

DEE VALLEY GROUP plc

**Announcement of Preliminary Results
Year Ended 31 March 2005**

HIGHLIGHTS

	2005	2004
Turnover on continuing operations (£000)	16,838	16,658
Operating profit on continuing operations (£000)	6,496	6,213
Profit on ordinary activities before taxation (£000)	4,617	4,326
Earnings per ordinary share (pence)	68.7	66.5
Dividend per ordinary share (pence)	45.0	44.0

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CHAIRMAN'S STATEMENT

In the year ended 31 March 2005, turnover on continuing operations increased by £0.2 million to £16.8 million. Operating profit on continuing operations increased by 4.6% to £6.5 million, whilst group operating profit benefited from the realisation of energy debts and rose by 5.4% to £6.8 million. Profit before tax increased to £4.6 million compared to £4.3 million in the previous year.

The Board is proposing a final dividend of 30 pence per ordinary share payable on 2 August 2005. Together with the interim dividend of 15 pence, the total dividend for the year, if approved, will amount to 45 pence per ordinary share, an increase of 2.3%. Whilst the proposed increase in dividend is not fully reflective of the Group's performance in the year, the Board nevertheless considers that the level proposed is consistent with its longer term strategy of at least maintaining dividends in real terms over the five years from 2005/06 to 2009/10.

Gross capital expenditure in the year was £7.3 million, which was largely in accordance with that planned.

In December 2004 the Director General of Water Services published his determination of charges for the quinquennium commencing 1 April 2005. Following a detailed analysis of the proposals, the Board decided to accept the determination. The Regulator has set demanding efficiency targets for both operating and capital expenditure. However, the Company believes that it can achieve these savings over the five-year period.

The charges proposed over the next five years equate to an average increase of 0.8% per annum above the rate of inflation. This is good news for customers as Dee Valley Water's charges will be amongst the lowest in the industry in England and Wales by April 2009.

Once again the Board is appreciative of the efforts of the management and staff of the Group and it is appropriate therefore to thank them for their hard work and dedication.

Graham Scott
Chairman

OPERATING REVIEW

The Group has had another successful year with a reduction in operating costs leading to an increase in operating profit in the water business of 4.6%.

Levels of service provided to customers continue to be very high. Supplies to customers were maintained throughout the year without the need for any restrictions and leakage was maintained at a level that is the lowest in the industry in England and Wales. Water quality was once again excellent with 99.96% of all tests undertaken in 2005 complying with the stringent standards.

Gross capital expenditure in the year amounted to £7.3 million. The new treatment works at Pendinas was commissioned and proved effective in reducing the level of manganese in the water supplied. The new Legacy service reservoir is nearing completion and will, when completed, provide additional security of supply against mains bursts in a significant part of the Company's area.

2005 saw the completion of the fifteen-year water mains rehabilitation programme, which has resulted in a substantial reduction in the frequency of incidents of discoloured water supplied to customers.

The industry regulator, Ofwat, has now determined the Company's charges for the period 2005 to 2010. Although the Company's average charge increase has been set at 0.8% per annum (before inflation), by 2009/10 household customers will see a real reduction of 1% in their charges because of the effects of a rebalancing of tariffs required by Ofwat.

Ofwat has set demanding efficiency targets for both operating and capital expenditure over the period of the determination. However, the Company believes that it can achieve these cost savings over the five-year period, and the results for the current year demonstrate that a significant proportion of these savings have already been achieved.

In the determination, Ofwat accepted almost all of the investment proposals for the next five years, the most significant of which is the refurbishment of the Boughton treatment works which supplies water to the City of Chester. The Company is well advanced with this major project with the tender having been awarded in May of this year.

More details of the regulatory determination can be obtained from the Ofwat web site (www.ofwat.gov.uk) and also from the Group's web site at www.deevalleygroup.com.

Bryn Bellis
Managing Director

FINANCIAL REVIEW

During the reporting year, turnover on continuing operations increased by just over 1%. Although charges increased overall by 2.03% with effect from 1 April 2004, unmeasured turnover showed a slight reduction, reflecting the impact of meter optants. In contrast, measured turnover increased by over 5%. As a result of outsourcing of water testing, third party laboratory contracts were discontinued during the year, resulting in a permanent decrease in turnover of £66,000.

As the capital expenditure programme for 2005 to 2010 is focused on above ground assets, and the statutory undertaking to refurbish underground pipes has now come to an end, employee numbers in Services Division were reduced during the year, accounting for the majority of the reduction in average employee numbers. Accordingly, continuing operating costs fell slightly in the period, assisted by a reduction in insurance costs following a tendering exercise in 2003/04.

The tax charge for 2005 is at an effective rate of 28.6% compared to 25.8% in 2004. The higher effective rate reflects the reduction in prior year adjustments included in the current year tax charge. The credit adjustment of £139,000 in 2005 represents a reduction in the corporation tax payable for 2002/03 following agreement of the tax treatment of professional fees incurred during the financial restructuring.

Net cash flow was similar to 2004. The financing of the high level of capital expenditure achieved led to a fall in short term investments of £1.2 million. Net debt at the end of the period stood at £32.9 million compared to £30.5 million at the start of the period; approximately half of the increase related to indexation on the long-term loan.

During the period under review, the gross pension deficit under FRS17 was virtually unchanged, standing at £2.4 million as at 31 March 2005. Although asset values increased by 7.6% as market conditions improved, liabilities also increased by 6.5% owing to a change in mortality assumptions and a reduction in the annual discount rate from 5.5% to 5.4%. The triennial valuation of the Scheme is due on 1 April 2005 and the Company will consider its level of contributions to the Scheme once the results of the valuation are known.

As a condition of the £35 million index-linked loan raised in 2002, the Group has entered into a number of covenants with the lender, Artesian Finance (part of the Royal Bank of Scotland Group). The most recent report to the lender, dated 31 March 2005 and covering the period up to 31 March 2007, showed no actual or potential breach of any of the covenants.

The capital expenditure programme agreed with Ofwat for the period 2005 to 2010 will result in increased borrowings by the Group. Additional facilities have already been discussed with potential lenders and will be put into place in due course, in line with actual requirements. Given the front-ended nature of the capital expenditure programme, funds drawn down in the first half of the five-year period are expected to be partially repaid by the end of 2010.

International Financial Reporting Standards (“IFRS”)

The Group is preparing for the adoption of IFRS as its primary accounting basis. IFRS will apply for the first time in the Group’s Annual Report for the year ending 31 March 2006. It is currently anticipated that IFRS comparative information for the year ended 31 March 2005 will be provided in the year of first adoption. Interim results for the six months ended 30 September 2005 will be presented under IFRS together with restated information for the six months ended 30 September 2004.

The disclosures below are intended to highlight those differences expected to result in significant changes to the results and financial position reported under UK GAAP. Further significant differences could arise from new and changed standards that the IASB could issue in the future.

Property, Plant & Equipment (IAS16)

The Group’s current accounting policy on infrastructure assets is to calculate a depreciation charge based on the estimated level of annual expenditure required to maintain the operating capability of the network. This depreciation charge is also known as the infrastructure renewals charge, and is based on the Company’s Certified Asset Management Plan which has been agreed with Ofwat. The charge is also in accordance with guidance issued by Ofwat on the preparation of Regulatory Accounts.

Whilst not prohibiting such a charge, IAS16 makes no mention of infrastructure renewals. A number of methods of dealing with the issue have been proposed, but no industry consensus has been reached.

The Company believes that its infrastructure assets constitute a single network system. Consequently it is provisionally intended to revalue infrastructure assets to fair value at adoption of IAS16, and then to charge expenditure on maintaining infrastructure assets against profits as incurred. Compared to the previous approach of calculating a smoothed depreciation charge, this approach could lead to some volatility of earnings.

The Board will keep this item under review until adoption is required in the 2005 Interim Report.

Business Combinations (IFRS3)

The acquisition of Chester Water plc in 1997 was accounted for using merger accounting principles. Merger accounting is not permitted by IFRS3. It is therefore proposed to restate this acquisition by applying the purchase method. This will result in an increase in shareholders’ funds and the creation of goodwill within non-current assets. Although the goodwill will be subject to an annual impairment review, given the nature of the acquired business, the value in use is not expected to be less than the carrying value.

Employee Benefits (IAS19)

For defined benefit schemes such as the Water Companies Pension Scheme, IAS19 permits an approach similar to the UK standard, FRS17. The proposed accounting entries are as required under the FRS17 transitional provisions. The Group currently applies the provisions of SSAP24.

Income Taxes (IAS12)

IAS12 does not permit the discounting of deferred tax liabilities. On adoption of IAS12, the discount will be eliminated via reserves.

Financial Instruments (IAS32)

IAS32 requires that the Company's B shares be reclassified from shareholders' equity to current liabilities, on the basis that the shares are redeemable bi-annually on the shareholder giving the required notice.

Proposed Dividends (IAS10)

Under IAS10, proposed dividends are classed as a post balance sheet event. On adoption of IAS10, the proposed final dividend will not be reflected in the accounts until paid.

David Guest
Finance Director

**Group Profit and Loss Account
For the Year Ended 31 March 2005**

	2005	2004
	£000	£000
Turnover		
Continuing operations	16,838	16,658
Operating costs	(11,257)	(11,368)
Other operating income	1,242	1,183
Operating profit		
Continuing operations	6,496	6,213
Discontinued operations	327	260
	6,823	6,473
Net interest payable	(2,206)	(2,147)
Profit on ordinary activities before taxation	4,617	4,326
Tax on profit on ordinary activities	(1,322)	(1,118)
Profit on ordinary activities after taxation	3,295	3,208
Dividends - ordinary shares	(2,084)	(2,038)
- B shares	(114)	(130)
Retained profit for the financial year	1,097	1,040
	2005	2004
Earnings per ordinary share	68.7p	66.5p

Statement of Total Recognised Gains and Losses For the Year Ended 31 March 2005

There are no recognised gains and losses other than the profit for these two financial years

Group Balance Sheet
As At 31 March 2005

	2005	2004
	£000	£000
Fixed Assets		
Tangible assets	46,137	42,739
Investments	2	2
	<hr/> 46,139	<hr/> 42,741
Current Assets		
Stocks	173	146
Debtors – amounts falling due within one year	1,690	2,386
Debtors – amounts falling due after one year	3,087	2,868
Short term investments	5,222	6,421
Cash at bank and in hand	-	49
	<hr/> 10,172	<hr/> 11,870
Creditors		
Amounts falling due within one year	(9,947)	(10,699)
	<hr/>	<hr/>
Net Current Assets	225	1,171
	<hr/>	<hr/>
Total Assets Less Current Liabilities	46,364	43,912
	<hr/>	<hr/>
Creditors – amounts falling due after one year	(37,804)	(36,694)
Provision for liabilities and charges	(6,048)	(5,526)
Net Assets	<hr/> 2,512	<hr/> 1,692
Capital and Reserves		
Called up share capital	3,031	3,308
Capital redemption reserve	29,165	28,888
Merger reserve	(40,630)	(40,630)
Profit and loss account	10,946	10,126
	<hr/>	<hr/>
Shareholders' Funds	2,512	1,692
	<hr/>	<hr/>

Group Cash Flow Statement
For the Year Ended 31 March 2005

	2005	2004
	£000	£000
Operating profit	6,823	6,473
Depreciation	1,187	1,102
Depreciation of infrastructure assets	2,044	1,994
(Profit)/loss on disposal of fixed assets	(43)	10
(Increase)/decrease in stocks	(27)	64
(Increase)/decrease in debtors	(127)	566
(Decrease)/increase in creditors	(662)	1,154
Net cash flow from operating activities	<u>9,195</u>	<u>11,363</u>
Returns on investments and servicing of finance		
Interest and dividends received	311	277
Interest paid	(1,407)	(1,353)
Net cash flow from returns on investments and servicing of finance	<u>(1,096)</u>	<u>(1,076)</u>
Taxation	(291)	(590)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(4,180)	(5,297)
Infrastructure renewals	(2,483)	(3,535)
Disposal of tangible fixed assets	78	13
Net cash flow from capital expenditure and financial investment	<u>(6,585)</u>	<u>(8,819)</u>
Equity dividends paid	(2,176)	(2,098)
Net cash flow before use of liquid resources and financing	<u>(953)</u>	<u>(1,220)</u>
Management of liquid resources		
Maturity of short term investments	1,199	1,704
Financing		
Redemption of share capital	(277)	(447)
(Decrease)/increase in cash	<u>(31)</u>	<u>37</u>

Analysis of Net Debt

	At 1 April 2004 £000	Cash Flow £000	Other £000	At 31 March 2005 £000
Cash at bank and in hand	49	(49)	-	-
Bank overdraft	(310)	18	-	(292)
		(31)		
Debt due after one year	(36,694)	-	(1,110)	(37,804)
Current asset investments	6,421	(1,199)	-	5,222
	(30,534)	(1,230)	(1,110)	(32,874)

Segmental Analysis by Class of Business

Year ended 31 March 2005	Continuing Operations £000	Discontinued Operations £000	Total 2005 £000
Turnover			
Water supply & related activities	16,838	-	16,838
Other	-	-	-
Inter-segment turnover	-	-	-
Total Turnover	16,838	-	16,838
Operating Profit			
Water supply & related activities	6,496	-	6,496
Other activities	-	327	327
Total Operating Profit	6,496	327	6,823
Net Assets Employed			
Water supply & related activities			5,796
Other			(3,284)
			2,512

Year Ended 31 March 2004	Continuing Operations £000	Discontinued Operations £000	Total 2004 £000
Turnover			
Water supply & related activities	16,658	-	16,658
Other	-	774	774
Inter-segment turnover	-	(774)	(774)
Total Turnover	16,658	-	16,658
Operating Profit			
Water supply & related activities	6,213	-	6,213
Other activities	-	260	260
Total Operating Profit	6,213	260	6,473
Net Assets Employed			
Water supply & related activities			5,670
Other			(3,978)
			1,692

Notes

1. The Board of Directors approved this preliminary announcement on 6 June 2005.
2. The Board recommends a final dividend of 30.0p per Ordinary Share and Non-Voting Ordinary Share, making a total for the year of 45.0p. The final dividend of 30.0p is payable on 2 August 2005 to shareholders on the register at close of business on 8 July 2005.

3. Taxation	2005	2004
Analysis of charge in the year	£000	£000
Current year tax		
UK Corporation tax @ 30%	939	900
Adjustment for prior years	<u>(139)</u>	<u>(213)</u>
	<u>(800)</u>	<u>687</u>
Deferred tax		
Temporary timing differences	856	951
Increase in discount	<u>(334)</u>	<u>(520)</u>
	<u>522</u>	<u>431</u>
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Tax on profit on ordinary activities	1,322	1,118
	=====	=====

4. Earnings per ordinary share have been calculated on the basis of the weighted average number of ordinary shares in issue during the year of 4,632,170 (2004 – 4,632,170) and earnings attributable to the ordinary shares of £3,181,000 (2004 - £3,078,000).
5. The results for the year ended 31 March 2005 are not full accounts within the meaning of Section 240 of the Companies Act 1985. The Company's auditors have not yet made a report on the statutory accounts for that year under Section 235 of the Companies Act 1985. The statutory accounts will be delivered to the Registrar of Companies in due course.
The results for the year ended 31 March 2004 have been extracted from the statutory accounts for that period, which have been filed with the Registrar of Companies. The report of the auditors was unqualified.
6. The accounting policies adopted in this preliminary announcement are those set out in the 2004 Annual Report.
7. The Annual Report and Accounts will be despatched to shareholders by 27 June 2005, from which date further copies will be available from the Company's Registered Office: Packsaddle, Wrexham Road, Rhostyllen, Wrexham LL14 4EH.

The Annual Report and Accounts will also be made available on the Company's website: www.deevalleygroup.com

