DEE VALLEY WATER PLC

REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

Directors' report

The directors present the regulatory financial statements of Dee Valley Water plc for the year ended 31 March 2012.

Directors' responsibilities

The Directors are responsible, under Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment and as a water undertaker under the Water Industry Act 1991, for preparing financial statements for each financial year which have been drawn up in accordance with Regulatory Accounting Guidelines to present fairly the state of affairs of the company and of the profit or loss of the company for that year.

The Directors select applicable accounting policies and follow relevant accounting standards, except for the application of infrastructure renewals accounting as set out below, so as to ensure the Regulatory Accounts have been drawn up in accordance with Regulatory Accounting Guidelines to present fairly the state of affairs of the company and of the profit or loss of the company for that year. Accounting policies are reviewed regularly to ensure that they continue to be appropriate and are amended when necessary. The Company's policies are consistent with other companies in the water industry and the accounts also comply with Regulatory Accounting Guidelines.

The policies are applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2012. The financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements for the year ended 31 March 2012 are published in hard copy printed form. The Directors are responsible for the maintenance and integrity of the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Certificate of compliance with Licence condition F6A

In arriving at the certificate provided below, the Directors met on 9 July 2012 to consider the Appointee's financial and management requirements over the next 12 months and the available resources. The main factors the directors took into account in considering compliance with the Directors Certificate were:

- that the Company's processes and systems of internal control had operated as expected;
- that the Appointee operated as if the appointed business were substantially the Appointee's sole business and that the Appointee were a separate public limited company;
- that the Company's resources and facilities were adequate to enable the Appointee to meet its regulatory obligations;
- the net worth of the Company and the strength of its key performance indicators as shown in the Operating and Financial review; and
- the Company's borrowing facilities and the size of its undrawn bank facilities.

The Directors were satisfied that sufficient resources existed and recommended that the Board could provide the necessary assurance. The Board duly considered the recommendations from the Directors on 9 July 2012 and resolved that the certificate would be signed on behalf of the Board.

This is to certify that in the opinion of the Directors, the Appointee:

- will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil its obligations under the Appointment);
- will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions;
- will have available to it, sufficient rights and assets which would enable a special administrator to manage its affairs, business and property;
- is in compliance with paragraph 3.1 of condition K of the Licence; and

Directors' report *(continued)*

Certificate of compliance with Licence condition F6A *(continued)*

- all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

Approved by the board on 9 July 2012 and signed on its behalf on 9 July 2012 by :

N C Holladay Managing director

D J Guest Finance director

Transactions with associated companies

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in these financial statements.

Operating and financial review

Dee Valley Water is a licensed water company operating within an area of 835 square kilometres in North East Wales and Cheshire. It supplies potable and non-potable water to 111,000 households and 8,000 commercial, industrial and business customers. It also supplies non-potable water to some industrial customers.

The main source of raw water is the River Dee, with the remainder coming from eight local impounding reservoirs and two underground sources.

Dee Valley Water is a water-only company and as such does not supply sewerage services, although it does bill customers for these services on behalf of the providers.

Water is treated to the required high standards at six water treatment works and is distributed through a network of almost 2,000 kilometres of pipes, varying in size up to 800 millimetres. The age of the pipe network reflects the historic roots of the Company, with some pipes laid in the 1860s still in use today.

As a monopoly water supplier in its area, Dee Valley Water is subject to strict regulation covering financial, water quality and environmental aspects of the business. Ofwat is the economic regulator responsible for financial regulation and ensuring customers receive a good quality service and value for money. The Drinking Water Inspectorate is the regulator responsible for ensuring that water quality is safe and acceptable to customers. The Environment Agency controls the interface with the environment, ensuring in particular that abstractions from and discharges to water bodies are within licensed limits.

Dee Valley Water operates mainly in Wales and is therefore responsible to the Welsh Assembly Government which has devolved powers and which provides the strategic direction for water policy in Wales. Dee Valley Water also works with the Consumer Council for Water, which represents water consumers' interests, and the Countryside Council for Wales and Natural England on issues relating to protecting the natural environment.

Every five years, Ofwat determines limits on the prices which water companies can charge their customers for the following five years following a periodic review process. The basis of the price limits is that they will be sufficient for an efficiently run company to adequately remunerate its investors. Price limits for the period April 2010 to March 2015 (known as the AMP5 period) were determined in November 2009. The period that these results cover is therefore the second year of the new five-year period.

Regulation

This is a period of change for the water industry in England and Wales. The pressure for change has come from several directions although it is most commonly said that now, being some 23 years after the privatisation of the industry, is an appropriate time to consider whether the industry is still suitable for the challenges ahead. There is no suggestion that the regulatory framework has not been successful to date, only that it might not be able to cope with the expected challenges of climate change, growing demand for dwindling water resources and affordability.

Directors' report *(continued)*

Regulation *(continued)*

In December, in its White Paper "Water for Life" Defra set out the UK government's vision for future water management. Changes proposed include extending retail competition to business customers in England, reform of upstream water trading and abstraction regimes and a loosening of the special regime that restricts water company mergers. The Welsh government is due to publish its own water strategy paper later this year, which will be more directly relevant to Dee Valley Water.

Ofwat is changing the way in which it regulates water companies. It has dispensed with the data intensive return (the "June return") that companies were required to submit annually, and replaced it with a risk-based approach to regulation. Companies are also required to publish annually a suite of key performance indicators covering service to customers, performance of operational assets, environmental impact and financial health.

The outcome of Ofwat's current review of the process for setting price limits at the next periodic review and beyond will be important for Dee Valley Water. One confirmed change is the requirement for greater customer involvement than previously in the price setting process to ensure local issues and priorities are properly reflected. The emphasis on local issues should play to Dee Valley Water's strength as a small, community-focused company. With planning for the next periodic review already in progress, Dee Valley Water is setting up an independently-chaired panel to advise and challenge its customer engagement and business planning process.

Operational performance

Against the important Service Incentive Measure (SIM) designed to measure customer experience through the number of complaints received by companies and how satisfied customers are with the service they receive based on independent surveys, Dee Valley Water improved its score compared to the previous year.

Dee Valley Water was ranked sixth out of the 21 companies for the part of the assessment based on satisfaction surveys.

There were no water resource problems during the year despite 2011 being one of the driest years on record and the dry start to 2012. The overall leakage target agreed with Ofwat for the year was achieved.

Overall consumption of water reduced by about 2.6% compared to the previous year. This follows an increase of 0.9% last year. Consumption by commercial and industrial customers reduced. About 930 new properties were connected to Dee Valley Water's network during the year, an increase of about 200 from the previous year.

The quality of water supplied remained at a high level with an overall compliance rate with regulatory standards of 99.93% in 2011, an improvement from the previous year.

Capital investment

In this second year of the five year investment planning cycle, capital expenditure increased significantly to £9.0 million. This increase was planned and mainly due to the contract for the rebuilding of the Llwyn Onn treatment works entering its construction phase. This is the largest project of the five year capital investment programme to 2015. Completion remains on programme for April 2013.

The other significant capital expenditure scheme in the five year programme, renewal of water mains, continued although mainlaying resources had to be redirected for part of the year to work diverting large mains as a part of the Council's major road diversion scheme for the Wrexham industrial estate. Other significant capital expenditure projects included replacement of the water tank roof at the top of the water tower in Chester and a replacement telephone system to help improve customer service.

Directors' report *(continued)*

Financial review and dividends

Financial Position

The historic cost balance sheet at 31 March 2012 shows an increase of £1.4 million in net assets.
The major component of this was the net profit for the year less dividends paid. There was also a significant movement in other receivables due to VAT input tax on the Llwyn Onn project and a corporation tax refund due. This follows agreement on the capital allowances due on the expenditure in refurbishing the Boughton treatment works during the period 2008 to 2010. In addition creditors due within one year have increased by £2.0 million as a result of capital expenditure accruals relating to the Llwyn Onn project.

Historic cost depreciation in the year includes an additional charge of £1.5 million relating to the reassessment of useful lives of assets at Llwyn Onn that will be taken out of use and disposed of once the new treatment works is completed and operational.

Financial Performance

Historic cost profit before depreciation and finance costs showed a increase of £0.8 million in 2012, comprising an increase in revenue of £0.8 million together with an additional contribution from other income and a small increase in operating costs.

Turnover increased by 3.6% in the year. Overall prices increased by 5.3% in the 2011/12 Principal Statement. Measured income (including large users) increased by 3.3% being affected by reduced non household customer demand during the year. Unmeasured income increased by 4.0%, reflecting the continued trend of customers opting for measured billing.

Cash Flows

An increase of £3.5 million in net capital expenditure in 2012 absorbed the majority of the cash flow from operating activities.

Operating Costs

Historic cost operating costs for the year ended 31 March 2012 increased by £0.013m to £12.9m. The absence of severe freezing conditions in winter, which had caused increased operational costs the previous year, contributed £143,000 offsetting other cost increases.

Pension service costs in the year reduced by £122,000 as a result of an increase in the applicable real discount rate from 1.6% to 2.5%. Of this increase of 0.9%, 0.7% related to the adoption of CPI rather than RPI as the appropriate basis for measuring inflation.

The charge for bad debts increased by £79,000 in the year, but is still below 2% of revenue. Power costs also increased by £91,000. Carbon reduction commitment costs will be payable from next year and will add around £80,000 to operating costs. A restructuring to reduce costs and improve performance was concluded satisfactorily during the year and will result in annual savings of £88,000 in the next financial year.

Directors' report *(continued)*

Current cost operating performance
Current cost operating profit increased by £0.698m. The major changes are as follows:-

	£m	£m	£m
Current cost operating profit 2010/11			**4.255**
Increase in turnover		0.759	
Changes in operating costs			
Increase in employment costs	(0.144)		
Increase in bad debt charge	(0.079)		
Decrease in pension charge	0.125		
Decrease in other costs	0.156		
	0.058		
Changes in capital maintenance costs			
Increase in current cost depreciation (CCD)	(0.076)		
Increase in infrastructure renewals charge (IRC)	(0.066)		
	(0.142)		
Increase in total operating costs		(0.084)	
Increase in operating income		0.044	
Increase in working capital adjustment		(0.021)	
Increase in operating profit		0.698	
Current cost operating profit 2011/12			**4.953**

The infrastructure renewals charge (IRC) is based on the average projected renewals expenditure for the 15 year period to 2024/25. The Company's policy with regard to this calculation has not changed, however the years included in the calculation were changed in 2009/10. The calculation is now based on the Ofwat Final Determination 2009 figures for the first 10 years, and Dee Valley Water projections for the final 5 years.

Capital Structure

In view of the stable and predictable nature of Dee Valley Water's cash flows, the board considers that a capital structure incorporating a high level of gearing is both appropriate and financially efficient.

Financing

The financing of capital expenditure is through retained earnings and drawings under a revolving credit facility. This facility of £9 million was renegotiated on improved terms during the first quarter of 2012 and is now committed until 2016. The interest rate is fixed on each drawdown. The majority of the Company's borrowings are at a fixed rate, although there is an exposure to the Retail Prices Index as a result of the index-linked nature of the long-term borrowings.

The Company's long-term financing is by means of an index-linked loan repayable in 2032. The original loan was drawn down in 2002 for a sum of £35 million. By 31 March 2012, indexation had increased the total outstanding to £47.4 million.

Directors' report *(continued)*

Liquidity

The Company finances its operations by a combination of retained profits, long-term debt and bank borrowings. The objective is to ensure continuity of funding whilst the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities. During the year, the Company was able to utilise its internal cash flow as the primary source of financing of capital expenditure, with drawdowns under the revolving credit facility limited to those necessary to meet the covenants on the index-linked long term borrowings.

Borrowings are expected to peak around the middle of the current 5-year regulatory period, coincident with the major expenditure on rebuilding the Llwyn Onn treatment works.

Dividends

A total dividend of £2,752,000 *(2011: £2,608,000)* was declared and paid in the year. Of this £1,572,000 *(2011: £1,444,000)* related to the appointed business.

Dividends per share (appointed business)	£
Interim paid per ordinary share	2.00
Final proposed per ordinary share	4.54
Total for 2011/12	**6.54**

Accounting Policies

There has been no change in accounting policies during the year. In respect of the carrying value of long-life assets, the Directors continue to believe that the asset lives are appropriate and similar to those adopted by comparator companies.

The assumptions used to calculate the liabilities of the Defined Benefit Pension Scheme represent the current central estimates recommended by the Company's actuarial advisors.

Covenants and Key Performance Indicators (KPIs)

There are three main financial covenants relating to the index-linked loan. These are:

- **Regulatory Asset Ratio**

  The balance outstanding on borrowings divided by the DVW's Regulatory Capital Value as published by Ofwat. This covenant has a maximum operating level of 86%.

- **Cash-Based Interest Cover Ratio**

  Operating cash flow divided by interest paid. This ratio has a minimum level of 1.5.

- **Operating Account Reserve**

  Cash and overdraft facilities less assessed working capital requirement based on turnover. The minimum level is £nil.

Directors' report *(continued)*

Of the 3 measures above, the Regulatory Asset Ratio is a key performance indicator. At 31 March 2012, the ratio stood at 69.1% and was calculated as follows:

	£000
Non-current borrowings excluding group indebtedness (note 16)	47,374
Current borrowings under revolving credit facility	-
Less interest payable on non-current borrowings in next 6 months	(849)
Net indebtedness	46,525
Divided by:	
Regulatory Capital Value of DVW in 11/12 prices – as published by Ofwat in April 2012	67,358

The most recent report to the lender, dated 31 March 2012 and covering the period up to 31 March 2014, showed no actual or potential breach of any of the above three financial covenants.

The Company's financial models include a high inflation scenario. As RPI increases, the additional indexation is added to the loan and charged to the profit and loss account. However, since the Regulatory Capital Value also increases by the same index, the Regulatory Asset Ratio is not significantly affected. If inflation increases, the additional indexation charged to the profit and loss account tends to reduce the earnings per share and dividend cover.

Management also utilises other financial KPIs such as:

- Operating costs v. budget
- Net cash flow v. budget
- Capital expenditure v. budget
- Historic trends in debtor days and debt segments

Risks

Significant risks to the business are listed in a risk register which also identifies the scale of risk and its control measures. Risks are considered across various areas as follows:

- Health and safety
- Environmental
- Operational
- Reputation and image
- Business and financial
- Regulatory and statutory

The risk register is kept under regular review to take account of changing circumstances and experience. The board reviews the risk register and the management strategy at regular interval during the year and monitors indicators of risk level and key failure modes monthly. The risk indicators overlap with the key performance indicators that Ofwat requires water companies to publish annually.

Many of the major risks are operational, being associated with the potential for water quality failures of interruptions of supply to customers. Management of these risks is largely based on control measures such as procedures and method statements, which are well developed although other mitigations such as capital investment interventions have an important part to play.

The risk of water quality failures is addressed by a drinking water safety plan which ensures the safety of drinking water through all steps in the water supply process. Management of the plan is overseen by an internal Water Quality Management group chaired by the Managing Director.

Asset failures are a major risk to the Company's ability to maintain a continuous supply of good quality water to its customers. The risks associated with the failure of various assets such as treatment works and water pipes are therefore considered in depth in the development of the capital investment strategy.

Another significant operational risk is the potential flooding of vital river intakes. The mitigation for this risk is a flood protection scheme included in the current investment programme.

Directors' report *(continued)*

A new risk to emerge during the year relates to the uncertainty around the possible changes to the regulatory regime described above. One adverse consequence might be that the Company suffers from an inadequate price limits settlement in 2014, by not adapting the changed regulatory framework. At this stage close monitoring and sound planning is required, but other measures might been required as the picture clears.

Financial risks include volatility of the costs of electricity and pensions. Uncertainty relating to power costs has been partly mitigated by the forward purchase of 65% of the Company's expected consumption up to 2015.

Environment

Dee Valley Water's aim is to reduce, as far as possible, the adverse effect of its operations on the environment. Water abstraction from rivers is kept to a minimum by ensuring that leakage levels are maintained at the lowest economic level. Leakage targets are kept under review taking account of both social and carbon costs. Dee Valley Water also actively promotes efficient water use by its customers to minimise consumption of water.

Much of the material excavated during activities such as pipe-laying is re-used after suitable on-site treatment rather than it being sent to landfill. Recyclable material is segregated from normal waste with a consequent reduction in disposal costs.

The treatment and distribution of water uses a considerable amount of energy. An energy reduction strategy has therefore been introduced during the year with a target of a 10% decrease in energy use by 2013/14. Reductions in energy and associated carbon emissions are being targeted through all areas of the business. In particular, some of the capital schemes planned for this five year period will provide the opportunity to replace existing inefficient pumping plant with more energy efficient equipment that will make a significant contribution towards the savings target for operating costs. Energy usage was cut by 17% in the first year at the Company's headquarters.

As a principle, Dee Valley Water factors the cost of carbon emissions into investment planning so that it is taken into account fully in the decision-making process.

Relationships

Customers

As a small, locally based water supplier, Dee Valley Water's relationship with customers is fundamental to its overall strategy and sets it apart from larger suppliers.

Dee Valley Water aims to provide a personal service in all aspects of its dealings with customers, ensuring that all complaints are dealt with in a fair manner. Customers are offered direct contact with knowledgeable employees when they telephone and timed appointments are also made available when there is a need to visit their premises. This applies throughout our customer base from large industrial to single household customers. Also, all written complaints by customers are answered personally by either the Managing Director or the Finance Director.

The Consumer Council for Water Wales audits a sample of written complaints and scores the quality of response. During the year, 100% of the sample was rated "good".

Employees

The average number of employees during the year was 159. Of these, 69 were in the Services Division, which is the in-house contracting arm of the Company.

Dee Valley Water has well-developed policies covering all aspects of its relationship with employees. The aim is to be able to recruit and retain employees with a broad range of skills, experience and background and to provide them with opportunities to enhance and develop their skills by training and so equipping them with the tools required to be successful in their roles within the Company.

Dee Valley Water actively seeks to prevent accidents in the workplace. All accidents in the workplace are monitored, measured and investigated and are discussed at quarterly meetings of the Health & Safety Committee, chaired by the Managing Director. Health and safety performance is also monitored at monthly management meetings attended by the Board. During the year all board members attended a one-day RoSPA course on Directors involvement in health and safety.

Directors' report *(continued)*

Employees *(continued)*

Employees' attendance at work is monitored continually as a measure of general health, morale and motivation.

The total number of reportable accidents during the year was 4, the same as in the previous year, but the associated lost time reduced from 29.5 to 5 days.

Regulatory

Dee Valley Water has developed and maintains good working relationships with the industry's various regulators, and is particularly keen on fostering its Welsh perspective. It also works closely with local authorities on matters such as planning and highways.

Suppliers

Dee Valley Water maintains good relationships with its specialist suppliers.

Directors and directors' interests

The directors who held office during the year were as follows:

G R Scott
D J Guest
A C Bird
D T Weir
N C Holladay
K G Williams

The directors beneficial interests in the share capital of the ultimate parent company, Dee Valley Group Plc, are disclosed within those account. None of the directors have any beneficial interest in the share capital of the company, with the exception of K G Williams whose interests were as follows:

	2012 No.	2011 No.
Ordinary shares	4,155	4,155
Non voting ordinary shares	-	-
B Shares	-	-

No director has any rights to subscribe for shares in, or debentures of the company.

Charitable contributions

During the year the company contributed £2,279 *(2011: £1,354)* to Water Aid.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

In accordance with section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company and authorising the directors to determine its remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the board

DJ Guest
Director
9 July 2012

Packsaddle
Wrexham Road
Rhostyllen
Wrexham

KPMG

Independent auditors' report to the Water Services Regulation Authority and Directors of Dee Valley Water plc

We have audited the Regulatory Accounts of Dee Valley Water plc for the year ended 31 March 2012 on pages 12 to 38 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 1, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 18, the state of the Company's affairs at 31 March 2012 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 12 and 13 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 38.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2012 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
8 Princes Parade
Liverpool
L3 1QH

11 July 2012

HISTORIC COST PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Appointed 2012 £000	Non appointed 2012 £000	Total 2012 £000	Appointed 2011 £000	Non appointed 2011 £000	Total 2011 £000
Turnover	3	22,015	33	22,048	21,256	36	21,292
Operating costs		(12,866)	(24)	(12,890)	(12,859)	(18)	(12,877)
Historical cost depreciation		(3,554)	-	(3,554)	(2,143)	-	(2,143)
Operating profit	6	5,595	9	5,604	6,254	18	6,272
Other income		17	1,747	1,764	23	1,712	1,735
Net Interest	7, 8	(3,698)	-	(3,698)	(3,656)	-	(3,656)
Profit on ordinary activities before taxation		1,914	1,756	3,670	2,621	1,730	4,351
Taxation – current	9	(33)	(457)	(490)	(559)	(484)	(1,043)
– deferred	9	468	-	468	612	-	612
Historic cost profit after taxation		2,349	1,299	3,648	2,674	1,246	3,920
Dividends	10	(1,572)	(1,180)	(2,752)	(1,444)	(1,164)	(2,608)
Retained profit for the year		777	119	896	1,230	82	1,312

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES – HISTORIC COST

FOR THE YEAR ENDED 31 MARCH 2012

	Appointed 2012 £000	Non appointed 2012 £000	Total 2012 £000	Appointed 2011 £000	Non appointed 2011 £000	Total 2011 £000
Profit for the year	777	119	896	1,230	82	1,312
Actuarial gain (net of deferred tax) on post employment plans	509	-	509	4,357	-	4,357
Total recognised gains and losses for the year	1,286	119	1,405	5,587	82	5,669

HISTORIC COST BALANCE SHEET AS AT 31 MARCH 2012

		Appointed 2012 £000	Non appointed 2012 £000	Total 2012 £000	Appointed 2011 £000 Restated	Non appointed 2011 £000 Restated	Total 2011 £000 Restated
Fixed assets							
Tangible assets		62,222	-	62,222	59,370	-	59,370
Current assets							
Stocks	*13*	192	-	192	154	-	154
Debtors	*14*	16,735	399	17,134	15,980	390	16,370
Cash		-	7,389	7,389	-	7,166	7,166
Short term deposits		11,173	-	11,173	10,985	-	10,985
Total current assets		28,100	7,788	35,888	27,119	7,556	34,675
Creditors: amounts falling due within one year							
Overdrafts		(7,389)	-	(7,389)	(7,166)	-	(7,166)
Infrastructure renewals accrual		(2,499)	-	(2,499)	(2,603)	-	(2,603)
Creditors	*15*	(5,735)	(6,083)	(11,818)	(3,733)	(5,943)	(9,676)
Borrowings		(61)	-	(61)	(138)	-	(138)
Corporation tax payable		60	(457)	(397)	(218)	(484)	(702)
Total creditors due within one year		(15,624)	(6,540)	(22,164)	(13,858)	(6,427)	(20,285)
Net current assets		12,476	1,248	13,724	13,261	1,129	14,390
Total asset less current liabilities		74,698	1,248	75,946	72,631	1,129	73,760
Creditors: amounts falling due after more than one year	*16*						
Borrowings		(47,488)	-	(47,488)	(45,247)	-	(45,247)
Other creditors		(2,995)	-	(2,995)	(2,995)	-	(2,995)
Total creditors due after more than one year		(50,483)	-	(50,483)	(48,242)	-	(48,242)
Provisions for liabilities and charges							
Deferred tax provision	*17*	(8,526)	-	(8,526)	(9,172)	-	(9,172)
Post employment assets		3,773	-	3,773	2,959	-	2,959
		(4,753)	-	(4,753)	(6,213)	-	(6,213)
Net assets employed		19,462	1,248	20,710	18,176	1,129	19,305
Capital and reserves							
Called up share capital		240	-	240	240	-	240
Profit and loss account		18,608	1,248	19,856	17,322	1,129	18,451
Other reserves		614	-	614	614	-	614
Shareholders' funds – equity interests		19,462	1,248	20,710	18,176	1,129	19,305

CURRENT COST PROFIT AND LOSS ACCOUNT

FOR APPOINTED BUSINESS

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £000	2011 £000
Turnover	3	**22,015**	21,256
Operating income		**44**	-
Current cost operating costs		**(17,197)**	(17,113)
Working capital adjustment		**91**	112
Operating profit		**4,953**	4,255
Other income		**17**	23
Net interest		**(3,698)**	(3,656)
Financing adjustment		**(450)**	(468)
Profit on ordinary activities before taxation		**822**	154
Taxation – current	9	**(33)**	(559)
– deferred	9	**468**	612
Profit on ordinary activities after taxation		**1,257**	207
Dividends		**(1,572)**	(1,444)
Retained loss for year		**(315)**	(1,237)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES – CURRENT COST

FOR THE YEAR ENDED 31 MARCH 2012

		2012 £000	2011 £000
Loss for the year		**(315)**	(1,237)
Actuarial gains (net of deferred tax) on post employment plans	18	**509**	4,357
Total recognised gains and losses for the year		**194**	3,120

CURRENT COST BALANCE SHEET

AS AT 31 MARCH 2012

	Note	2012 £000	2011 £000 Restated
Fixed assets			
Tangible assets	11	477,945	458,438
Third party contributions since 1989 – 90		(21,454)	(19,730)
		456,491	438,708
Working capital	12	(1,767)	60
Cash		-	-
Short term investments		11,173	10,985
Overdrafts		(7,389)	(7,166)
Infrastructure renewals accrual		(2,499)	(2,603)
Net operating assets		(482)	1,276
Non-operating assets and liabilities			
Borrowings		(61)	(138)
Non-trade debtors		12,973	12,376
Non-trade creditors due within one year		(16)	(35)
Corporation tax receivable / (payable)		60	(218)
Total non operating assets and liabilities		12,956	11,985
Creditors: Amounts falling due after one year	16		
Borrowings		(47,488)	(45,247)
Other creditors		(2,995)	(2,995)
		(50,483)	(48,242)
Provisions for liabilities and charges	17		
Deferred tax provision		(8,526)	(9,172)
Post employment liabilities		3,773	2,959
		(4,753)	(6,213)
Net assets		413,729	397,514
Capital and reserves			
Called up share capital		240	240
Profit and loss account		(12,795)	(12,989)
Current cost reserve	19	425,670	409,649
Other reserves		614	614
		413,729	397,514

These regulatory financial statements were approved by the board of directors on 10 July 2012 and were signed on its behalf by:

DJ Guest
Director

CURRENT COST CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

	Appointed	Non appointed	Total	Appointed	Non appointed	Total
	2012 £000	2012 £000	2012 £000	2011 £000	2011 £000	2011 £000
Net cash flow from operating activities	9,906	1,874	11,780	9,746	1,406	11,152
Interest received	82	-	82	49	-	49
Interest paid	(1,828)	-	(1,828)	(1,706)	-	(1,706)
Net cash outflow for returns on investments and servicing of finance	(1,746)	-	(1,746)	(1,657)	-	(1,657)
Taxation	(551)	(470)	(1,021)	(497)	(485)	(982)
Capital expenditure						
Gross cost of purchases of fixed assets	(5,566)	-	(5,566)	(2,216)	-	(2,216)
Receipt of grants and contributions	1,019	-	1,019	867	-	867
Infrastructure renewals expenditure	(1,502)	-	(1,502)	(1,199)	-	(1,199)
Receipts from sales of tangible assets	8	-	8	32	-	32
Net cash outflow for capital expenditure	(6,041)	-	(6,041)	(2,516)	-	(2,516)
Equity dividends paid	(1,571)	(1,181)	(2,752)	(1,444)	(1,164)	(2,608)
Net cash outflow before management of liquid resources and financing	(3)	223	220	3,632	(243)	3,389
Management of liquid resources						
Current asset investments	(143)	-	(143)	(1,986)	-	(1,986)
Net cash flow before financing	(145)	223	77	1,646	(243)	1,403
Bank loans repaid	(77)	-	(77)	(1,403)	-	(1,403)
(Decrease)/increase in cash	(223)	223	-	243	(243)	-

NOTES TO THE CURRENT COST CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

Reconciliation of current cost operating profit to net cash inflow from operating activities (appointed business only)	**2012 £000**	2011 £000
Current cost operating profit	4,953	4,255
Working capital adjustment	(91)	(112)
Increase in working capital	(121)	970
Receipts from other income	17	23
Current cost depreciation	4,329	4,253
Current cost (profit) on disposal of fixed assets	(44)	-
Infrastructure renewals charge	1,399	1,333
Other non cash profit and loss items	(536)	(976)
Net cash flow from operating activities	9,906	9,746

Net debt analysis (appointed business only)	**Interest rate risk profile**			
	Fixed rate	**Floating rate**	**Index linked**	**Total 2012**
	£000	**£000**	**£000**	**£000**
Maturity profile				
Less than one year	61	7,389	-	7,450
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
Between five and twenty years	-	-	-	-
In more than twenty years	-	-	47,487	47,487
Borrowings (excluding irredeemable debentures)	61	7,389	47,487	54,937
Irredeemable debentures	114	-	-	114
Total borrowings	175	7,389	47,487	55,051
Cash	-	-	-	-
Short term deposits	-	(23,226)	-	(23,226)
Net debt	175	(15,837)	47,487	31,825

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1 Current cost accounting policies

These accounts have been prepared for the Appointed Business of Dee Valley Water plc in accordance with guidance issued by the Water Services Regulation Authority for modified real terms financial statements suitable for regulation in the water industry.

They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

Except as set out below, the accounting policies used are the same as those adopted in the historical cost accounts, which are set out in note 2 to these accounts.

The creditor related to sewerage charges collected on behalf of the sewerage service providers in the Dee Valley Water area has been allocated to the non appointed business. The related commission debtor has also been allocated to the non appointed business.

1.1 Tangible fixed assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the 'value to the business' principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Land and buildings

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan ('AMP') reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, impounding and pumped raw water storage reservoirs are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan ('AMP').

A process of continuing refinement of assets records is expected to produce adjustments to existing values when periodic reviews of the AMP takes place. In the intervening years, values are restated to take account of the changes in the general level of inflation as measured by changes in the RPI over the year.

Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year.

The format of the Tangible Fixed assets has changed in 2012. In accordance with Ofwat information notice IN12/01 the Company has decided to replace the Company analysis included in the 2011 regulatory accounts (note 11) with the 'accounting separation' format tables (Ofwat table references ST4 and ST6) found in note 11.

The preparation of these tables is in accordance with the appropriate Ofwat 'supplementary table definitions' and is consistent with the approach used to preparing these tables for June Return 2011.

1.2 Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

1 Current cost accounting policies *(continued)*

Working capital adjustment

This is calculated by applying the change in the Retail Price Index ('RPI') over the year to the opening total of trade debtors and stock less trade creditors in line with the guidance set out in RAG 3.06.

Depreciation adjustment

This is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital in line with the guidance set out in RAG 3.06.

1.3 Principles of cost allocation used to prepare activity costing analysis

The format of the activity costing note has changed in 2012. In accordance with Ofwat information notice IN12/01 the Company has decided to replace Company activity costing analysis included in the 2011 regulatory accounts (notes 4 and 5) with the 'accounting separation' format tables (Ofwat table references ST1 and ST2).

The preparation of these tables is in accordance with the appropriate Ofwat 'supplementary table definitions' and is consistent with the approach used to preparing these tables for June Return 2011.

The job costing function within the Company's accounting system plays a key role in ensuring expenditure is correctly allocated between operating costs, capital costs and capital maintenance. Where possible costs are allocated directly to the appropriate business unit. Where this is not possible management have determined the most appropriate basis of allocation, taking in to account the relevant Ofwat guidance.

1.4 Dividend policy

In arriving at the level of dividend, the Company has a number of objectives:

The total paid and proposed must not result in any breach of the financial covenants agreed with the Company's loan provider. These covenants effectively place an upper limit on the cash which can be paid in dividends

The total amount paid in the 5 year review period from the appointed business should not exceed the amount allowed by the Determination.

The policy objective is to provide for a continuing and smooth upwards progression, whilst taking into account the demands of a fluctuating capital programme, and the variations in regulatory capital value over the 5 year review period.

Thus the Company's stated policy is to increase dividends by at least inflation throughout the current review period.

2 Historic cost accounting policies

2.1 Basis of preparation

The regulatory accounts have been prepared in accordance with the Ofwat regulatory accounting guidelines or in the absence of specific guidance, applicable accounting standards.

2.2 Turnover

Revenue recognition

Turnover comprises amounts due in respect of water supplied to measured and unmeasured customers during the year in the normal course of business. Turnover from the supply of other goods and services is immaterial. Turnover from measured water charges includes amounts billed plus an estimate of amounts unbilled at 31 March. Revenue is stated net of VAT, where applicable.
There are no material differences between the statutory and regulatory revenue recognition policies.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

2 Historic cost accounting policies *(continued)*

2.2 Turnover *(continued)*

Unoccupied properties

Where a property is unoccupied water service charges remain payable unless the Company is requested to turn off the supply and furniture is removed. No allowances will be made retrospectively.

Where a request is received to turn off a supply, but it cannot be turned off because of joint supply issues, the Company will request confirmation that the property is vacant of furniture and that the water supply has been turned off inside the property. No further charges will be levied from this time. Where a supply can be turned off, charges will cease from the date that supply is turned off.

Unoccupied properties are routinely inspected by the Company and the billing system updated to confirm the date of inspection.

New accounts

Where a property is found to be occupied, but the occupier name is unknown, a form will be left at the property asking customers to complete and return details of their occupancy. When a completed form is returned billing will commence accordingly.

Where a form is not returned the Company will carry out checks to determine occupier details (checks may include Land Registry, 192.com or electoral roll searches. Information may also be obtained from neighbours or local post offices). Once an occupier name has been established a bill will be raised. If the date of occupancy is not known charges will be levied from the start of the financial year, the date of the last void inspection or from the date the account was previously void, which ever is deemed most appropriate.

Where the Company has been unable to determine the name of the occupier, bills will be raised in the name of 'the new occupier' and charges levied from the start of the financial year, the date of the last void inspection or from the date the account was previously void. As previously stated, checks will be made to establish the occupiers name and a suite of letters will also be used to initiate contact with the Company. More frequent visits will be made to properties believed to be occupied to ascertain relevant information.

In all instances, customers will be required to provide documentary evidence of the date they became responsible for water service charges before any alteration to an account will be made.

New properties

New properties are brought on to charge upon receipt of meter fixed data provided by the Company's Service Division. This data will provide the name of the person or company responsible for charges and all meter information needed to bring the account on to charge. The address of the property will determine when bills will be raised and the meter read and a meter round number identifying this will be allocated accordingly. Charges will be levied from the date the meter is installed and billed in arrears.

Charges on income

Court costs are added to customers' accounts as incurred when it is necessary to issue court proceedings to recover outstanding debt. Solicitors' costs are not incurred.

Court costs recharged to customers are not recognised as revenue but are deducted from the costs incurred.

2.3 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Buildings and fixed plant	50 to 80 years
Meters and fixed plant	5 to 25 years
Mobile plant, vehicles and equipment	3 to 20 years

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

Historic cost accounting policies *(continued)*

Employee Costs of own work capitalised

Employee costs arising directly from the construction of property, plant and equipment are identified by internal procedures and are deducted from the employee benefits shown in note 22 and included in the additions shown in notes 11.

This accounting policy differs from that now adopted in the published statutory accounts of the Company with regard to the depreciation of infrastructure assets, the policy in respect of which is detailed below.

2.4 Infrastructure assets

Infrastructure assets comprise underground systems of mains and impounding and pumped raw water storage reservoirs. As these systems are maintained in perpetuity and have no finite lives, no depreciation is charged on such assets. Expenditure on replacing and maintaining the assets is charged as an operating cost and expenditure to increase or enhance the assets is capitalised.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the Company's investment programme. The timing of the investment programme and operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

This accounting policy is not in accordance with FRS12 and differs from that now adopted within the published statutory accounts of the Company. Following the introduction of FRS12 and in accordance with FRS15, expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated in the statutory accounts of the Company as an addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

For Regulatory Accounts purposes, expenditure to refurbish mains for quality enhancement is capitalised in accordance with OFWAT guidelines.

For statutory accounts purposes, all refurbishment expenditure is accounted for in accordance with FRS15 and included within the planned annual expenditure upon which the depreciation charge is based.

2.5 Grants and contributions

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 2006 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view, as these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income.

2.6 Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

The Company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the bid-market price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

Historic cost accounting policies *(continued)*

2.7 Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis.

2.8 Trade and other receivables and payables

Trade receivables are non-interest bearing and are initially recognised at invoice value less any provision necessary to reflect impairment. Impairment is determined according to the type and age of receivables. Other receivables are stated at the estimate recoverable amount.

Trade and other payables, excluding accruals, are stated at the cash amount payable and are non-interest bearing. Accruals are determined according to the best estimate of amounts payable for liabilities in existence at the year end.

3 Analysis of turnover and operating income for the appointed business

	2012	2011
	£000	£000
Turnover		
Measured	**12,593**	11,857
Unmeasured	**8,635**	8,301
Large users and special agreements	**675**	983
Bulk supplies	**3**	3
Other appointed business (third party)	**109**	112
Total turnover	**22,015**	21,256

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

4 Activity costing analysis for the year ended 31 March 2012 – water services

	Water resources	Raw water distribution	Water treatment	Treated water distribution	Water service total
Direct costs	**£000**	**£000**	**£000**	**£000**	**£000**
Employment costs	139	14	484	799	1,436
Power	446	82	192	606	1,326
Hired and contracted services	6	-	89	52	147
Associated companies	-	-	-	-	-
Materials and consumables	43	9	386	174	612
Service charges	774	-	46	-	820
Bulk supply imports	-	-	32	-	32
Other direct costs	4	2	44	427	477
Total direct costs	**1,412**	**107**	**1,273**	**2,058**	**4,850**
Operating expenditure					
General and support expenditure	201	18	703	1,220	2,142
Scientific services	302	-	210	65	577
Other business activities	39	39	39	39	156
Total business activities	341	39	249	104	733
Local authority rates	91	23	96	752	962
Exceptional items	-	-	-	-	-
Total opex less third party services	2,045	187	2,321	4,134	8,687
Third party services – opex	9	-	-	-	9
Total operating expenditure	**2,054**	**187**	**2,321**	**4,134**	**8,696**
Reactive and planned maintenance (memo included in operating expenditure)					
Reactive and planned maintenance – infra	-	-	-	566	566
Reactive and planned maintenance – non infra	64	7	314	243	628
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	146	15	-	1,238	1,399
Current cost depreciation	246	374	1,483	1,657	3,760
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Capital maintenance (excluding third party services)	392	389	1,483	2,895	5,159
Third party services current cost depreciation	-	-	-	-	-
Third party services infrastructure renewals charge	-	-	-	-	-
Total capital maintenance	**392**	**389**	**1,483**	**2,895**	**5,159**
Total operating costs	**2,446**	**576**	**3,804**	**7,029**	**13,855**

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

5 Activity costing analysis for the year ended 31 March 2012 – retail services

	Retail household	Retail household general and support memo	Retail non-household	Retail non-household general and support memo	Retail services total
	£000	£000	£000	£000	£000
Direct costs					
Billing	176	124	15	10	191
Payment handling, remittance and cash handling	232	150	17	11	249
Debt management	208	135	73	48	281
Doubtful debts	394	-	46	-	440
Charitable donations	-	-	-	-	-
Vulnerable customer schemes	16	-	-	-	16
Non network customer enquiries and complaints	69	45	6	4	75
Meter reading	172	111	8	5	180
Meter maintenance/installation non capex	-	-	-	-	-
Network customer enquiries and complaints	200	129	10	7	210
Disconnections	8	5	(2)	(1)	6
Demand side water efficiency initiatives	24	16	7	5	31
Services to developers	-	-	62	40	62
Support for trade effluent compliance	-	-	-	-	-
Customer side leaks	57	37	5	3	62
Other direct costs	-	-	-	-	-
Total direct costs	**1,556**	752	**247**	**132**	**1,803**
Operating expenditure					
General and support expenditure	752	-	132	-	884
Scientific services	30	-	2	-	32
Other business activities	35	-	3	-	38
Total business activities	65	-	5	-	70
Local authority rates	14	-	2	-	16
Exceptional items	-	-	-	-	-
Total opex less third party services	2,387	-	386	-	2,773
Third party series - opex	-	-	-	-	-
Total operating expenditure	2,387	-	386	-	2,773
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	-	-	-	-	-
Current cost depreciation	497	-	72	-	569
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance	**497**	-	**72**	-	-
Total operating costs	**2,884**	-	**458**	-	**3,342**

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

6 Operating profit

	2012 £000	2011 £000
Current cost operating profit is stated after charging:		
Depreciation of tangible assets	4,328	4,253
Operating lease rentals	-	-
Auditors' remuneration;		
Audit of statutory accounts	46	43
Other services pursuant to legislation	19	17
Other services	4	-
Tax services	39	22

7 Other interest receivable and similar income

	2012 £000	2011 £000
Bank and other interest	87	49
Interest received from group companies	45	44
Net finance gain on defined benefit pension scheme	238	16
	370	109

8 Interest payable

	2012 £000	2011 £000
Loan interest	1,828	1,706
Loan indexation	2,240	2,059
	4,068	3,765

9 Taxation (appointed business)

	2012 £000	2011 £000
Current tax		
UK corporation tax	(306)	(510)
Adjustment in respect of prior years	273	(49)
Current tax charge	(33)	(559)
Deferred tax	468	612
Total tax charge	435	53

The 2012 Budget on 23 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 March 2012 (which has been calculated based on the rate of 24% substantively enacted at the balance sheet date) by £405,000.

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

9 Taxation (appointed business) *(continued)*

Factors affecting tax charge for the year

The tax assessed for the year is lower *(2011: lower)* than the standard rate of corporation tax in the UK 26% *(2011: 28%)*. The differences are explained below:

	2012 £000	2011 £000
Profit on ordinary activities before taxation	1,914	2,621
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 26% *(2011: 28%)*	498	734
Effects of:		
Non deductible expenses	73	97
Capital allowances in excess of depreciation	(127)	(266)
Adjustments to previous periods	(273)	(49)
Other tax adjustments	(204)	43
	(531)	(175)
Current tax charge for period	(33)	559

10 Dividends paid (appointed business only)

	2012 £000	2011 £000
Current year interim – ordinary	480	450
Prior year final – ordinary	1,092	994
	1,572	1,444

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

11 Tangible fixed assets – current cost

Water resources

	Infrastructure assets	Operational assets	Other tangible assets	Total
Gross replacement cost	**£000**	**£000**	**£000**	**£000**
At 1 April 2011	41,259	8,455	123	49,837
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	1,473	302	4	1,779
Disposals	-	-	(5)	(5)
Additions	-	143	10	153
Gross replacement cost 31 March 2012	**42,732**	**8,900**	**132**	**51,764**
Depreciation				
At 1 April 2011	-	4,444	72	4,516
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	159	2	161
Disposals	-	-	(5)	(5)
Charge for year	-	229	17	246
Depreciation at 31 March 2012	**-**	**4,832**	**86**	**4,918**
Net book amount at 31 March 2012	42,732	4,068	46	46,846
Net book amount at 1 April 2011	41,259	4,011	51	45,321

Raw water distribution

	Infrastructure assets	Operational assets	Other tangible assets	Total
Gross replacement cost	**£000**	**£000**	**£000**	**£000**
At 1 April 2011	4,186	8,587	18	12,791
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	149	306	1	456
Disposals	-	-	(1)	(1)
Additions	-	1	2	3
Gross replacement cost 31 March 2012	**4,335**	**8,894**	**20**	**13,249**
Depreciation				
Depreciation 1 April 2011	-	1,831	11	1,842
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	65	1	66
Disposals	-	-	(1)	(1)
Charge for year	-	371	3	374
Depreciation at 31 March 2012	**-**	**2,267**	**14**	**2,281**
Net book amount at 31 March 2012	4,335	6,627	6	10,968
Net book amount at 1 April 2011	4,186	6,756	7	10,949

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

11 Tangible fixed assets – current cost *(continued)*

Water Treatment

	Infrastructure assets	Operational assets	Other tangible assets	Total
Gross replacement cost	£000	£000	£000	£000
At 1 April 2011	7	47,019	357	47,383
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	1,679	13	1,692
Disposals	-	-	(18)	(18)
Additions	-	5,281	50	5,331
Gross replacement cost 31 March 2012	**7**	**53,979**	**402**	**54,388**
Depreciation				
At 1 April 2011	-	27,173	243	27,416
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	970	9	979
Disposals	-	-	(18)	(18)
Charge for year	-	1,437	46	1,483
Depreciation at 31 March 2012	-	**29,580**	**280**	**29,860**
Net book amount at 31 March 2012	7	24,399	122	24,528
Net book amount at 1 April 2011	7	19,846	114	19,967

Treated water distribution

	Infrastructure assets	Operational assets	Other tangible assets	Total
Gross replacement cost	£000	£000	£000	£000
At 1 April 2011	350,432	59,378	1,184	410,994
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	12,510	2,120	38	14,668
Disposals	-	-	(28)	(28)
Additions	460	682	105	1,247
Gross replacement cost 31 March 2012	**363,402**	**62,180**	**1,299**	**426,881**
Depreciation				
At 1 April 2011	-	32,063	614	32,677
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	1,144	22	1,166
Disposals	-	-	(28)	(28)
Charge for year	-	1,505	152	1,657
Depreciation 31 March 2012	-	**34,712**	**760**	**35,472**
Net book amount at 31 March 2012	363,402	27,468	539	391,409
Net book amount at 1 April 2011	350,432	27,315	570	378,317

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

11 Tangible fixed assets – current cost *(continued)*

Water service total

Gross replacement cost	**£000**
At 1 April 2011	**521,005**
AMP adjustment	**-**
Reclassification adjustment	**-**
RPI adjustment	**18,595**
Disposals	**(52)**
Additions	**6,734**
Gross replacement cost 31 March 2012	**546,282**
Depreciation	
At 1 April 2011	**66,451**
AMP adjustment	**-**
Reclassification adjustment	**-**
RPI adjustment	**2,372**
Disposals	**(52)**
Charge for year	**3,760**
Depreciation 31 March 2012	**72,531**
Net book amount at 31 March 2012	**473,751**
Net book amount at 1 April 2011	**454,554**

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

11 Tangible fixed assets – current cost *(continued)*

Retail household (RH)

Gross replacement cost	Infrastructure assets £000	Operational assets £000	Other tangible assets £000	Total £000
At 1 April 2011	-	6,577	257	6,834
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	235	9	244
Disposals	-	-	(22)	(22)
Additions		602	39	641
Gross replacement cost 31 March 2012	-	**7,414**	**283**	**7,697**
Depreciation				
At 1 April 2011	-	3,224	198	3,422
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	115	7	122
Disposals	-	-	(22)	(22)
Charge for year	-	468	29	497
Depreciation 31 March 2012	-	**3,807**	**212**	**4,019**
Net book amount at 31 March 2012	-	3,607	71	3,678
Net book amount at 1 April 2011	-	3,353	59	3,412

Retail non-household (RNH)

Gross replacement cost	Infrastructure assets £000	Operational assets £000	Other tangible assets £000	Total £000
At 1 April 2011	-	870	45	915
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	32	2	34
Disposals	-	-	(4)	(4)
Additions	-	92	6	98
Gross replacement cost 31 March 2012	-	**994**	**49**	**1,043**
Depreciation				
At 1 April 2011	-	415	28	443
AMP adjustment	-	-	-	-
Reclassification adjustment	-	-	-	-
RPI adjustment	-	15	1	16
Disposals	-	-	(4)	(4)
Charge for year	-	66	6	72
Depreciation 31 March 2012	-	**496**	**31**	**527**
Net book amount at 31 March 2012	-	498	18	516
Net book amount at 1 April 2011	-	455	17	472

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

11 Tangible fixed assets – current cost *(continued)*

	Total retail £000	Total business £000
Gross replacement cost		
At 1 April 2011	7,749	528,754
AMP adjustment	-	-
Reclassification adjustment	-	-
RPI adjustment	278	18,873
Disposals	(26)	(78)
Additions	739	7,473
Gross replacement cost 31 March 2012	8,740	555,022
Depreciation		
At 1 April 2011	3,865	70,316
AMP adjustment	-	-
Reclassification adjustment	-	-
RPI adjustment	138	2,510
Disposals	(26)	(78)
Charge for year	569	4,329
Depreciation at 31 March 2012	4,546	77,077
Net book amount at 31 March 2012	4,194	477,945
Net book amount at 1 April 2011	3,884	458,438

12 Working capital – current cost

	Note	2012 £000	2011 £000
Stocks	*13*	192	154
Trade debtors – Measured household		772	724
Unmeasured household		611	645
Measured non household		709	675
Unmeasured non household		105	103
Other		80	47
Measured income accrual		1,410	1,307
Prepayments and other debtors		75	103
Trade creditors		(1,160)	(873)
Deferred income – customer advance receipts		(482)	(406)
Capital creditors		(2,001)	(53)
Accruals and other creditors		(2,078)	(2,366)
Total working capital		(1,767)	60

For the purposes of calculating the working capital adjustment, the opening infrastructure renewals accrual of £2,603,000 *(2011: £2,471,000)* is also treated as working capital.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

13 Stocks

	2012 £000	2011 £000
Raw materials and consumables	**192**	154

14 Historic cost debtors (appointed business)

	2012 £000	2011 £000 Restated
Amounts owed by group undertakings	**12,053**	11,863
Trade debtors	**3,687**	3,500
Corporation tax	**641**	415
Other debtors	**279**	99
Prepayments and accrued income	**75**	103
	16,735	15,980

15 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**3,161**	926
Other taxes and social security costs	**162**	155
Other creditors	**18**	35
Accruals and deferred income	**2,394**	2,617
	5,735	3,733

16 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
3 ½ % undated irredeemable debentures	**114**	114
Index linked bank loan	**47,374**	45,133
Amounts owed to parent and fellow subsidiary undertakings	**2,995**	2,995
	50,843	48,242

17 Provisions for liabilities and charges

	Pension (surplus) £000	Deferred tax on pension £000	Pension surplus (net of deferred tax) £000	Other deferred taxation £000	Total £000
Balance at 1 April 2011	(3,999)	1,040	(2,959)	9,172	6,213
Movement	(966)	152	(814)	(646)	(1,460)
Balance at 31 March 2012	**(4,965)**	**1,192**	**(3,773)**	**8,526**	**4,753**

Other deferred taxation provided in the regulatory accounts is as follows:

	2012 £000	2011 £000
Accelerated capital allowances	**8,526**	9,172

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

18 Pension costs

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounts to £40,000 *(2011: £37,000)*.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

The Company also participates in a defined benefit pension scheme. This is a sectionalised scheme and the Company participates in the Dee Valley Water plc section of the scheme. The scheme funds are administered by trustees and are independent of the Company's finances. Contributions are paid to the Scheme in accordance with the recommendations of an independent qualified actuarial advisor. The section has a history of raising pensions in line with inflation, and these increases are reflected in the measurement of the obligation. The Section is closed to new entrants.

The results of the formal actuarial valuation as at 31 March 2011 were updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the values of the defined benefit obligation and the current service cost have been measured using the projected unit credit method.

During the year ended 31 March 2012, employer contributions of £851,000 (*2011: £865,000)* were paid to the Section. The estimated amount of total employer contributions expected to be paid to the Section during 2012/13 is £1,138,000.

The following table sets out the key FRS17 assumptions used for the Section.

Assumptions (per annum)

	2012	2011
Retail price index inflation	**3.5%**	3.7%
Consumer price index inflation	**2.5%**	3.0%
Discount rate	**4.7%**	5.5%
Pension increases in payment (RPI)	**2.5%**	3.0%
Pension increases in payment (CPI)	**2.5%**	3.0%
General salary increases	**3.5%**	4.9%
Life expectancy of a male aged 60 at balance sheet date	**26.9yrs**	25.5yrs
Life expectancy of a male aged 60 25 years after balance sheet date	**28.9yrs**	29.1yrs

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

	2012	2011
	£000	£000
Present value of defined benefit obligation	**42,644**	40,387
Fair value of assets	**(47,609)**	(44,386)
	(4,965)	(3,999)
Deferred tax	**1,192**	1,040
Liability/(asset) recognised in the balance sheet	**(3,773)**	(2,959)

The amounts recognised in the income statement were as follows:

	2012	2011
	£000	£000
Employer's part of current service cost	**606**	731
Interest cost	**2,193**	2,404
Expected return on assets	**(2,431)**	(2,421)
	368	714

The employers part of the current service cost is recognised in operating cost and the expected return on assets are recognised in finance costs and finance income.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

18 Pension costs *(continued)*

The expected rate of return for the financial year ended 31 March 2012 was 5.9% p.a *(2011: 6.1 %)*. This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Section was invested in at 31 March 2011.

The actual return on the Section's assets over the year was a gain of £4,014,000 *(2011: gain of £2,898,000)*.

The allocation of the Section's assets was as follows:

	2012 £000	2011 £000
Equity instruments	**35%**	37%
Diversified growth funds	**9%**	9%
Debt instruments	**56%**	54%
	100%	100%

A reconciliation of the present value of the defined benefit obligation is as follows:

	2012 £000	2011 £000
Opening defined benefit obligation	**40,387**	44,004
Employer's part of current service cost	**606**	731
Interest cost	**2,193**	2,405
Contributions from scheme members	**114**	122
Actuarial losses/(gains)	**1,100**	(5,411)
Benefits paid	**(1,756)**	(1,463)
Closing defined benefit obligation	**42,644**	40,387

A reconciliation of the fair value of the plan assets is as follows:

	2012 £000	2011 £000
Opening fair value of assets	**44,386**	41,964
Expected return on assets	**2,431**	2,421
Actuarial gains/(losses)	**1,583**	477
Contributions (employer and employee)	**965**	987
Benefits paid	**(1,756)**	(1,463)
Closing fair value of assets	**47,609**	44,386

The amount recognised outside profit and loss in the Statement of Recognised Gains and Losses was a gain of £509,000 (*2011: gain of £5,888,000*). The cumulative amount recognised outside profit and loss at 31 March 2012 was a gain of £7,588,000.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

18 Pension costs *(continued)*

The history of experience gains and losses was:

	2012	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets (gains)/losses:					
Amount (£000)	**(1,583)**	(477)	(6,329)	7,508	1,211
Percentage of year end scheme assets	**(3%)**	(1%)	(15%)	22%	3%
Experience gains and losses on scheme liabilities (gains)/losses:					
Amount (£000)	**(275)**	(636)	(594)	(2,116)	(99)
Percentage of year end present value of scheme liabilities	**(1%)**	(2%)	(1%)	(7%)	0%

Other assumptions used to measure the Section's liabilities at 31 March 2012 were as follows:

Mortality tables:

Before retirement	AC00 tables
After retirement	S1NA tables with the probability of members dying at each age being 95% of the mortality rates in the standard tables (reflecting the Section's membership profile), together with an allowance for future improvements in line with the CMI2011 projections from 2003 based on each member's date of birth, subject to a minimum rate of improvement of 1.0% p.a for males and 0.75% for females.

Sensitivity analysis for the principal assumptions used to measure the Section's liabilities are set out below as at 31 March 2012.

	Assumption adopted	Sensitivity	Indicative change in liabilities	
Key financial assumptions			%	£000
Discount rate	4.7%	+/-0.5%	-7/+8%	(3,100)/3,500
Pension increases and deferred revaluation	2.5%	+/-0.5%	+/-6%	2,500
Real salary increases	1.0%	+/-0.5%	+/-1%	600
Life expectancy				
Male aged 60 at balance sheet date	26.9 years			
Female aged 60 at balance sheet date	29.2 years			
Future male pensioner aged 60 in 2037	28.9 years			
Future female pensioner aged 60 in 2037	30.8 years			
Sensitivity		+ 1 year	+ 3%	+1,100

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

19 Movement on current cost reserve

	2012 £000	2011 £000
Balance at 1 April 2011	**409,649**	376,534
RPI adjustments		
Fixed assets	**16,366**	22,824
AMP adjustment	**-**	10,892
Working capital	**(91)**	(112)
Financing	**450**	468
Third party contributions	**(704)**	(957)
Balance at 31 March 2012	**425,670**	409,649

20 Regulatory capital value

	£000
Closing regulatory capital value as at 31 March 2011	61,216
Indexation	2,185
Opening regulatory capital value as at 1 April 2011	63,401
Capital expenditure (excluding infrastructure renewals)	9,421
Infrastructure renewals expenditure	1,752
Infrastructure renewals charge	(2,058)
Grants and contributions	(526)
Current cost depreciation	(4,249)
Outperformance of regulatory assumptions (5 years in arrears)	(383)
Closing regulatory capital value at 31 March 2012	67,358
Average regulatory capital value for the year	64,441

Explanatory note

The table above shows the Regulatory Capital Value (R.C.V.) as calculated by the Water Services Regulation Authority (WSRA) as part of the price setting process for the 2009 Final Determination of price limits for the period 2010-15. The R.C.V. represents the capital base for the Company (as defined by the WSRA) on which it is allowed to earn a return at the WSRA's defined cost of capital.

The closing R.C.V. as at 31 March 2011 has been restated by the WSRA adjusting for indexation.

The revised opening R.C.V. is then adjusted to take account of new investments (net of capital contributions received) and the current cost depreciation charge for the year, as allowed in the 2009 Final determination of price limits.

There is also a further adjustment made to reflect past out-performance of regulatory assumptions for the previous price setting period. This relates to capital efficiencies which were achieved in the 2007/08 financial year and have been retained by the Company for 5 years, under the WRSA approach to R.C.Vs.

Any differences in actual capital expenditure and depreciation charges from those allowed in the 2009 Final determination will not affect price limits in the current period. These differences, including any capital efficiencies achieved, will be taken into account in the calculation of the R.C.V for the next price review period from 2015 onwards.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

21 Directors' emoluments

	2012 £000	2011 £000
Directors' emoluments:		
Emoluments for qualifying services	**394**	388

The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 3 *(2011: 3)*.

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2012 £000	2011 £000
Emoluments for qualifying services	**119**	116

The highest paid director is a member of a defined benefit scheme, under which his accrued pension at the year end was £38,500 *(2011: £36,000)*, and his accrued lump sum was £115,400 *(2011: £107,900)*.

Given the nature of the Company's business, the Remuneration Committee does not feel it appropriate to link director's pay with standards of performance.

22 Employees

The average monthly number of employees (including Directors) during the year was:

	2012 Number	2011 Number
Administration	**90**	94
Operations	**69**	71
	159	165

Employment costs	**£000**	£000
Wages and salaries	**4,896**	4,810
Social security costs	**444**	436
Pension costs – defined benefit plans	**606**	700
Pension costs – defined contribution plans	**40**	37
	5,986	5,983

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

23 Reconciliation between statutory and regulatory accounts

Profit and loss account	Statutory (UK GAAP) £000	Regulatory £000	Difference £000		Explanation
Operating profit	7,368	5,604	(1,764)	(1,764)	Commission income included in operating profit in the statutory accounts shown in Other Income in the regulatory accounts
Profit before taxation	3,625	3,670	45	45	Interest on inter-company balance not charged in statutory accounts
Balance sheet					
Tangible fixed assets (net book value)	56,409	62,222	5,813	(104)	Adjustment to infrastructure renewals expenditure capitalised in year
				5,917	Adjustment to opening balance relating to infrastructure renewals accounting
				5,813	

24 Report on RAG5 Transfer Pricing

Summary

Procedures for the identification, monitoring and charging of inter-company transactions including the monitoring of cross company directorships and the composition of company Boards, which have been applied during the year, were approved by the Group Board in July 2000. At this time there were 2 major business elements leading to inter-company transactions:

The Energy business ceased to trade during 2002/3.

Dee Valley Services Ltd provided a contracting service under a term contract with Dee Valley Water plc, which expired in May 2003. Dee Valley Water plc did not award a new term contract. The contracting work is now being carried out 'in house' by Dee Valley Water plc. No transactions have arisen between Dee Valley Water plc and Dee Valley Services Ltd in 2011/12.

Split between Appointed and Non-Appointed activities

Billing commission The main source of non-appointed revenues remains billing commissions. Sewerage is billed and collected on behalf of Dwr Cymru and United Utilities. From the beginning of 2005/6 Wrexham County Borough Council have ceased to collect on behalf of Dee Valley Water plc. Commissions are still payable to Flintshire County Council for collection of council house charges. Costs are allocated on the basis of marginal cost, which works out at approximately 10% of the Customer Services departmental costs.

Other activities Fishing licences and charges for services such as charges for 'search data' provided to Dwr Cymru make up the remaining non-appointed activities. The associated costs are separately identified.

Conclusion

The volume of intercompany transactions has diminished to virtually nothing. Costs apportionment is only necessary between appointed and non-appointed elements of the business.

The procedures instituted by the Board in July 2000 set out a realistic system for monitoring current activities and to provide a framework to identify new transactions as they arise.

25 Transactions with Associated Companies

There were no transactions with associated companies during the year other than intergroup dividends and interest on inter-group balances applied for the purposes of these regulatory accounts.

At 31 March 2011 there is inter-group indebtedness due to Dee Valley Water plc of £12,053,000 *(2011: £11,863,000)* and Dee Valley Water plc is indebted to Wrexham Water plc for £2,995,600 *(2011: £2,995,600)*.