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## Interim Report 2006

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# Financial Highlights

|                                     | <b>2006</b><br><b>(26 weeks)</b> | 2005<br>(26 weeks) |
|-------------------------------------|----------------------------------|--------------------|
| Turnover (£000)                     | <b>9,329</b>                     | 9,139              |
| Pre-tax profit (£000)               | <b>2,905</b>                     | 2,740              |
| Earnings per share                  | <b>43.5p</b>                     | 42.2p              |
| Interim dividend per ordinary share | <b>16.0p</b>                     | 15.4p              |

# Chairman's Statement

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The Group has made a solid start to the year, with profit before depreciation and finance costs for the first six months increasing by 1.9% compared to the corresponding period last year, on a turnover growth of 2.1%. Profit before tax increased by 6.0% whilst earnings per share increased by 3.1%.

Operating costs in the Water Company increased by £174,000 in the half year, the majority of which can be attributed to the increased cost of power.

Investment expenditure for the half-year doubled to £4.5 million compared to the same period last year, reflecting the progress achieved on the Boughton treatment works refurbishment project. The first section of these works is on target to be operational in the spring of 2007.

Despite experiencing very high demand for water during the early summer, the Water Company was able to maintain supplies to customers without restrictions for the seventeenth year in succession.

The Board announces an interim dividend of 16.0 pence per ordinary share (2005 – 15.4 pence per ordinary share). The increase of 3.9% is in line with the Group's policy of at least maintaining the level of dividends in real terms until 2010.

Despite additional finance costs of approximately £900,000 arising from higher loan indexation and interest charges in the second half-year, the Board expects full-year profit before tax to be in line with market expectations.

Graham Scott  
Chairman  
1 December 2006

# Group Income Statement Unaudited

26 weeks ended 30 September 2006

|   | Notes | 2006<br>(26 weeks)<br>£000 | 2005<br>(26 weeks)<br>£000 | Year to<br>31.03.06<br>£000 |
|---|-------|----------------------------|----------------------------|-----------------------------|
| <b>Revenue — continuing operations</b>              |       | <b>9,329</b>               | 9,139                      | 18,317                      |
| Other income  |       | <b>807</b>                 | 723                        | 1,426                       |
| Work performed by the Group and capitalised         |       | <b>467</b>                 | 212                        | 1,126                       |
| Raw materials and consumables used                  |       | <b>(232)</b>               | (220)                      | (483)                       |
| Employee benefits expense                           |       | <b>(2,595)</b>             | (2,703)                    | (5,069)                     |
| Other expenses                                      |       | <b>(2,539)</b>             | (2,014)                    | (5,021)                     |
| <b>Profit before depreciation and finance costs</b> |       | <b>5,237</b>               | 5,137                      | 10,296                      |
| Depreciation  |       | <b>(1,501)</b>             | (1,408)                    | (2,949)                     |
| Finance costs                                       |       | <b>(831)</b>               | (989)                      | (2,288)                     |
| <b>Profit before tax</b>                            |       | <b>2,905</b>               | 2,740                      | 5,059                       |
| Income tax expense                                  | 7     | <b>(888)</b>               | (787)                      | (1,520)                     |
| <b>Profit for the period</b>                        |       |                            |                            |                             |
| Continuing operations                               |       | <b>2,017</b>               | 1,909                      | 3,460                       |
| Discontinued operations                             | 5     | —                          | 44                         | 79                          |
|   |       | <b>2,017</b>               | 1,953                      | 3,539                       |
| Basic earnings per ordinary share                   | 8     | <b>43.5p</b>               | 42.2p                      | 76.4p                       |

# Group Statement of Recognised Income and Expense Unaudited

26 weeks ended 30 September 2006

|  | 2006<br>(26 weeks)<br>£000 | 2005<br>(26 weeks)<br>£000 | Year to<br>31.03.06<br>£000 |
|--|----------------------------|----------------------------|-----------------------------|
| Actuarial gain (net of deferred tax) on defined benefit pension scheme | <b>391</b>                 | 51                         | 465                         |
| <b>Net income recognised directly in equity</b>                        | <b>391</b>                 | 51                         | 465                         |
| Profit for the financial period  | <b>2,017</b>               | 1,953                      | 3,539                       |
| <b>Total recognised income and expense for the period</b>              | <b>2,408</b>               | 2,004                      | 4,004                       |

# Group Balance Sheet Unaudited

|                                | Notes | 30 Sept<br>2006<br>£000 | 30 Sept<br>2005<br>£000 | 31 March<br>2006<br>£000 |
|--------------------------------|-------|-------------------------|-------------------------|--------------------------|
| <b>ASSETS</b>                  |       |                         |                         |                          |
| <b>Non-current assets</b>      |       |                         |                         |                          |
| Goodwill                       |       | 8,315                   | 8,315                   | 8,315                    |
| Property, plant and equipment  |       | 66,265                  | 62,336                  | 63,854                   |
| Investments                    |       | 2                       | 2                       | 2                        |
|                                |       | <b>74,582</b>           | 70,653                  | 72,171                   |
| <b>Current assets</b>          |       |                         |                         |                          |
| Inventories                    |       | 156                     | 174                     | 114                      |
| Trade receivables              |       | 3,864                   | 4,222                   | 2,074                    |
| Other receivables              |       | 818                     | 1,683                   | 223                      |
| Cash and cash equivalents      | 3     | 6,333                   | 5,415                   | 5,142                    |
|                                |       | <b>11,171</b>           | 11,494                  | 7,553                    |
| <b>Total assets</b>            |       | <b>85,753</b>           | 82,147                  | 79,724                   |
| <b>LIABILITIES</b>             |       |                         |                         |                          |
| <b>Current liabilities</b>     |       |                         |                         |                          |
| Trade and other payables       |       | 13,494                  | 13,046                  | 9,471                    |
| Borrowings                     | 3     | 1,250                   | -                       | -                        |
| Current tax liabilities        |       | 276                     | 494                     | 944                      |
|                                |       | <b>15,020</b>           | 13,540                  | 10,415                   |
| <b>Non-current liabilities</b> |       |                         |                         |                          |
| Borrowings                     | 3     | 39,136                  | 38,228                  | 38,894                   |
| Deferred tax                   |       | 13,538                  | 13,536                  | 12,763                   |
| Retirement benefit obligations |       | 1,501                   | 2,534                   | 2,057                    |
|                                |       | <b>54,175</b>           | 54,298                  | 53,714                   |
| <b>Total liabilities</b>       |       | <b>69,195</b>           | 67,838                  | 64,129                   |
| <b>Net assets</b>              |       | <b>16,558</b>           | 14,309                  | 15,595                   |
| <b>EQUITY</b>                  |       |                         |                         |                          |
| Share capital                  |       | 232                     | 232                     | 232                      |
| Fair value and other reserves  |       | 8,004                   | 7,755                   | 7,919                    |
| Retained earnings              |       | 8,322                   | 6,322                   | 7,444                    |
| <b>Total equity</b>            | 4     | <b>16,558</b>           | 14,309                  | 15,595                   |

# Group Cash Flow Statement Unaudited

26 weeks ended 30 September 2006

| Notes  | <b>2006<br/>(26 weeks)<br/>£000</b> | 2005<br>(26 weeks)<br>£000 | Year to<br>31.03.06<br>£000 |
|--|-------------------------------------|----------------------------|-----------------------------|
| <b>Cash flows from operating activities</b>        |                                     |                            |                             |
| Profit before tax                                  | <b>2,905</b>                        | 2,740                      | 5,059                       |
| Adjustments for :                                  |                                     |                            |                             |
| Depreciation                                       | <b>1,501</b>                        | 1,408                      | 2,949                       |
| Loss on disposal of assets                         | —                                   | —                          | 522                         |
| Finance costs                                      | <b>831</b>                          | 989                        | 2,288                       |
|  | <b>5,237</b>                        | 5,137                      | 10,818                      |
| (Increase)/decrease in inventories                 | <b>(42)</b>                         | (1)                        | 59                          |
| (Increase)/decrease in trade and other receivables | <b>(2,361)</b>                      | (3,217)                    | 99                          |
| Increase/(decrease) in trade and other payables    | <b>4,093</b>                        | 2,982                      | (1,412)                     |
| Cash generated from operations                     | <b>6,927</b>                        | 4,901                      | 9,564                       |
| Interest paid                                      | <b>(709)</b>                        | (756)                      | (1,535)                     |
| Tax paid   | <b>(946)</b>                        | (385)                      | (613)                       |
| Net cash from operating activities                 | <b>5,272</b>                        | 3,760                      | 7,416                       |
| <b>Cash flows from investing activities</b>        |                                     |                            |                             |
| Purchase of property, plant and equipment          | <b>(3,944)</b>                      | (1,970)                    | (5,185)                     |
| Proceeds from sale of plant and equipment          | —                                   | —                          | 15                          |
| Interest received                                  | <b>107</b>                          | 113                        | 261                         |
| Net cash used in investing activities              | <b>(3,837)</b>                      | (1,857)                    | (4,909)                     |
| <b>Cash flows from financing activities</b>        |                                     |                            |                             |
| Proceeds from short-term borrowings                | <b>1,250</b>                        | —                          | —                           |
| Repayment of B shares                              | <b>(49)</b>                         | (29)                       | (192)                       |
| Equity dividends paid                              | <b>(1,445)</b>                      | (1,389)                    | (2,103)                     |
| Net cash used in financing activities              | <b>(244)</b>                        | (1,418)                    | (2,295)                     |
| <b>Net increase in cash and cash equivalents</b>   | <b>1,191</b>                        | 485                        | 212                         |
| Cash and cash equivalents at beginning of period   | <b>5,142</b>                        | 4,930                      | 4,930                       |
| <b>Cash and cash equivalents at end of period</b>  | <b>6,333</b>                        | 5,415                      | 5,142                       |

# Notes to the Accounts

## 1. Accounting policies

### Basis of preparation

This Interim Report for the period ended 30 September 2006 uses accounting policies consistent with those adopted in the 2006 Annual Report. This Report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

Statutory consolidated financial statements for the Group for the year ended 31 March 2006, on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies.

## 2. Cash and cash equivalents

|                                      | <b>2006</b>  | 2005  | Year to<br>31.03.06 |
|--------------------------------------|--------------|-------|---------------------|
|                                      | <b>£000</b>  | £000  | £000                |
| Cash in hand and balances with banks | <b>(68)</b>  | (435) | (111)               |
| Short-term investments               | <b>6,401</b> | 5,850 | 5,253               |
|                                      | <b>6,333</b> | 5,415 | 5,142               |

## 3. Analysis of changes in net debt

|                           | At 1<br>April 2006 | Cash flow | Loan<br>indexation | <b>At 30<br/>September<br/>2006</b> |
|---------------------------|--------------------|-----------|--------------------|-------------------------------------|
|                           | £000               | £000      | £000               | <b>£000</b>                         |
| Cash and cash equivalents | 5,142              | 1,191     | —                  | <b>6,333</b>                        |
| Short-term borrowings     | —                  | (1,250)   | —                  | <b>(1,250)</b>                      |
| Long-term borrowings      | (38,894)           | —         | (242)              | <b>(39,136)</b>                     |
|                           | (33,752)           | (59)      | (242)              | <b>(34,053)</b>                     |

#### 4. Statement of changes in equity

|  | Notes | 2006<br>£000   | 2005<br>£000 | Year to<br>31.03.06<br>£000 |
|--|-------|----------------|--------------|-----------------------------|
| At beginning of period   |       | <b>15,595</b>  | 13,694       | 13,694                      |
| Profit for the financial period  |       | <b>2,017</b>   | 1,953        | 3,539                       |
| Actuarial gain (net of deferred tax) on defined benefit pension scheme |       | <b>391</b>     | 51           | 465                         |
| Dividends paid   | 6     | <b>(1,445)</b> | (1,389)      | (2,103)                     |
| At end of period   |       | <b>16,558</b>  | 14,309       | 15,595                      |

#### 5. Discontinued operations

|                   | Notes | 2006<br>£000 | 2005<br>£000 | Year to<br>31.03.06<br>£000 |
|-------------------|-------|--------------|--------------|-----------------------------|
| Revenue           |       | —            | —            | —                           |
| Operating costs   |       | —            | 63           | 84                          |
| Profit before tax |       | —            | 63           | 84                          |
| Taxation          |       | —            | (19)         | (5)                         |
| Profit after tax  |       | —            | 44           | 79                          |

#### 6. Dividends

|  | 2006<br>Pence<br>per share | 2005<br>Pence<br>per share | 2006<br>£000 | 2005<br>£000 |
|--|----------------------------|----------------------------|--------------|--------------|
| Amounts recognised as distributions to equity holders in the period: |                            |                            |              |              |
| Final dividend for the year  | <b>31.2p</b>               | 30.0p                      | <b>1,445</b> | 1,389        |
| Interim dividend for the half-year                                   | <b>16.0p</b>               | 15.4p                      | <b>741</b>   | 713          |

The interim dividend was approved by the Board on 1 December 2006 but was not included as a liability at 30 September 2006, in accordance with IAS10 'Events after the balance sheet date'.

The interim dividend is payable on 9 January 2007 to shareholders on the register at the close of business on 15 December 2006.

# Notes to the Accounts

continued

**7.** The charge for corporation tax is an estimate based on the anticipated effective rate of tax for the year to 31 March 2007.

**8.** Earnings per ordinary share have been calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The profit attributable to ordinary shareholders for the half-year ended 30 September 2006 was £2,017,000 (half-year ended 30 September 2005 - £1,953,000).

The number of ordinary shares used in the calculation of earnings per share in 2006 and 2005 was 4,632,170.

**9.** This Report is being sent to all shareholders and is available on request from the Company's Registered Office:

Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH.

The Report will also be available on the Company's website: [www.deevalleygroup.com](http://www.deevalleygroup.com)





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