News from...

South Staffordshire Group Plc

May 1999

New Name for A New Era

South Staffordshire Group gets a new identity for the new millennium



Brian Whitty

Brian Whitty explains how the new South Staffordshire identity was created and why it is needed at this time:

Since 1991, our business has changed significantly and non-regulated activities now make up 39% of our profits and are continuing to grow. In 1999 we need an identity that reflects the changes to our business.

The challenge we had was to create a new identity without changing too radically and losing all the goodwill the South Staffordshire name has with customers, investors and the City.

Much thought and effort went into the process of coming up with the right solution. After many discussions we

eventually decided that we would recommend changing the holding company name from South Staffordshire Holdings PLC to Water Staffordshire Group Plc to reflect the expansion of the Group from being solely involved in water supply to include complementary products and services.

The change from 'water holdings' to 'group' may seem small but it is significant, as it is a more appropriate name for the organisation as it exists today.

We also had a new logo designed that will replace our Crest. The new logo has a much more modern feel and is more representative of all our business streams. The Crest will be retained by the water supply company.

The change is subject to shareholder approval on 25th June 1999 at our AGM. If approved it will be effective on the same day.

I believe the change reflects the best of the new combined with the best of the old. I hope you agree!



Group Achievements

It is the evolution of the company that has driven the need for the new identity. It is staggering to see how far South Staffordshire has come in a short time. Turnover has exceeded £100 million for the first time in our history and non-regulated profits have almost doubled as a percentage of Group profits over the last two years, rising from 21% to 39%, a huge jump and they are still growing. There are also almost double the number of people working for the business. In 1997 South Staffordshire had 682 employees but there are almost 1200 people working for the company today.

In the last two years South Staffordshire has bought other companies for the first time in its history. Since 1997 four companies have been acquired - Insight, Mech-Mail, Britannia and most recently Epok.

The water supply business continues to deliver high customer service levels and low charges. There has been an improvement on last year's performance, one that was already excellent compared with the rest of the industry. If you live in the South Staffordshire catchment area you can be confident that you have one of the best value services in the UK.

Looking to the future, unsurprisingly a lot of time has been spent on preparing our business plan for the next 15 years! This has now been

submitted to OFWAT and we are awaiting their response - this will be announced in draft in July.

The development of the Group's non-regulated businesses, which has their roots in the experience we have in the water business, has continued apace which is shown by their contribution to profits. The Home Service business now operates throughout England and Wales, and has seen a strong demand for its plumbing and electricity home assistance services. Further investment has also been made in Mailing Solutions and Onsite Resources Divisions, and each division has acquired a new business to increase the scope of services they offer. The two acquisitions we made last year are doing well and the managers that joined us from those businesses have settled into our group.



Mech-Mail is one of four acquisitions since 1997

Spreading our sources of profit means that the whole group has greater opportunities for growth, as we are not in a situation where we have all our eggs in one basket. Saying that, although we have increased our scope of activity, the core thread of expertise is our knowledge of the water industry and being able to give excellent customer service.

Share Split

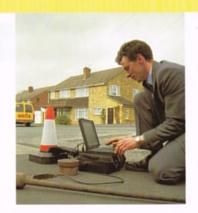
To bring the share price to a more appropriate level, particularly for the smaller individual investor, we have proposed to shareholders that we split the Company's shares on a 10 for 1 basis. This is subject to shareholder approval on the 25th June, but if approved it means that all shareholders will receive 10 new ordinary shares for each existing share that they hold. This will become effective on 5th July if approval is obtained. Although the split will have no impact on the profit earned on existing shareholdings or sharesave options, it will be necessary to issue new option and share certificates.



Other Annual Highlights

Water

This year the Company has again out-performed the regulatory obligation set by OFWAT in 1994 and has also maintained its record of not imposing supply restrictions for over twenty years! The water supply business has continued to meet its twin objectives of high customer service levels and low charges and the average domestic annual bill is the second lowest in the country.



Achievements include:

An improvement over last year's OFWAT levels of service in every category

99.9% compliance with the stringent water quality requirements

Leakage targets for 31 March 1999 met ahead of OFWAT targets

Refurbishment of customer services accommodation

Home Service

Seventeen water companies, including all ten of the Water and Sewerage Companies, now endorse our plumbing and drainage emergency home assistance policies for domestic householders. Eight major electricity companies now endorse our policy covering emergency electrical faults in domestic households. This year a new product providing an annual inspection and breakdown cover for gas central heating was launched with three electricity supply companies to support their drive for new gas customers.



Achievements include:

Turnover increased to £23.0m (1998 – £14.0m)

Policy holders increase to 850,000 (1998 – 500,000)

Fastfix Plumbing and Heating Ltd merged into Home Service

Plumbing operation now has over 700 operatives

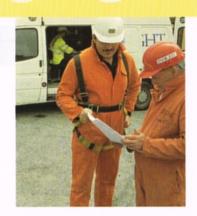
104,000 plumbing jobs were completed in the year



Other Annual Highlights

Onsite Resources

Turnover of this division reached £14m (up from £9.1m in 1998). During the year Process Water Solutions was established as a new Onsite service, offering process water and wastewater treatment to industrial and commercial customers. The Group also acquired Epok Ltd in April 1999, which provides specialist drain, sewer and surface cleaning services to customers in South East England.



Achievements include:

Insight Surveys work for seven out of ten water and wastewater companies in England and Wales, plus all Scottish Water Authorities

Specialist pipe laboratory has seen external income grow to £750,000 as renewal and renovation of pipelines is seen as key by major utilities

Spring water deliveries from Elmhurst Spring have grown by 75% with over 28 million litres of high quality spring water being delivered in the year.

Mail Solutions

Turnover for the year to 31 March amounts to £12m with 152 employees at the end of the year. Investment has continued to expand the range of services, with the emphasis on high quality products. Britannia Envelopes in Stoke on Trent was acquired in September 1998 for £3.2m. Since then it has performed well and the management team have settled well into the Group.



Developments include:

New 202 envelope machine in Telford costing nearly £1 million – increasing capacity by almost 40% to 110 million envelopes per month.

Direct Mail Solutions now has the capacity to insert over 5 million envelopes per month.



