatever reason, prefer face-to-face conversations to digital interaction.

The lifting of all final COVID-19 restrictions during the first half of the year, for example, meant our community team was able to take our media vehicle out on the road again in our South Staffs region. The new programme of visits launched in June, with the team setting up in Lea Hall in Rugeley. They were able to talk to customers about a range of topics, including the benefits of having a water meter installed, and the support we have available for those who need help to pay their water bills.

We will continue to build on this vital and valuable work as we have long-term ambitions to ensure that help is always available for our customers and that we will help the people in our communities to work and thrive.

Delivering a reliable service



Our service promise

We will provide clean, high-quality and reliable water supplies now and in the future

Making sure our customers receive a reliable service from us is critical to our long-term ambition to always deliver resilient, high-quality water supplies. One of the ways we do this is by investing in our infrastructure for the long term.

We have a number of large infrastructure projects in progress at the moment. These form part of the ambitious £600 million investment programme that we have committed to deliver over the five years from 2020 to 2025.

In our Cambridge region, for example, the construction of a new 8 million litre service reservoir at Bourn is nearing completion. We are planning to bring it into supply before the end of the year. The new reservoir is being built to replace an existing 2.5 million litre facility, which was demolished in 2020. Increasing our overall capacity at the Bourn site to 12.5 million litres will ensure we have sufficient storage to supply existing customers and to deal with the expected growth in demand from new customers.

At the same time, we are making a significant investment to upgrade the

control and monitoring systems attached to the new reservoir. We are also constructing a new booster station to enable us to supply the new Cambourne West community development, while maintaining acceptable levels of service in terms of the water we supply to existing customers.

In May we announced that we had awarded the civil engineering package for the upgrade programme at the Hampton Loade water treatment works in our South Staffs region to Ross-Shire Engineering (RSE) and Barhale. This followed the announcement in October 2021 that our previous contractor, NMCN, had gone into administration. Barhale is providing the civil engineering element of the work, while RSE is installing the innovative ceramic membrane-based filtration system. This will be the first retrofit – and the largest deployment – of this technology anywhere in the UK.

Despite the loss of the previous contractor, we remain on target to complete the upgrade programme at our Hampton Loade works by the end of the 2024/25 financial year.

And in August we announced our plans for a new strategic water resource that will secure water supplies in our Cambridge region for future generations.

We are working in partnership with Anglian Water to develop proposals for a new reservoir in the Fens to supply clean water to the customers of both companies. As well as delivering community benefits in the form of local jobs and access to a wide range of leisure activities, the reservoir will also help to protect the environment because it means we will reduce the volume of water we take from underground aquifers. This is important because the aquifers feed the rare chalk stream habitats that are a feature of our Cambridge region.

Although it falls just outside the reporting period, in October we and Anglian Water started consulting with customers and other stakeholders on the proposed site for the new reservoir. We will report on this in more detail in next year's annual report and financial statements.

Delivering for the environment



Our environment promise

We will protect the environment, reduce leakage and support the building of water efficient homes

One aspect of our environmental protection work that many people might not know about is the programme of engagement we have with farmers and landowners in our Cambridge and South Staffs regions. Here, we are working at a catchment level. A catchment is an area of land where precipitation is collected either in underground aquifers, or in rivers or other water courses.

We have a successful catchment management programme in our South Staffs region called SPRING. The aim of this scheme is to improve the quality of water in the rivers and water courses from where we take our supplies, and to help protect the raw water that feeds into our boreholes.

We do this by providing payments to farmers. We make grants of up to £10,000 available each year, which can be used towards the costs of voluntary

infrastructure improvements and land management options. Some of the options available include creating buffer strips, and planting flower-rich margins and wild bird seed mixes at the edge of fields.

As well as helping to reduce fertiliser run off from the fields, these land management options also help to improve biodiversity and create habitats for wildlife. This in turn helps us to achieve our target for biodiversity improvements.

We also work closely with two trial farms in our South Staffs region – one that focuses mainly on crop growth, and the other on livestock. We have been trialling a number of activities, including undersowing maize with grass to reduce the risk of nutrient loss and soil erosion, and growing oats, peas and vetch as an alternative to maize. Oats absorb phosphorus, while peas and vetch absorb nitrogen. These crops use less

fertiliser overall than maize and can also be used for animal feed. We shared information about these trials at a sector-wide catchment management conference in the summer, with colleagues from other water companies expressing an interest in our work.

For arable farmers, the summer months are a busy time – with haymaking, baling and harvesting dominating the working day. They are also an opportunity to attend country shows and fairs. We benefit from this by having a presence at the Staffordshire County Show each year. At this year's event in June we were able to talk to local farmers about ways to adopt catchment-friendly practices and the improvements this delivers for water quality. We also had our mascot 'Rita the Meter' on hand to advise visitors to the show about the benefits of having a water meter fitted.

Delivering for our business



Our business promise

We will run an efficient business with happy employees, where our suppliers are treated fairly

We have focused some of our attention during the first half of the year on our environmental, social and governance (ESG) compliance. ESG is increasingly being used by investors and other key stakeholders as a way of measuring corporate transparency and ethical practices. In the first half of the year we carried out a detailed project to benchmark our ESG performance against other organisations within and outside the water sector.

The aim of this work was to see how we are performing against metrics for things like renewable energy use, the diversity of our people and Board, and modern slavery safeguards. One of the key outcomes of this project was the development of a set of internal metrics against which we can measure our ESG performance. Alongside this, we developed an action matrix, which highlighted the areas where we are performing well against the metrics and those where we need to improve.

In terms of environmental compliance, a key commitment for us is to play our part to deliver the water sector's goal of achieving net zero operational carbon

emissions by 2030. One of the ways we are doing this is by electrifying our light vehicle fleet. We have targeted which vehicles best lend themselves to electrification, and have developed inductions, training and support for each electric vehicle driver.

We have already received a small first delivery of electric vehicles and ordered another 15 during the first half of the year. We have also identified more than 20 potential locations across both regions to install charging points, including offices, treatment works and pumping stations. We will continue to provide regular updates on the steps we are taking to deliver our net zero strategy.

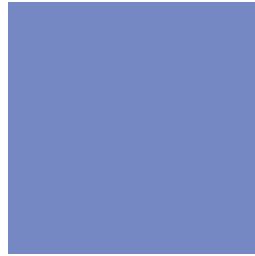
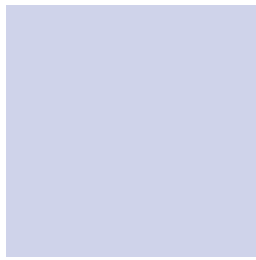
From a social compliance perspective, we understand the importance of following health and safety best practice at all times, and have an ambition to be a zero accident work place. In April a number of our people joined forces with other colleagues from across the Group for the first South Staffordshire Plc health and safety conference.

In total, more than 60 colleagues attended the conference, discussing with the

Group's executive team potential areas of improvement in health and safety practice, with a focus on communication, recognising and celebrating success, leadership, and learning together better.

We believe that good governance is essential to our business. Key to this, for example, is the seriousness with which we take the security of our systems. In August our parent company, South Staffordshire Plc, was the target of a criminal cyber-attack. While this attack did not affect our ability to supply clean, safe water to all our customers across our Cambridge and South Staffs regions, it did lead to some disruption of our corporate IT network. We have been working closely with the relevant Government and regulatory authorities since the incident and have committed to keep them – and our customers – updated as our investigations continue.

We will continue to ensure we demonstrate good ESG compliance, and will report on this in more detail at the end of the 2022/23 financial year.



Governance

Board, Directors and Executive team

Board structure



Board of Directors

The Board comprises the independent Chair; the Managing Director; the Group Chief Executive; and five Non-executive Directors. Three of the Non-executive Directors are considered to be independent in addition to the independent Chair. The largest single group of Directors on the Board during the year to date was that of Independent Non-executive Directors, including the Independent Chair.

The Rt Hon Lord Chris Smith of Finsbury – Independent Non-executive Chair

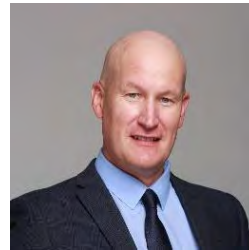


Lord Smith was appointed as an Independent Non-executive Director in October 2018. He is a Life Peer in the House of Lords.

Lord Smith has extensive senior leadership experience in both the political world and the public sector, having previously held the posts of Chair of the Environment Agency and Founding Chair of the UK Water Partnership. He is also a Cambridge Water customer.

External appointments: Since 2015, Lord Smith has been Master of Pembroke College, Cambridge, and is responsible for the strategy and planning for the college. He is also Chair of the Intellectual Property Regulation Board, Chair of the Art Fund, and a Non-executive Director of Phonographic Performance Ltd.

Andy Willicott – Managing Director



Appointed Managing Director in May 2020, having previously been Transformation Director at Bristol Water. Past roles include Executive Director with Pennon Group and Chief Operating Officer at Sydney Water, with responsibility for all aspects of frontline water and wastewater treatment, network operations and customer delivery.

External appointments: Board member, Water Resources East; Board member, Water Resources West.

Phil Newland – Group Chief Executive, South Staffordshire Plc



Appointed Group Chief Executive of South Staffordshire Plc in April 2020. Previously Managing Director of South Staffordshire Water PLC from April 2014. From 2006, Phil worked within the South Staffordshire Plc Group as Managing Director of Echo Managed Services Ltd, supplying technology and retail services to the water sector. He was previously a management consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

External appointments: Director, Pennon Water Services Ltd.

Catherine May – Senior Independent Non-executive Director



Appointed as an Independent Non-executive Director in October 2018. Catherine has more than ten years' experience as a Non-executive Director, Senior Independent Director, finance, remunerations and nominations committee member and chair. Previously, she served on the Executive Committees of RELX plc, Centrica plc and SAB Miller plc.

External appointments: Independent Non-executive Director and Remunerations and Nominations Committee Chair, Pensions and Life Savings Association (PLSA); Chair, English National Opera Trust. She is also principal of an advisory practice providing leadership coaching and reputation management services.

Alice Cummings – Independent Non-executive Director



Appointed as an Independent Non-executive Director in May 2020. Alice has relevant commercial, financial and governance experience in regulated service industries.

Previously, she was Group CFO at the InHealth Group and Group CFO at the AEA

Group. Her earlier career was with South West Water plc and Price Waterhouse. She has a BEng degree in Chemical Engineering from Imperial College, London, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: Non-executive Director, Chair of Audit Committee and Remuneration Committee Member of Idox plc; Non-executive Director, Vice Chair and Chair of Audit and Risk Committee of Cotsway Housing Association.

Professor Ian Barker – Independent Non-executive Director (appointed 12 April 2022)



Appointed as an Independent Non-executive Director in April 2022. Ian is a Chartered Environmentalist and an Honorary Fellow of the Society for the Environment, a fellow of the Institute of Water, and an honorary professor at the University of Exeter.

He has spent his career in the UK water and environmental sectors, and brings extensive experience in water regulation, planning and management. At the Environment Agency, he was responsible for water planning and management for England as Wales, as well as fisheries, biodiversity and land management. He was appointed by the parliamentary Environmental Audit Committee to advise its recent Inquiry into Water Quality in Rivers.

External appointments: Non-executive Directorships with the Institute of Water, the Water Industry Forum and the Society for the

Environment; Managing Director, Water Policy International Ltd; adviser on water governance and management to the OECD.

Keith Harris – Non-executive Director and Arjun Infrastructure Partners Representative



Appointed as an Independent Non-executive Director in April 2015. Keith became a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018, following the sale of the Group and the company.

Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, including a period of time at AZURIX, where he was global Head of Regulation. At Wessex Water he held various senior executive and Board positions, including CFO and deputy CEO, and brings strong financial and regulatory experience to the Board.

External appointments: Independent Non-executive Director of Ervia, the parent company of Irish Water; Gas Networks Ireland and Aurora Telecom Industry Partner with Arjun Infrastructure Partners; Associate with OXERA.

Peter Antolik – Non-executive Director and Arjun Infrastructure Partners Representative



Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018.

He is a Partner of Arjun Infrastructure Partners and his background covers regulated companies, transport regulation, and the management of infrastructure

funds and investments.

Peter joined Arjun Infrastructure Partners from the Office of Rail and Road, and was previously Strategy and Regulation Director at Thames Water.

Ken Kagaya – Non-executive Director and Mitsubishi Corporation Representative (resigned 8 August 2022)

Ken was appointed as a Non-executive Director and Mitsubishi Corporation Representative in April 2022.

His background covers business development and asset management, in the renewable energy, oil and gas sectors across the United Kingdom, Europe, the USA, Australia and Japan.

Ken has been with Mitsubishi Corporation for nine years. He has a M.S. degree in civil engineering.

Executive team

Abbie Poulton – Finance Director (appointed November 2022)



Abbie was appointed to the Executive team in 2022, having previously been our Financial Controller and Interim Finance Director. She is a Chartered and Certified Accountant who qualified with Pricewaterhousecoopers LLP in 2004. Abbie joined Severn Trent in 2010 and after progressing through a number of roles in both Group Finance and the Financial Service Centre joined South Staffordshire Water in 2019.

Caroline Cooper – Strategy and Regulation Director



Caroline was appointed to the Executive team in 2020 having previously been responsible for our successful PR19 submission, developing a business plan which delivers for our customers and the environment. This saw South Staffordshire Water secure more than £660 million of funding for the five years from 2020

to 2025. Caroline has spent all of her career in the water sector, previously working for Severn Trent Water until she joined South Staffordshire Water in 2003. She originally joined as an analyst in asset management and has progressed through a number of roles within the business, and has extensive knowledge of asset management, business planning and strategy development.

Andrew Lobley – Operations Director



Andrew was appointed to the Executive team in 2021. He has spent his whole career in the water sector, having previously worked for Dŵr Cymru Welsh Water and Cambridge Water in water quality, asset management and operations roles. In 2009 Andrew achieved a PhD in Civil Engineering, focusing on water quality

risk management. He joined South Staffordshire Water in 2014, and before being appointed to his current role, held the positions of Director of Operations, and Head of Water Quality and Compliance at South Staffs Water.

Dan Rhodes – Interim Customer Delivery Director (March 2022)



Dan was appointed to the Executive team on an interim basis in 2022 and has responsibility for delivering an excellent service for household and retailer customers, as well as change programmes and innovation. Dan was previously Head of Customer Service at Morrison Water Services, where he implemented a change

programme to deliver a superior experience for all customers. This programme won the Institute of Customer Service (ICS) Best Customer Satisfaction Strategy 2019. Dan has also held roles at Severn Trent Water and Morrison Utility Services.

Tom Fewster – Asset Management & Investment Delivery Director (March 2022)



Tom was appointed to the Executive team in 2022 and is responsible for delivering our ambitious asset management projects, including capital works and new investment. He also oversees our commitment to support the water sector's road to net zero operational carbon emissions. Tom has a

huge amount of experience of managing major capital projects and programmes in the water sector, as well as in the renewable energy and environmental sectors. He has previously been responsible for capital programmes at United Utilities and the Environment Agency, as well as managing the development of renewable energy generation assets for RES Group.

Corporate governance report

Group structure

On 27 July 2022, Arjun Infrastructure Partners acquired the 44.9% stake managed by Mitsubishi, which was held as a 25% share with Mitsubishi Corporation, a global trading business, and a 19.9% investment held by Mitsubishi UFJ Lease & Finance Company.

South Staffordshire Plc 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 South Staffordshire Water's licence and, although some Directors sit on the Boards of South Staffordshire Plc, SSW Finance Limited and the company, South Staffordshire Water acts, with the support of the Group, as if it were a separate listed company. Arjun Infrastructure Partners has two Non-executive Directors on the Water Board.

South Staffordshire Plc provides management, professional and administrative support services to South Staffordshire Water and its other subsidiaries at cost. There was no direct interaction between South Staffordshire Water and the ultimate controlling party, AIP Holdings Limited, a company registered in the UK.

Directors' responsibilities statement

The Directors confirm that these condensed interim financial statement represent a fair view of our performance for the six months to 30 September 2022. A list of the current Directors of South Staffordshire Water PLC is available on our website at: [Management Team | South Staffs Water \(south-staffs-water.co.uk\)](#).

Assurance

These accounts have been reviewed by our independent Group Internal Audit function and by the Board.



Financial statements

Financial statements

Profit and loss account – for the 6 months ended 30 September 2022

	30 Sep 22 Unaudited £'000	Restated 30 Sep 21 Unaudited £'000
Turnover	69,227	68,303
Operating costs	(62,420)	(52,227)
Other operating income	5,926	2,780
Operating profit	12,733	18,856
Finance costs (net)	(15,280)	(5,328)
(Loss) /profit before taxation	(2,547)	13,528
Tax on (loss)/profit	324	(17,546)
Loss for financial period attributable to the equity shareholders of the Company	(2,223)	(4,018)
(Loss) /earnings per share		
Basic	(104.7p)	(189.3p)
Diluted	(104.7p)	(189.3p)

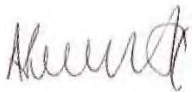
The results above are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

Balance sheet – as at 30 September 2022

	30 Sep 22 Unaudited £'000	31 Mar 22 £'000	Restated 30 Sep 21 Unaudited £'000
Fixed Assets			
Tangible assets	624,682	597,728	578,824
Current Assets			
Stocks	4,277	3,072	2,939
Debtors - amounts recoverable within one year	45,112	36,438	36,753
Debtors - amounts recoverable in more than one year	2,748	2,654	27,574
Investments	2	2	2
Cash at bank and in hand	77,813	50,135	33,743
	129,952	92,301	101,011
Borrowings - amounts falling due within one year	(29,940)	-	-
Other creditors - amounts falling due within one year	(92,004)	(79,083)	(77,250)
Net current assets	8,008	13,218	23,761
Total assets less current liabilities	632,690	610,946	602,585
Borrowings - amounts falling due after more than one year	(312,867)	(292,672)	(284,155)
Other creditors - amounts falling due after more than one year	(6,062)	(10,322)	(11,794)
Accruals and deferred income - falling due after more than one year	(173,746)	(168,703)	(165,586)
Provisions for liabilities - falling due after more than one year	(66,454)	(65,707)	(64,661)
Net Assets	73,561	73,542	76,389
Capital and reserves			
Called up share capital	2,123	2,123	2,123
Share premium account	495	495	495
Capital redemption reserve	4,450	4,450	4,450
Revaluation reserve	30,376	30,587	30,800
Profit and loss account	37,700	39,712	43,608
Hedging reserve	(1,583)	(3,825)	(5,087)
Shareholders' Funds	73,561	73,542	76,389

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

The financial statements of South Staffordshire Water (company number 02662742) were approved by the Board of Directors and authorised for issue on 24 November 2022.



Andy Willicott
Managing Director
24 November 2022

Statement of comprehensive income – for the 6 months ended 30 September 2022

	30 Sep 22 Unaudited £'000	31 Mar 22 £'000	Restated 30 Sep 21 Unaudited £'000
Profit after taxation	(2,223)	(2,791)	(4,018)
Movement in hedging reserve (gross of deferred tax)	2,984	2,387	705
Deferred tax impact of movement in hedging reserve	(743)	(597)	(177)
Deferred tax rate move impact in year	-	449	449
Total comprehensive income	18	(552)	(3,041)

Statement of changes in equity – as at 30 September 2022

	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2021 restated	2,123	495	4,450	33,494	50,271	(6,064)	84,769
Loss for financial period	-	-	-	-	(4,019)	-	(4,019)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	619	619
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(155)	(155)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	86	86
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(22)	(22)
Deferred tax rate move	-	-	-	-	-	449	449
Amounts transferred to profit and loss	-	-	-	(2,694)	2,694	-	-
Total comprehensive income/(expense)	2,123	495	4,450	30,800	48,946	(5,087)	81,727
Dividends	-	-	-	-	(5,338)	-	(5,338)
Balance at 30 September 2021 restated	2,123	495	4,450	30,800	43,608	(5,087)	76,389
Profit for financial period	-	-	-	-	1,228	-	1,228
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	1,596	1,596
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(399)	(399)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	86	86
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(21)	(21)
Amounts transferred to profit and loss	-	-	-	(213)	213	-	-
Total comprehensive income/(expense)	2,123	495	4,450	30,587	45,049	(3,825)	78,879
Dividends	-	-	-	-	(5,337)	-	(5,337)
Balance at 31 March 2022	2,123	495	4,450	30,587	39,712	(3,825)	73,542

Statement of changes in equity – as at 30 September 2022 (continued)

	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2022	2,123	495	4,450	30,587	39,712	(3,824)	73,542
Loss for financial period	-	-	-	-	(2,223)	-	(2,223)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	2,904	2,904
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(726)	(726)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	80	80
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(17)	(17)
Deferred tax rate move	-	-	-	-	-	-	-
Amounts transferred to profit and loss	-	-	-	(211)	211	-	-
Total comprehensive income/(expense)	2,123	495	4,450	30,376	37,700	(1,583)	73,561
Dividends	-	-	-	-	-	-	-
Balance at 30 September 2022	2,123	495	4,450	30,376	37,700	(1,583)	73,561

Called up Share Capital

The equity reserve represents the equity component of convertible debt instruments.

Share Premium Account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Capital redemption reserve

On 1 July 2000, the company redeemed 1,200,000 redeemable preference shares of £1 each at par. On 15 July 2002, the company repurchased 3,250,000 (nominal value £1 each) of its shares from South Staffordshire Water Holdings Limited.

Revaluation reserve

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36m, net of deferred tax, which is being depreciated on a straight-line basis over the estimated remaining economic life of 80 years.

Profit and Loss account

The profit and loss reserve represents cumulative profits, net of dividends paid and other adjustments.

Hedging reserve

The company has entered into derivative financial instruments to hedge exposure to floating interest rates.

Cash flow statement – as at 30 September 2022

	Note	30 Sep 22 Unaudited		Restated 30 Sep 21 Unaudited	
		£'000	£'000	£'000	£'000
Cash inflow from operating activities			34,674		39,969
Corporation tax received			-		600
Net cash inflow from operating activities	(a)		34,674		40,569
Cash flows from investing activities					
Purchase of tangible fixed assets		(41,833)		(21,663)	
Proceeds from sale of tangible fixed assets		6		77	
Interest received		541		877	
Net cash outflow from investing activities			(41,285)		(20,709)
Cash flows from financing activities					
Interest paid		(5,673)		(5,043)	
Equity dividends paid		-		(5,338)	
Additions to Private placement loans (cash)		40,000		20,000	
Private placement loan issue costs paid		(38)		(42)	
Net cash outflow from financing activities			34,289		9,577
Increase/(Decrease) in cash	(b)		27,678		29,437
Cash and cash equivalents at the beginning of the period			50,135		4,306
Cash and cash equivalents at the end of the period			77,813		33,743

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions.

Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	30 Sep 22 Unaudited £'000	£'000	Restated 30 Sep 21 Unaudited £'000	£'000
Total operating profit		12,733		18,856
Depreciation	13,078		12,557	
Amortisation of capital contributions	(1,627)		(1,696)	
Profit on disposal of tangible fixed assets	(19)		(30)	
Contributions and grants received	6,670		3,947	
		18,102		14,778
(Increase)/Decrease in stocks	(1,205)		39	
Increase in debtors	(9,512)		(4,409)	
Increase in creditors	14,557		10,706	
Cash inflow from operating activities		3,839		6,335
Corporation tax receivable		-		600
Net cash inflow from operating activities		34,674		40,569

(b) Reconciliation in movement in net debt

	30 Sep 22 Unaudited £'000	Restated 30 Sep 21 Unaudited £'000
Increase/(Decrease) in cash	27,678	29,437
Bank term issue cost amortisation (non-cash)	(0)	(40)
Private placement loan (cash)	(40,000)	(20,000)
Private placement issue cost amortisation (cash)	38	42
Movement on index-linked debt (non-cash)	(10,141)	(1,507)
(Increase)/Decrease in net debt in period	(22,426)	7,932
Net debt brought forward	(242,535)	(258,344)
Net debt carried forward	(264,961)	(250,412)

Notes to the cash flow statement (continued)

	Balance at 31 Mar 2022	Cash Flow	Non-Cash Movements	Balance at 30 September 2022
	£'000	£'000	£'000	£'000
Cash at bank and in hand	50,135	27,678	-	77,813
Short-term bank loans	-	-	(29,909)	(29,909)
	50,135	27,678	(29,909)	47,904
Irredeemable debenture stock	(1,652)	-	-	(1,652)
Bank loans (net of issue costs)	(29,909)	-	29,909	-
Private placement loans (net of issue costs)	(19,958)	(40,000)	38	(59,920)
Index-linked debt (net of issue costs and including premium)	(241,151)	-	(10,143)	(251,294)
Net debt	(242,535)	(12,322)	(10,105)	(264,962)

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 such as the net debt/RCV as shown above and below.

	30 Sep 22 Unaudited	Restated 30 Sep 21 Unaudited
	£'000	£'000
Book net debt (as reported above)	(264,992)	(250,410)
Exclude book premium on issue of index linked debt	12,241	12,946
Exclude unamortised issue costs	(1,537)	(1,615)
Exclude accrued interest	1,127	1,127
Net debt reported for borrowing covenants	(253,161)	(237,952)
Regulatory Capital Value	449,556	403,203
Covenant Net Debt/Regulatory Capital Value	56.3%	59.0%

The Regulatory Capital Values are the published numbers as at March 2022 and March 2021.

Prior period restatements

Historically the book value (that is, the amortised cost) of the index-linked debt has been determined taking into account expectations of the long-term inflation rate over the contractual life of the loans. The covenant value of the debt is instead calculated taking into account actual rates of inflation experienced between the date of issuance of the debt and the balance sheet date.

In the financial year ending March 2022, and in view of the continued gap in the carrying value of the index-linked debt between book value and covenant value, the directors decided to undertake a review of the accounting treatment adopted. While it is an acceptable accounting policy to determine amortised cost taking into account expectations of future inflation, it was determined that the previously reported amounts did not reflect appropriately updated estimates of future cash flows over the entire contractual life of the debt.

Having evaluated the requirements of FRS102, the directors have decided to adopt a more simplified approach to the accounting whereby the amortised cost of the index-linked debt will reflect actual changes in RPI to the relevant balance sheet date and finance costs will be accrued by reference to actual RPI in any given period. The directors also consider that this treatment is more aligned to that applied by comparators. This policy has been applied to the interim accounts for Septembers 2022.

The interim accounts for September 2021 have been restated to reflect this more simplified approach to the accounting as outlined above.

Notes to the financial statements

The interim results for the six months to 30 September 2022 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2022.

The interim financial information is unaudited and does not constitute statutory accounts as defined in section 44 of the Companies Act 2006. The balance sheet for the year to 31 March 2022 has been extracted from the latest published audited accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

The tax charge is based on the estimated effective rate of tax, including deferred tax for the full year to 31 March 2023.

Copies of the interim report are available from our Registered Office (South Staffordshire Water PLC, Green Lane, Walsall, WS2 7PD) or from our website at: www.south-staffs-water.co.uk/publications/annual-reports.

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