



South Staffs Water

incorporating



South Staffs Water  
(incorporating Cambridge Water)

# Unaudited Interim Report and Accounts

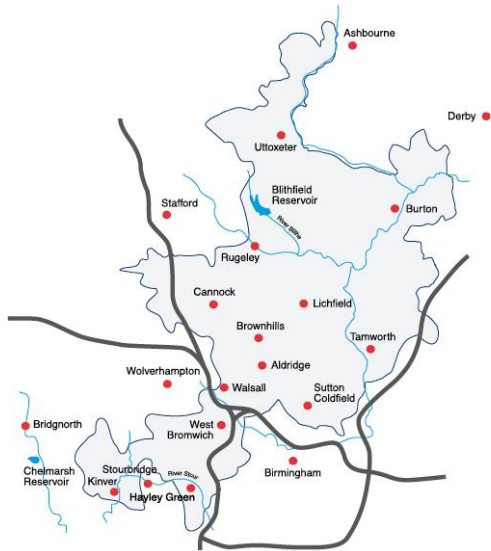
for the six months ended 30 September 2018

December 2018

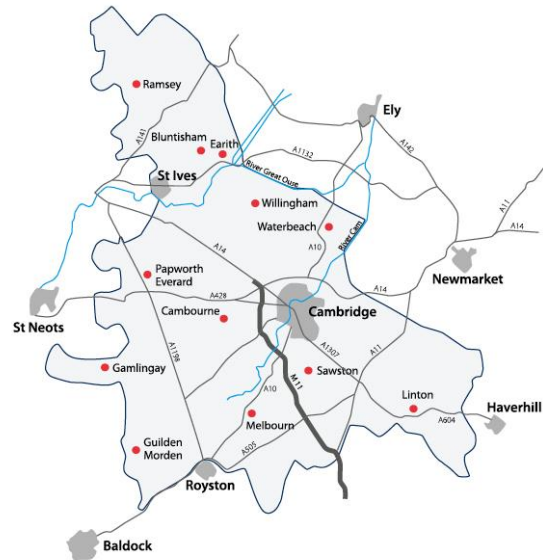


# About South Staffs Water






South Staffs Water provides a secure and reliable supply of high-quality drinking water, supported by first-rate customer experience to approximately 1.7 million people in its two areas of supply.



South Staffs region



Cambridge region

	South Staffs region	Cambridge region
 Area served (km <sup>2</sup> )	1,497	1,175
 Population served	1,325,207	344,122
 Water supplied each day on average (Million litres Ml)	306	80
 Household connections	559,026	134,205
 Non-household connections	33,265	9,362

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## Chairman's Welcome



It is my pleasure to present our interim results for the six-month period to 30 September 2018.

The year so far has been dominated by two important themes. First, the ongoing political debate about the future of the water sector and its role in society has continued throughout the first part of the year. The debate will no doubt continue for some time. As a company that has been privately owned and financed since 1853, our response can only be to continue delivering the highest standards of water quality, excellent service, and low and predictable bills. These are the things our customers consistently tell us they want and expect from us, irrespective of the prevailing political winds. We are proud to do this.

Second, we have experienced another period of unusual and challenging weather – this time in the form of a sustained hot, dry spell. For a number of weeks, we were supplying water at around 20% higher than is normal for the time of year. It challenged our teams and our network, but I am pleased to say that we performed well overall and protected customers' supplies throughout. Nonetheless, it represents an important reminder that past weather patterns may no longer be representative of what is to come. We continue to reflect on this and will take steps to improve our resilience over the years ahead.

In September we submitted our business plan to Ofwat, the economic regulator of the water sector in England and Wales, and at the same time published it for our customers. We are pleased with the work overall, but most of all we are convinced it is an ambitious plan that reflects our customers' priorities. With this in mind, we are already moving forward on a number of proposals contained within the plan.

Finally, I would like to recognise the continued hard work and commitment of our staff and, as we head into the coldest part of the year, the dedication of our field staff in particular.

**Sir James Perowne**

## Introduction from our Managing Director



Thank you for taking the time to read our interim report and accounts for the first half of this financial year. I hope it gives a clear view of how we are performing so far against both our financial and non-financial targets, as well as providing an update on what follows the submission to Ofwat of our business plan for the five years from 2020 to 2025.

We are pleased to report that we have made some great progress in the past six months. For example, we are seeing the benefits of the investment we have made in leakage and are on target to meet our performance commitments in both regions. But we are also committed to improving our performance in some areas – for example, in the quality and acceptability of the water we deliver to our customers.

This year has been a remarkable one in terms of weather conditions. We experienced the ‘Beast from the East’ in March, which was followed by an unusually hot, dry summer. One of the impacts of this was an increase in bursts on our mains network and some associated water quality issues. Even so, we protected customers’ supplies throughout the period and were pleased with our overall performance. The business has expended significant additional operating costs in dealing with these issues and in supplying significantly increased volumes of water. While both events have demonstrated the ability of our network to cope with more frequent weather events, there is no room for complacency. There are also lessons we can learn – particularly if the effects of climate change mean that extreme weather like this becomes more common in the future.

As well as looking at the resilience of our network, we have also been considering our water resources over the long term. Every five years, we are required to update our 25-year water resources management plans (WRMPs) for our South Staffs and Cambridge regions. We consulted on these plans in the spring and published our Statement of Response (SoR) to this consultation at the end of August. We will publish our final WRMPs in early 2019, as soon as we receive clearance from the Secretary of State for Environment, Food and Rural Affairs to do so.

We are also pleased to report that we are in the final stages of commissioning the UK’s largest rainwater harvesting system that is being built in conjunction with the University of Cambridge at its Eddington development in the north-west of the city.

In addition, the work to install ultraviolet (UV) treatment at our Hampton Loade water treatment works is nearly complete – all water leaving the site is now UV treated. This substantially reduces the risk of bacteriological failures. It also represents a major milestone in ensuring we continue to provide water of the very highest quality to all our customers.

And in October we launched a new website for customers in our Cambridge region. This enables them to see how we are performing through our innovative customer dashboard, which remains unique in the sector. As the provider of an essential monopoly public service we remain committed to this level of transparency for our customers and feel it is a vital component in retaining their trust.

We are already making strides to implement the commitments set out in 'Making water count' – our stretching and ambitious business plan for 2020 to 2025. Our plan has the support of 84% of customers across both regions and is the result of extensive engagement with more than 40,000 customers over the past two years. We are confident that our customers have shaped our thinking in a very real way. Over the lifetime of this plan, we are planning to invest and spend £590 million to deliver significant service improvements for our customers. This will be our largest-ever investment programme – 40% greater than the current period.

For example, we have started the process to appoint the suppliers that will carry out major construction work to install an additional filtration stage at the Hampton Loade and Seedy Mill water treatment works in our South Staffs region. This work, which is scheduled to start in 2020, will enhance the quality of the water we deliver to customers.

In addition, by the end of this year we will have launched our new customer service mobile app and are implementing a new debt management system. This will enable us to provide tailored support earlier to customers in debt. And, in a first for the water sector, we will have also carried out the initial field trials of our innovative Curapipe leakage solution.

All this is set within the context of maintaining a prudent balance sheet and giving our customers the certainty and stability they want by offering flat bills. This represents an 11% reduction in bills in real terms.

Finally, we were delighted to strengthen our Board with the appointment of three new Independent Non-executive Directors. Catherine May, Michael McNicholas and Rt Hon Lord Smith of Finsbury all bring substantial and varied experience, which will be of real benefit to the company and our customers.

We are confident of continuing to meet our customers' expectations and achieving our ambitious business plan commitments through the continued hard work and dedication of our people.

**Phil Newland**

## Managing Director's Half-Year Review

We are a successful and efficient water only company, with the third-lowest customer bills of any water company in England and Wales. We use a set of sector-wide and company-specific outcomes that we must deliver to measure our performance – and there are incentives for us for doing this. Our outcomes comprise targets for 15 measures covering all aspects of our operations. This includes delivering:

- **excellent water quality;**
- **secure and reliable water supplies;**
- **excellent customer service;**
- **environmentally sustainable operations;** and
- **fair customer bills.**

We highlight some aspects of our performance below.

### Delivering High-quality and Reliable Water Supplies

We are pleased to report that we have achieved most of our targets during the first half of the year. As we enter the second half of the year, we are on track to meet our leakage targets, which take into account the exceptional hot, dry summer. In addition, we are performing very well on reducing supply interruptions for customers. We are continuing to invest in additional resources and techniques in these areas, such as data logging, satellite imagery and drone technology – and are confident that this hard work will result in us achieving these vital targets.

## Hot, dry summer 2018



**The summer of 2018 was the hottest and driest summer for many years. By August, the heat wave had caused the water level at the Blithfield Reservoir in our South Staffs region to fall below 60% of its capacity.**

We put our summer action plan into place to ensure we could continue to deliver to all our customers and avoid drought measures.

To meet the increased demand, we pumped about 2.9 billion litres of additional water into our supply. We prioritised fixing leaks and allocated additional resources to the leakage team. We also monitored storage, our treatment sites and the network, and communicated with customers in every way we could, to ask them to use water wisely.

Despite all the challenges, we were able to maintain normal levels of service to our customers throughout the prolonged hot, dry summer.

The prolonged summer also resulted in an increase in burst mains and significantly more contact from customers – particularly during July and August, which coincided with peaks in demand. As a result, we are likely to miss our target for the acceptability of the water we deliver to customers, and are forecasting to be in penalty at around 1.5 contacts per thousand. We can attribute most of this to the very high levels of demand we saw over the summer and the effects this had on our network. In addition, because of this increased demand, a small number of customers will receive higher than normal bills when their meters are read. We are proactively contacting these customers to offer assistance in the event that this increase makes it more difficult for them to afford their water bills.

Unfortunately, we experienced trihalomethane (THM) failures in our South Staffs region in September. THMs are by-products of the water disinfection process. While they do not represent any risk to health at these very low levels, we did not meet the required standard for them. Because of these failures, our Mean Zonal Compliance (MZC) for the first half of the year is now around 99.9%, resulting in the maximum penalty payment. The MZC is a measure used by the Drinking Water Inspectorate to determine compliance with the stringent drinking water standards in place in England and Wales.

## Delivering for Customers

Everything we do starts and ends with our customers, our communities and the role we play in wider society and the environment. So, we aim to deliver high-quality water and excellent service to our customers at an affordable price all the time. We need to be able to respond to changes in lifestyle and circumstance, and offer our customers more choice and flexibility in how they can access information and make contact with us. The continued improvements we have made during the first half of the year to MyAccount, our successful online account management service, for example, is an important part of this.

In terms of our customer service targets, our Service Incentive Mechanism (SIM) qualitative score for first half of the year places us in 9<sup>th</sup> position. SIM is Ofwat's main customer service measure. We continue to focus on our SIM action plan, which has delivered continued improvement during the first six months of the year. While our SIM score is above average for the sector, we have not yet reached our target of being among the very best. We do expect our ranking for the full year will improve based on our strong performance in the quantitative element of SIM so far. We continue to be very encouraged by the ongoing reductions in customer complaints. So far, complaint levels have reduced by more than 20% in both regions; in our South Staffs region they are at a level that we believe to be sector leading. Similarly, after two quarters our customer trust and value tracker sits at 96%, our highest score in the four years since it began.

We have many ways in which we support customers who are struggling financially. For example, more than 12,000 customers on low incomes currently benefit from the support of our Assure social tariff. We also provide a wide range of free priority services for customers who have additional needs or require extra help. And we are implementing a new debt management system that will enable us to provide more proactive support and tailored messages to customers who are struggling to pay their water bills. In 2019/20, we are planning to significantly increase the number of customers on our social tariff to more than 25,000; in the meantime, we are confident of achieving our target for the support we provide to customers in debt.



In April, we opened our first community hub in Wednesbury, one of the most socially-deprived parts of our South Staffs region. This venture enables us to engage face-to-face with vulnerable or traditionally hard-to-reach customers. It has also enabled us to establish close collaborations and partnerships with a range of different organisations, including energy providers and a local food bank. In the first six months since it opened, more than 1,600 customers have visited our hub. We have recently started the planning process to open a second community hub by early 2020.

In addition, we have been looking at new technology and the ways it can give our customers more control over their water services and help them to use water wisely. This is something our engagement has highlighted is important for our customers. So, over the past 12 months we have been running an exciting and innovative pilot project in our Cambridge region, involving more than 15,000 randomly selected customers using a system designed by a California-based company called WaterSmart.

The service is designed to produce personalised water reports for customers – and give them tips and recommendations on how they can save water. They can also visit an online portal to:

- view their water usage over time;
- see how they are doing compared with other similar households; and
- better understand how much water they use in different areas of their homes.

We have asked the customers involved in the trial for regular feedback. We are already seeing that WaterSmart users are noticeably more satisfied, particularly for ease of communication and in taking steps to help them use water more efficiently.

The trial came to an end in November. We are now carrying out in-depth analysis to assess its impact, including reviewing how much water customers are saving and linking this to their satisfaction levels. The results to date suggest that offering this service has helped to increase engagement, and more than 80% of customers on the trial said they want us to continue to offer them other services like this. We view this type of approach as important in helping encourage customers to use water wisely.

In addition, during the first half of this year we successfully launched what we believe to be the most comprehensive voice-activated Alexa skill in the sector. It enables customers to understand, for example, when their next bill payment is due or why their water may have an unusual colour. This helps them to take action easily without necessarily needing to contact us directly. We also started work to develop our mobile app capability, which will allow customers to carry out a number of functions to make their lives easier. This includes updating their personal details on our system, paying their bills and submitting meter reads.

## Alexa



**We launched our Alexa Skill in June 2018 to meet growing customer demand for new ways of interacting with us at a time and place that suits them.**

The most popular feature is the one that enables customers to ask about their account balance. This accounts for more than 60% of transactions in our South Staffs region and 55% in our Cambridge region.

The next most popular feature is the one that enables customers to give us a meter reading, followed by those for reporting a leak and having no water.

## Delivering for the Future

Our focus for the next six months is on putting in place the building blocks to deliver our business plan; this will extend into 2019/20. The key areas will be those set out in our plan, which our customers fully support. This includes setting the flat nominal household bill we have proposed for each of the five years between 2020 and 2025. This gives customers the certainty they said they wanted from us, as we are taking on the risk of inflation – we are the only company in the sector to do this. We will also identify the partners that will help us deliver our challenging capital programme, ensuring the resilience of our key water sources for future generations. And we will take even greater steps to address leakage – with planned reductions of up to 25% in our South Staffs region and 15% in our Cambridge region by 2025.

From a financial performance perspective, we expect the next six months to bring a slight increase in revenue as a result of the high levels of usage during the hot summer. This will help us to partly offset the extra costs of producing the water used and making repairs on our network that have resulted from a lack of water in the soil. We will also prepare our network – and our customers – for the coming winter and embed the learnings from the ‘Beast from the East’. We performed well in the tough weather last year, but have still learned lessons that will help us to continue to serve our customers effectively this time round.

And we will continue to innovate – finding better ways to engage and support our customers, including vulnerable customers, and finding new ways to tackle leakage, encourage more efficient use of water and protect the environment. We will also continue to engage with and nurture our Young Innovators’ Panel, which we set up during the first half of the year.

## Launch of the Young Innovators' Panel



As part of our commitment to continually engage with young people and future customers, we launched our first-ever Young Innovators' Panel in July 2018. From a pool of applicants, we selected 17 students, aged between 16 and 18, from 13 schools across our South Staffs region and invited them to spend the day at our offices.

We gave them a project brief to come up with new ways of engaging with younger customers (aged 12 to 14) and to change the way they think about water usage to make them feel responsible for how they use it.

They spent the summer working in four teams and in October 2018 they presented their ideas to a six-strong panel of judges comprising members of our executive and senior management teams, along with members of the Independent Customer Panel.

The ideas put forward included:

- running school competitions to encourage water saving behaviour;
- greater use of social media channels such as YouTube as way to influence how people think about and use water;
- charity engagement and partnering with national organisations;
- increased use of the company's facilities to educate future generations.

The winning team, Trident, engaged with pupils from two schools in the region as part of its research. The research highlighted that many young people are already doing more to recycle and reduce their use of plastics, compared with actively looking to reduce the amount of water they use every day.



Young  
innovators'  
panel

## Statement of Directors' Responsibilities

The directors confirm that these condensed interim financial statements represent a fair view of our performance for the six months to 30 September 2018.

A list of the current directors of South Staffordshire Water Plc is available on our website at: [www.south-staffs-water.co.uk](http://www.south-staffs-water.co.uk).

## Assurance

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

## Financial Performance

Turnover for the first six months of the year increased by £1.6 million to £63.8 million compared with the same period last year. Appointed turnover increased in line with allowed regulatory uplifts by the Retail Price Index (RPI) of 3.9% offset by a negative K factor of 1.7%. The prolonged, hot summer increased the demand for water across both our regions, particularly during July and August. This increased water usage, resulting in increased turnover for the regulated ('appointed') water business. Non-regulated (that is, 'non-appointed') turnover is in line with 2017 at £2.9 million (2017: £2.9 million).

Our operating costs were higher than the equivalent period last year because of the longer than expected legacy of the 'Beast from the East' and the prolonged effects of responding to the impacts of the hot, dry summer. Both events resulted in significant additional costs, including power, chemicals and manpower expenditure as a result of meeting extra demand, ensuring low levels of leakage and rapidly repairing the network wherever and whenever necessary.

Our operating profit for the first six months of the year reduced by £0.2 million to £15.3 million compared with the same period last year.

EBITDA (excluding infrastructure renewals expenditure)		Operating profit	
September 2018	£30.8m	September 2018	£15.3m
September 2017	£30.5m	September 2017	£15.5m

EBITDA – the measure of our operating performance, excluding infrastructure renewals expenditure (see the reconciliation, right) – for the first six months of the year increased by £0.3 million to £30.8 million compared with the same period last year.

	September 2018 £m	September 2017 £m
<b>Operating profit</b>	<b>15.3</b>	<b>15.5</b>
Depreciation : non-infrastructure assets	9.5	9.5
Depreciation : infrastructure assets	2.0	1.8
Infrastructure renewals expenditure	5.3	4.9
Amortisation of capital contributions	(1.3)	(1.2)
<b>EBITDA (excluding infrastructure renewals expenditure)</b>	<b>30.8</b>	<b>30.5</b>

Finance charges for the first six months of the year increased by £0.3 million to £6.1 million compared with the same period last year, while the tax charge was in line with last year at £1.8 million.

## Capital Investment

We continued to make good progress in delivering our capital programme to ensure our assets remain in good condition and we continue to provide high-quality, reliable water supplies to our customers.

Our wholesale appointed capital expenditure in the first half of the year totalled £19.0 million (net of contributions and excluding infrastructure renewals expenditure), bringing the four-year cumulative spend in line with our PR14 final determination.

Capital investment	
September 2018	£19.0m
September 2017	£16.5m

## Dividend Payment

Dividends paid during the period were £4.2 million (2017: £5.8 million). The dividend comprises £2.0 million paid from appointed profits (2017: £2.9 million), £1.2 million from non-appointed profits (2017: £1.9 million) and £1.0 million to enable intra-group loan interest to be paid to the company (2017: £1.0 million). The appointed dividend of £2.0 million is less than that allowed in our PR14 final determination and represents 3% of regulated equity.

Moving forward, the directors will continue to take a responsible approach in determining the levels of dividends to be paid.

## Net Debt and Borrowing Covenants

Our net debt includes index-linked debt, bank loans and debenture stock less cash. For covenant reporting purposes, our net debt was £248.4 million at 30 September 2018 and represented a ratio of 66% of the Regulatory Capital Value (RCV).

The reconciliation between covenant net debt and book net debt is shown in the notes to the accounts on page 20, along with a full analysis of our borrowings.

We maintain significant headroom in respect of all of our borrowing covenants and liquidity with cash of £0.4 million and undrawn facilities of £14.6 million, giving total liquidity headroom of £15.0 million.

Standard & Poor's continues to rate the company as BBB+ with Moody's rating at Baa2; both are within investment grade.

## Unaudited Interim Profit and Loss Account

### For the six months ended 30 September 2018

	30 September 2018 £'000	30 September 2017 £'000
Turnover	63,766	62,131
Operating costs (net)	(48,449)	(46,578)
<b>Operating Profit</b>	<b>15,317</b>	15,553
Finance charges (net)	(6,087)	(5,810)
<b>Profit on ordinary activities before taxation</b>	<b>9,230</b>	9,743
Taxation on profit ordinary activities	(1,775)	(1,784)
<b>Profit on ordinary activities after taxation</b>	<b>7,455</b>	7,959
Earnings per share		
Basic	351.1p	374.8p
Diluted	351.1p	374.8p

## Unaudited Interim Balance Sheet

As at 30 September 2018

	30 September 2018 Unaudited £'000	31 March 2018 Audited £'000
<b>Fixed Assets</b>		
Tangible assets	523,619	511,021
<b>Current Assets</b>		
Stocks	1,830	1,714
Debtors – amounts recoverable within one year	38,579	30,407
Debtors – amounts recoverable in more than one year	43,302	43,547
Investments	2	2
Cash at bank and in hand	378	2,192
	<b>84,091</b>	77,862
Borrowings – amounts falling due within one year	<b>(8,981)</b>	(2,041)
Other creditors – amounts falling due within one year	<b>(65,914)</b>	(59,183)
<b>Net current assets</b>	<b>9,196</b>	16,638
<b>Total assets less current liabilities</b>	<b>532,815</b>	527,659
Borrowings – amounts falling due after more than one year	<b>(259,834)</b>	(260,902)
Other creditors – amounts falling due after more than one year	<b>(11,754)</b>	(12,727)
Accruals and deferred income – falling due after more than one year	<b>(149,672)</b>	(146,496)
Provisions for liabilities – falling due after more than one year	<b>(39,784)</b>	(39,336)
<b>Net Assets</b>	<b>71,771</b>	68,198
<b>Capital and Reserves</b>		
Called up share capital	2,123	2,123
Share premium account	495	495
Capital redemption reserve	4,450	4,450
Revaluation reserve	34,213	34,441
Hedging reserve	<b>(5,823)</b>	(6,153)
Profit and loss account	<b>36,313</b>	32,842
<b>Shareholders' Funds</b>	<b>71,771</b>	68,198



## Unaudited Interim Statement of Comprehensive Income

### For the six months ended 30 September 2018

	<b>30 September 2018 Unaudited £'000</b>	<b>31 March 2018 Audited £'000</b>
Profit on ordinary activities after taxation	<b>7,455</b>	15,356
Movement in hedging reserve	<b>401</b>	1,358
Deferred tax impact of movement in hedging reserve	<b>(71)</b>	(231)
<b>Total comprehensive income relating to the period</b>	<b>7,785</b>	16,483

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## Unaudited Interim Statement of Changes in Equity

As at 30 September 2018

	Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit & Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2017	2,123	495	4,450	34,894	33,773	(7,280)	68,455
Profit for financial period	-	-	-	-	15,356	-	15,356
Change in value of hedging instruments (gross of deferred tax)	-	-	-	-	-	1,177	1,177
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(200)	(200)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	181	181
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(31)	(31)
Amounts transferred to profit and loss	-	-	-	(453)	453	-	-
	2,123	495	4,450	34,441	49,582	(6,153)	84,938
Dividends	-	-	-	-	(16,740)	-	(16,740)
<b>Balance at 31 March 2018</b>	<b>2,123</b>	<b>495</b>	<b>4,450</b>	<b>34,441</b>	<b>32,842</b>	<b>(6,153)</b>	<b>68,198</b>
Balance at 1 April 2018	2,123	495	4,450	34,441	32,842	(6,153)	68,198
Profit for financial period	-	-	-	-	7,455	-	7,455
Change in value of hedging instruments (gross of deferred tax)	-	-	-	-	-	308	308
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(52)	(52)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	93	93
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(19)	(19)
Amounts transferred to profit and loss	-	-	-	(228)	228	-	-
	2,123	495	4,450	34,213	40,525	(5,823)	75,983
Dividends	-	-	-	-	(4,212)	-	(4,212)
<b>Balance at 30 September 2018</b>	<b>2,123</b>	<b>495</b>	<b>4,450</b>	<b>34,213</b>	<b>36,313</b>	<b>(5,823)</b>	<b>71,771</b>

## Unaudited Interim Cash Flow Statement

For the six months ended 30 September 2018

	30 September 2018 £'000	30 September 2017 £'000
<b>Cash inflow from operating activities</b>	<b>21,666</b>	22,508
<b>Corporation tax paid</b>	<b>(939)</b>	(1,025)
<b>Net cash inflow from operating activities</b>	<b>20,727</b>	21,483
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(22,913)	(19,626)
Proceeds from sale of tangible fixed assets	216	30
Capital contributions received	4,515	2,685
Part repayment of long-term balance with group undertaking	-	(8,991)
Proceeds from sale of non-household retail assets	-	8,300
Interest received	1,276	1,276
<b>Net cash outflow from Investing activities</b>	<b>(16,906)</b>	(16,326)
<b>Cash flows from financing activities</b>		
Interest paid	(4,385)	(4,978)
Equity dividends paid	(4,212)	(5,800)
Draw down of short term bank loans	6,935	-
Repayment of bank loans	(3,973)	-
Capital element of finance lease and hire purchase rental payments	-	(218)
<b>Net cash outflow from financing activities</b>	<b>(5,635)</b>	(10,996)
<b>Decrease in cash</b>	<b>(1,814)</b>	(5,839)
<b>Cash or cash equivalents at the beginning of the period (1 April)</b>	<b>2,192</b>	8,723
<b>Cash or cash equivalents at the end of the period (30 September)</b>	<b>378</b>	2,884

## Unaudited Interim Cash Flow Statement

For the six months ended 30 September 2018

	Balance 1 April 2018 £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance 30 September 2018 £'000
Cash at bank and in hand	2,192	(1,814)	-	<b>378</b>
Short-term bank loans	(2,041)	(6,935)	(5)	<b>(8,981)</b>
	151	(8,749)	(5)	<b>(8,603)</b>
Irredeemable debenture stock	(1,652)	-	-	<b>(1,652)</b>
Bank loans (net of issue costs)	(35,318)	3,973	(17)	<b>(31,362)</b>
Index-linked debt (net of issue costs including premium)	(223,932)	-	(2,888)	<b>(226,820)</b>
Net debt	(260,751)	(4,776)	(2,910)	<b>(268,437)</b>

	30 September 2018 £'000	31 March 2018 £'000
Book net debt (as reported above)	<b>(268,437)</b>	(260,751)
Exclude book premium on issue of index-linked debt	<b>13,609</b>	13,768
Difference between long-term RPI assumption and actual RPI inflation	<b>8,034</b>	7,840
Exclude unamortised issue costs	<b>(1,772)</b>	(1,814)
Exclude accrued interest	<b>213</b>	209
Net debt reported for borrowing covenants	<b>(248,353)</b>	(240,748)

It is noted that the covenant net debt value as opposed to the book net value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics such as Net Debt/Regulated Capital Value.

## Unaudited Interim Notes to Financial Statements

1. The interim results for the six months to 30 September 2018 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2018.

The interim financial information is unaudited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The balance sheet for the year to 31 March 2018 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.

2. The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2019.

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