



Interim Report 2008

Financial Highlights

	2008	Restated 2007
Revenue (£000)	10,129	9,634
Profit before tax (£000)	2,260	2,616
Earnings per share (pence)	18.3	50.4
Interim dividend per ordinary share (pence)	17.3	16.9

Comparative figures have been restated for the change in accounting policy on the recognition of measured revenue which was implemented in the 2008 Annual Report (see note 3 of this Interim Report).

Business Review and Interim Management Report

Revenue in the period was up 5.1% on the same period last year although this increase was lower than the average increase in charges of 9.3%. The difference between them can be attributed to lower demand from non-household customers as a result of the weakening economic climate as well as the effect of household customers switching from unmeasured to measured charging.

Operating costs were £160,000 higher than the equivalent inflation-adjusted costs in the previous period due mainly to an increase in power costs and costs associated with the preparation of the water company's business plan. Other cost increases were balanced by a favourable variance in the charge for bad and doubtful debts.

Profit before tax was 13.6% lower than for the same period last year with additional unfavourable variances in non-cash items including depreciation, index-linked interest charges on the principal Artesian debt and movements in finance charges on the defined benefit pension scheme.

Earnings per share reduced to 18.3p, reflecting an increase in the deferred tax charge following the Government's decision to reduce and then abolish Industrial Buildings Allowance.

The Board announces an interim dividend of 17.3 pence per ordinary share, representing an increase of 2.4% on the interim dividend in 2007. The interim dividend will be paid on 13 January 2009 to shareholders on the register at close of business on 12 December 2008.

Investment expenditure of £1.5 million in the period was significantly lower than for the same period in 2007, when expenditure on the Boughton Treatment Works project was at a significant level.

In August 2008 the Group's operating company, Dee Valley Water, submitted its Draft Business Plan to the water industry regulator, Ofwat. This plan is the latest stage in the process by which Ofwat sets the limit on the water company's charges for the five-year period commencing 1 April 2010. After careful and detailed consideration of both capital and operating cost requirements, the Company submitted a proposal to increase charges in real terms by an average of approximately 1.2% per annum over the period.

RISKS AND UNCERTAINTIES

Although the Group remains vulnerable to further reductions in measured income during the current year, the Board believes that these uncertainties have been sufficiently factored into current market expectations.

Apart from the issue of lower demand, the Board considers that the year-end results will not be noticeably affected to any major extent by current global economic issues.

MANAGEMENT

The Group's Managing Director, Bryn Bellis, will retire at the end of 2009 after 42 years of outstanding service. By this time the outcome of the current periodic review of water charges will be known.

The Board is pleased to announce the appointment of Norman Holladay to succeed Bryn Bellis as Managing Director with effect from 1 December 2009. Norman is currently Planning and Regulation Manager of Dee Valley Water and has worked for the Group since 1992 following significant international engineering experience. The Board has chosen to make an early announcement to allow for an orderly handover and to put in place any further appointments that may be required.

Condensed Group Interim Income Statement (unaudited)

for the half year ended 30 September 2008

		2008	Restated 2007
	Notes	£000	£000
Continuing operations			
Revenue		10,129	9,634
Other income		886	855
Raw materials and consumables used		(268)	(269)
Employee benefits expense		(2,127)	(2,059)
Other operating expenses		(3,045)	(2,691)
Profit before depreciation and finance costs		5,575	5,470
Depreciation		(1,859)	(1,583)
Finance income		1,386	1,252
Finance costs		(2,842)	(2,523)
Profit before tax		2,260	2,616
Taxation	5	(1,410)	(282)
Profit for the period on continuing operations		850	2,334
Discontinued operations			
Profit for the period on discontinued operations		—	—
Profit for the period		850	2,334
Basic and diluted earnings per ordinary share			
Continuing operations	6	18.3p	50.4p
Interim dividend per ordinary share	9	17.3p	16.9p

Condensed Group Interim Statement of Recognised Income and Expense (unaudited)

for the half year ended 30 September 2008

	2008	2007
	£000	£000
Actuarial (loss)/gain on defined benefit pension scheme	(41)	2,353
Deferred tax on actuarial (loss)/gain	11	(824)
Net (expense)/income recognised directly in equity	(30)	1,529
Profit for the period	850	2,334
Total recognised income and expense for the period	820	3,863

Condensed Group Interim Balance Sheet (unaudited)

as at 30 September 2008

		30 September	31 March
		2008	2008
	Notes	£000	£000
ASSETS			
Non-current assets			
Goodwill		5,381	5,381
Property, plant and equipment	7	74,162	74,531
Retirement benefit surplus		2,499	2,471
Investments		2	2
		82,044	82,385
Current assets			
Inventories — raw materials and consumables		161	136
Trade receivables		5,554	2,277
Other receivables		811	1,480
Cash and cash equivalents	10	7,389	6,771
		13,915	10,664
Total assets		95,959	93,049
LIABILITIES			
Current liabilities			
Borrowings	10	6,293	8,244
Trade and other payables		12,464	8,914
Current tax liabilities		373	38
		19,130	17,196
Non-current liabilities			
Borrowings	10	42,447	41,700
Deferred tax		16,344	15,278
		58,791	56,978
Total liabilities		77,921	74,174
Net assets		18,038	18,875
EQUITY			
Share capital		232	232
Other reserves		5,549	5,500
Retained earnings		12,257	13,143
Total equity	8	18,038	18,875

Condensed Group Interim Cash Flow Statement (unaudited)

for the half year ended 30 September 2008

	Notes	2008 £000	Restated 2007 £000
Cash flows from operating activities			
Profit before taxation		2,260	2,616
Adjustments for:			
Depreciation		1,859	1,583
Loss on disposal of assets		—	—
Net finance costs		1,456	1,271
		5,575	5,470
(Increase) in inventories		(25)	(1)
(Increase) in trade and other receivables		(2,608)	(2,934)
Increase in trade and other payables		3,476	3,288
(Increase)/decrease in retirement benefit obligations		(18)	72
Cash generated from operations		6,400	5,895
Interest paid		(857)	(826)
Tax paid		—	(109)
Net cash from operating activities		5,543	4,960
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,491)	(4,323)
Proceeds from sale of plant and equipment		—	—
Interest received		174	64
Net cash used in investing activities		(1,317)	(4,259)
Cash flows from financing activities			
Repayment of B shares		(49)	(27)
Equity dividends paid	9	(1,657)	(1,515)
Net cash used in financing activities		(1,706)	(1,542)
Net increase/(decrease) in cash and cash equivalents	10	2,520	(841)
Cash and cash equivalents at 1 April	10	619	2,394
Cash and cash equivalents at 30 September	10	3,139	1,553

Notes

1 Reporting Entity

Dee Valley Group plc is a company domiciled in the United Kingdom. The condensed Group interim financial statements of the Company as at 30 September 2008 comprise the Company and its subsidiaries (together, the "Group").

The consolidated financial statements of the Group as at 31 March 2008 are available on request from the Company's registered office at Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH or at www.deevalleygroup.com.

2 Basis of Preparation

These condensed Group interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and in accordance with International Financial Reporting Standard IAS 34 as adopted by the EU. The accounting policies applied are consistent with those adopted in the 2008 Annual Report.

These financial statements have not been audited nor reviewed by the auditors, and do not include all the information required for full annual financial statements. The comparative figures for the financial year ended 31 March 2008 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed Group interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2008, other than the pension scheme assumptions disclosed in note 11.

These condensed Group interim financial statements are the responsibility of the Directors and were approved by the Board on 28 November 2008.

3 Accounting Policy — Recognition of Measured Revenue

During the year ended 31 March 2008, the policy on recognition of measured revenue was changed to bring it into line with that adopted by most other companies in the same sector and in the regulatory accounts. Measured revenue now includes an estimate of amounts unbilled at the accounting date in addition to amounts billed during the accounting period.

The change in accounting policy has the following impact on these consolidated financial statements:

	2008	2007
	£000	£000
Income Statement		
Increase in revenue	274	107
Increase in profit before tax	274	107
Increase in basic earnings per share	4.3p	1.6p
Balance Sheet		
Increase in retained earnings	1,018	773

Notes continued

4 Statement of Directors' Responsibilities

The Directors named below confirm, to the best of their knowledge, that this condensed set of Group interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Management Report includes a fair review of the information required by Sections 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority.

Directors

G R Scott — Chairman

B Bellis — Managing Director

D J Guest — Finance Director

D T Weir — Senior Non-Executive Director

A C Bird — Non-Executive Director

5 Income Tax Expense

The taxation charge is an estimate based on the anticipated effective rate of tax for the year ending 31 March 2009.

	2008	2007
	£000	£000
Current tax expense — continuing operations	332	179
Deferred tax charge	1,078	103
Total tax expense	1,410	282

The effective rate of tax of 62% is higher than the standard rate of 28% because of the effect of the reduction in Industrial Buildings Allowances ("IBAs") on the charge for deferred tax. IBAs will be reduced progressively from 4% p.a. in 2007/08 to zero from 2011/12.

6 Earnings per Ordinary Share

Basic and diluted earnings per share ("EPS") have been calculated on the basis of the weighted average number of ordinary shares in issue during the half year of 4,632,170 (half year ended 30 September 2007 — 4,632,170).

The net profit used in the calculation of EPS was £850,000 (half year ended 30 September 2007 — £2,334,000).

7 Property, Plant and Equipment

During the half-year ended 30 September 2008 the Group acquired assets with a cost of £1,491,000 (half year ended 30 September 2007 — £4,323,000).

8 Reconciliation of Movements in Equity

	2008	2007
	£000	£000
At beginning of period	18,875	14,897
Total recognised income and expense for the interim period	820	3,863
Dividends paid	(1,657)	(1,515)
At end of period	18,038	17,245

9 Dividends

The Group paid the following dividends during the financial period:

	2008 Pence per share	2008 £000	2007 Pence per share	2007 £000
Ordinary shares				
Previous year final dividend	35.8	1,481	32.7	1,353
Non-voting ordinary shares				
Previous year final dividend	35.8	176	32.7	162
		1,657		1,515

The following dividends are proposed in respect of the financial period under review:

	2008 Pence per share	2008 £000	2007 Pence per share	2007 £000
Ordinary shares				
Current year interim dividend proposed	17.3	716	16.9	699
Non-voting ordinary shares				
Current year interim dividend proposed	17.3	85	16.9	83
		801		782

The interim dividend for 2008, applicable to both ordinary and non-voting ordinary shares, was approved by the Board on 28 November 2008, but has not been included as a liability as at 30 September 2008, in accordance with IAS 10 'Events after the balance sheet date'.

The interim dividend for 2008 will be paid on 13 January 2009 to shareholders on the register at the close of business on 12 December 2008.

10 Analysis of Changes in Net Debt

	At 1 April 2008 £000	Cash Flow £000	Non-cash movements £000	At 30 September 2008 £000
Demand deposits	6,689	616	—	7,305
Cash at bank and in hand	82	2	—	84
Drawings under revolving credit facility	(6,000)	1,750	—	(4,250)
Bank overdrafts	(152)	152	—	—
Cash and cash equivalents	619	2,520	—	3,139
Current borrowings				
B shares	(2,092)	49	—	(2,043)
Non-current borrowings				
Secured index-linked loan 2032	(41,601)	—	(747)	(42,348)
3.5% irredeemable consolidated debenture stock	(99)	—	—	(99)
	(41,700)	—	(747)	(42,447)
Net debt	(43,173)	2,569	(747)	(41,351)

Notes continued

11 Pension Schemes

The Company participates in a defined benefit pension scheme, the Water Companies Pension Scheme. This is a sectionalised scheme and the Company participates in the Dee Valley Water plc section of the Scheme.

The fair value of assets at 30 September 2008 was based on the unaudited market value of the Section's assets as at that date.

The value of the defined benefit obligation at 30 September 2008 has been projected forward from 31 March 2008, the date of the valuation of the Section currently in progress, in a manner intended to be consistent with the movement in the asset value.

The value of the defined benefit obligation at 31 March 2008 was based on the results of the formal actuarial valuation as at 1 April 2005, updated to the accounting date by an independent qualified actuary.

The major assumptions used by the actuaries were as follows:

	At 30 September 2008	At 31 March 2008
Assumptions (per annum)		
Retail price inflation	3.7%	3.7%
Discount rate	7.0%	6.6%
Pension increases (RPI)	3.7%	3.7%
Pension increases (5% LPI)	3.6%	3.6%
Salary growth	5.7%	5.7%

The mortality assumptions remain consistent with those disclosed in the 2008 Annual Report.

The amounts included in the balance sheet arising from obligations in respect of the Section are as follows:

	At 30 September 2008	At 31 March 2008
	£000	£000
Present value of defined benefit obligation	35,770	38,264
Fair value of assets	38,269	40,735
Asset recognised in the balance sheet	2,499	2,471

12 Related Parties

During the half year ended 30 September 2008, key management (Directors) received remuneration in the form of salaries, fees and benefits amounting to £151,100 (half year ended 30 September 2007 — £142,800).



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