DEE VALLEY WATER PLC

REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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Directors' report

The directors present the regulatory financial statements of Dee Valley Water plc for the year ended 31 March 2013.

These accounts are prepared in accordance with the Regulatory Accounting Guidelines referred to below. Additional statutory disclosures and commentary can be found in the statutory accounts of Dee Valley Water plc, and of the ultimate holding company Dee Valley Group plc.

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 2013. 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 2013 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 2013 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 2013 and resolved that the certificate would be signed on behalf of the Board.

Directors' report *(continued)*

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

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;
- is in compliance with paragraph 3.1 of condition K of the Licence; and
- 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 2013 and signed on its behalf on 9 July 2013 by :

N C Holladay Managing Director NCHolladay

D E Strahan Finance Director

Dividends

A total dividend of £2,836,000 *(2012: £2,752,000)* was declared and paid in the year. Of this £1,584,000 *(2012: £1,572,000)* 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 2012/13	**6.54**

The directors current objective is to seek to increase the total annual dividends paid by at least inflation.

Statement of director's remuneration and standards of performance

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

G R Scott
D J Guest (resigned 1 January 2013)
J H Schofield
D T Weir
N C Holladay
K G Williams
D E Strahan (appointed 1 January 2013)

Details of directors' remuneration is disclosed within the accounts of Dee Valley Water plc and those of the ultimate parent Dee Valley Group plc.

Given the nature of the Company's business the Remuneration Committee of Dee Valley Group plc does not feel it appropriate to link directors' remuneration to standards of performance.

Directors' report *(continued)*

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.

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

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

D E Strahan
Director
Date: 9 July 2013

Packsaddle
Wrexham Road
Rhostyllen
Wrexham
LL14 4EH

KPMG

KPMG Audit Plc
8 Princes Parade
Liverpool
L3 1QH
United Kingdom

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE "WSRA") AND DIRECTORS OF DEE VALLEY WATER PLC

We have audited the Regulatory Accounts of Dee Valley Water plc ('the Company') for the year ended 31 March 2013 on pages 6 to 22 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 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).

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE "WSRA") AND DIRECTORS OF DEE VALLEY WATER PLC

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 pages 10 to 13, the state of the Company's affairs at 31 March 2013, its profit and its 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 (including the accounting separation methodology).

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 6 and 7 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 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 21.

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 2013 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
Date: 10 July 2013

HISTORIC COST PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2013

	Appointed 2013 £000	**Non appointed 2013 £000**	**Total 2013 £000**	Appointed 2012 £000	Non appointed 2012 £000	Total 2012 £000
Turnover	**22,673**	**80**	**22,753**	22,015	33	22,048
Operating costs	**(12,488)**	**(14)**	**(12,502)**	(11,476)	(24)	(11,500)
Infrastructure renewals charge	**(1,450)**	**-**	**(1,450)**	(1,390)		(1,390)
Historical cost depreciation	**(3,188)**	**-**	**(3,188)**	(3,554)	-	(3,554)
Operating profit	**5,547**	**66**	**5,613**	5,595	9	5,604
Other income	**18**	**1,796**	**1,814**	17	1,747	1,764
Net Interest	**(2,987)**	**-**	**(2,987)**	(3,698)	-	(3,698)
Profit on ordinary activities before taxation	**2,578**	**1,862**	**4,440**	1,914	1,756	3,670
Taxation - current	**(212)**	**(447)**	**(659)**	(33)	(457)	(490)
- deferred	**208**	**-**	**208**	468	-	468
Historic cost profit after taxation	**2,574**	**1,415**	**3,989**	2,349	1,299	3,648
Dividends	**(1,584)**	**(1,252)**	**(2,836)**	(1,572)	(1,180)	(2,752)
Retained profit for the year	**990**	**163**	**1,153**	777	119	896

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES – HISTORIC COST

FOR THE YEAR ENDED 31 MARCH 2013 (appointed business)

	2013 £000	2012 £000
Profit for the year	**990**	777
Actuarial (loss)/gain (net of deferred tax) on post employment plans	**(442)**	509
Total recognised gains and losses for the year	**548**	1,286

HISTORIC COST BALANCE SHEET AS AT 31 MARCH 2013

	Appointed 2013 £000	**Non appointed 2013 £000**	**Total 2013 £000**	Appointed 2012 £000	Non appointed 2012 £000	Total 2012 £000
Fixed assets						
Tangible assets	**70,079**	**-**	**70,079**	62,222	-	62,222
Investments	**12,214**	**-**	**12,214**	12,053	-	12,053
	82,293	**-**	**82,293**	74,275	-	74,275
Infrastructure renewals accrual	**(2,109)**	**-**	**(2,109)**	(2,499)	-	(2,499)
Other current assets	**14,008**	**8,129**	**22,137**	16,048	7,788	23,836
Creditors: amounts falling due within one year						
Borrowings	**(6,042)**	**-**	**(6,042)**	(61)	-	(61)
Other creditors	**(11,980)**	**(6,718)**	**(18,698)**	(13,065)	(6,540)	(19,605)
Total creditors due within one year	**(18,022)**	**(6,718)**	**(24,740)**	(13,126)	(6,540)	(19,666)
Net current (liabilities)/assets	**(6,123)**	**1,411**	**(4,712)**	423	1,248	1,671
Total asset less current liabilities	**76,170**	**1,411**	**77,581**	74,698	1,248	75,946
Creditors: amounts falling due after more than one year						
Borrowings	**(48,867)**	**-**	**(48,867)**	(47,373)	-	(47,373)
Other creditors	**(2,995)**	**-**	**(2,995)**	(2,995)	-	(2,995)
Total creditors due after more than one year	**(51,862)**	**-**	**(51,862)**	(50,368)	-	(50,368)
Provisions for liabilities and charges	**(4,184)**	**-**	**(4,184)**	(4,753)	-	(4,753)
Preference share capital	**(114)**	**-**	**(114)**	(114)	-	(114)
Net assets employed	**20,010**	**1,411**	**21,421**	19,462	1,248	20,710
Capital and reserves	**20,010**	**1,411**	**21,421**	19,462	1,248	20,710

CURRENT COST PROFIT AND LOSS ACCOUNT

FOR APPOINTED BUSINESS

FOR THE YEAR ENDED 31 MARCH 2013

		2013 £000	2012 £000
Turnover			
Unmeasured	- household	**8,722**	8,525
	- non household	**115**	110
Measured	- household	**7,032**	6,434
	- non household	**6,696**	6,834
Bulk supplies		**4**	3
Other third party services (including non potable water)		**104**	109
Total turnover		**22,673**	22,015
Current cost operating costs			
	- wholesale	**(15,139)**	(13,855)
	- retail	**(3,191)**	(3,342)
Operating income		**-**	44
Working capital adjustment		**145**	91
Operating profit		**4,488**	4,953
Other income		**18**	17
Net interest		**(2,987)**	(3,698)
Financing adjustment		**(428)**	(450)
Profit on ordinary activities before taxation		**1,091**	822
Taxation	- current	**(212)**	(33)
	- deferred	**208**	468
Profit on ordinary activities after taxation		**1,087**	1,257
Dividends		**(1,584)**	(1,572)
Retained loss for year		**(497)**	(315)
Net revenue movement out of tariff basket		-	-
Back billing amount identified		-	-

CURRENT COST CASH FLOW STATEMENT (appointed business only)

FOR THE YEAR ENDED 31 MARCH 2013

	2013	2012
	£000	£000
Current cost operating profit	**4,488**	4,953
Working capital adjustment	**(145)**	(91)
Receipts from other income	**18**	17
Current cost depreciation	**4,391**	4,329
Current cost profit on sale of fixed assets	**-**	(44)
Infrastructure renewals charge	**1,450**	1,399
Movement in provisions	**644**	(657)
Net cash flow from operating activities	**10,846**	9,906
Return on investments and servicing of finance	**(1,754)**	(1,746)
Taxation received/(paid)	**479**	**(551)**
Capital expenditure and financial investment		
Gross cost of purchases of fixed assets	**(12,195)**	(5,566)
Receipt of grants and contributions	**1,112**	1,019
Infrastructure renewals expenditure	**(1,840)**	(1,502)
Receipts from sales of tangible assets	**41**	8
Movements on long term loans to group companies	**-**	-
Net cash outflow from investing activities	**(12,882)**	(6,041)
Acquisitions and disposals	**-**	-
Equity dividends paid	**(1,585)**	(1,571)
Net cash flow from management of liquid resources	**(1,411)**	(143)
Net cash flow before financing	**(6,307)**	(145)
Net cash flow from financing	**5,981**	(77)
(Decrease) in cash	**(326)**	(223)

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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.

Capitalisation policy

No item with an initial cost of less than £300 shall be capitalised.

All items of capital expenditure are subject to a project dairy approval process, during which the regulation and finance departments ensure that the expenditure to be capitalised follows the appropriate accounting and regulatory guidelines.

Employee costs arising directly from the construction of property, plant and equipment are identified by internal processes and are transferred from employee benefit operating costs to fixed assets.

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.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

1 Current cost accounting policies *(continued)*

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.

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 3.07.

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 3.07.

1.3 Accounting separation policy

The tables in note 3 operating cost analysis wholesale business and note 4 retail business have been prepared in accordance with the Company's operating cost accounting separation methodology statement published on the Dee Valley Water website.

The tables in note 5 current cost analysis of fixed assets wholesale business and note 6 retail business have been prepared in accordance with the Company's fixed assets accounting methodology statement published as detailed above.

Wherever possible, it is the Company's policy that assets and costs should be assigned directly to the appropriate business unit.

Where this is not possible methods of allocation have been adopted following the previously published Ofwat guidance.

There have been no changes to the basis of allocation of operating costs in the year.

In the 2012 regulatory accounts meters were allocated between the wholesale and retail business. RAG 4 now requires that meters are included wholly within the treated water distribution line. This has given rise to a net reclassification adjustment between the retail and wholesale business of £2.4 million.

An additional reclassification adjustment to deprecation in the wholesale business of £0.5 million relates to a correction of the depreciation allocation relating to the use of a treatment works site between the wholesale business units.

In accordance with Ofwat IN13/01 general and support assets continue to be allocated between business units.

All other assets are either used wholly by the wholesale or the retail business.

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.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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.

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.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

2 Historic cost accounting policies *(continued)*

2.2 Turnover *(continued)*

Bad debt policy

The company's policy regarding the write off of debt is detailed below. There have been no changes to the policy in the year, and no significant variation in the level of write off.

Previous Occupier - No Forwarding Address

The final bill is always issued to last known address on the basis that mail could be forwarded by Royal Mail.

If debt is under £50.00 (over 1 month old) and there has been no response from issuing of the final bill the debt is written off.
If the debt is greater than £50.00 the account is passed to a third party trace collection agency. Provided this service is on a 'no trace no fee' basis more than one agency may be used to trace same debtor. If third parties cannot trace the debt it will be written off.

In most instances debt can be left on the system for longer than 12 months if it is believed that information can be obtained to enable the debt to be pursued.

Previous Occupier with Forwarding Address

Where appropriate all debts are transferred to a current address within the Dee Valley Water area of supply.

All debts will go through the in-house collection cycle. If payment is not made, debts up to £50.00 will be written off as uneconomical to collect. Debts over £50.00 will be passed to third party agency for collection. Again, several third party agencies may be used.

Only where third party collection fails will the debt be written off.

Bankruptcy/Debt Relief Orders

In cases where the Company becomes aware that a customer has filed for bankruptcy or a Debt Relief Order charges will be apportioned to the date of bankruptcy/DRO and relevant paperwork completed and returned to register the debt. Following the issue of the paperwork and a final bill the outstanding debt subject to bankruptcy/DRO will be written off. Ongoing charges will be pursued in accordance with normal collection processes.

Bad debt provision

There have been no changes to the bad debt provisioning policy in the year. The bad debt charge in the retail business has increased by 9% more that the average RPI based inflation for the year, reflecting the impact on debt of the current economic environment.

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

3 Activity costing analysis for the year ended 31 March 2013 – water services

	Water resources £000	**Raw water distribution £000**	**Water treatment £000**	**Treated water distribution £000**	**Water service total £000**
Direct costs					
Power	520	76	224	667	1,487
Income treated as negative revenue	-	-	-	-	-
Service charges	810	-	46	-	856
Bulk supply imports	-	-	40	-	40
Other operating expenditure	843	113	2,197	2,965	6,118
Local authority rates	95	24	117	790	1,026
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	2,268	213	2,624	4,422	9,527
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	151	15	-	1,284	1,450
Current cost depreciation	269	128	1,954	1,802	4,153
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Capital maintenance (excluding third party services)	420	143	1,954	3,086	5,603
Third party services					
Operating expenditure	9	-	-	-	9
Third party services current cost depreciation	-	-	-	-	-
Third party services infrastructure renewals charge	-	-	-	-	-
Total third party services	9	-	-	-	9
Total operating costs	2,697	356	4,578	7,508	15,139

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

4 Activity costing analysis for the year ended 31 March 2013 – retail services

	Retail household	Retail non-household	Total Retail
	£000	£000	£000
Direct costs			
Customer services	780	59	839
Debt management	210	73	283
Doubtful debts	441	53	494
Meter reading	175	6	181
Services to developers	-	72	72
Other operating expenditure	922	154	1,076
Local authority rates	7	1	8
Exceptional items	-	-	-
Total opex less third party services	2,535	418	2,953
Third party series - opex	-	-	-
Total operating expenditure	2,535	418	2,953
Capital maintenance			
Infrastructure renewals charge (excluding third party services)	-	-	-
Current cost depreciation	207	31	238
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	**207**	**31**	**238**
Total operating costs	**2,742**	**449**	**3,191**
Bad debt written off	**151**	**148**	**299**

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

5 Current cost analysis of fixed assets (wholesale business only)

	Resources	Raw distribution	Treatment	Treated distribution	Total
Non-Infrastructure Assets					
Gross replacement cost	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2012	9,032	8,914	54,380	63,479	135,805
AMP adjustment	-	-	-	-	-
Reclassification	-	-	(2)	4,692	4,690
RPI adjustment	297	292	1,784	2,233	4,606
Disposals	(9)	(1)	(33)	(35)	(78)
Additions	117	2	10,044	1,245	11,408
Gross replacement cost 31 March 2013	**9,437**	**9,207**	**66,173**	**71,614**	**156,431**
Depreciation					
At 1 April 2012	4,918	2,281	29,860	35,472	72,531
AMP adjustment	-	-	-	-	-
Reclassification adjustment	26	(536)	862	1,924	2,276
RPI adjustment	161	75	980	1,238	2,454
Disposals	(6)	(1)	(24)	(19)	(50)
Charge for year	269	128	1,955	1,802	4,154
Depreciation at 31 March 2013	**5,368**	**1,947**	**33,633**	**40,417**	**81,365**
Net book amount at 31 March 2013	**4,069**	**7,260**	**32,540**	**31,196**	**75,064**
Net book amount at 1 April 2012	4,114	6,633	24,520	28,007	63,273
Infrastructure assets					
Gross replacement cost					
At 1 April 2012	42,732	4,336	7	363,402	410,477
AMP adjustment	-	-	-	-	-
Reclassification	-	-	-	-	-
RPI adjustment	1,402	142	-	11,922	13,466
Disposals	-	-	-	-	-
Additions	-	-	-	651	651
Gross replacement cost 31 March 2013	**44,134**	**4,478**	**7**	**375,975**	**424,594**

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

6 Current cost analysis of fixed assets (retail business only)

	Household	Non-household	Total
Gross replacement cost	**£000**	**£000**	**£000**
At 1 April 2012	7,697	1,043	8,740
AMP adjustment	-	-	-
Reclassification adjustment	(4,129)	(561)	(4,690)
RPI adjustment	117	16	133
Disposals	(20)	(4)	(24)
Additions	112	22	134
Gross replacement cost 31 March 2013	**3,777**	**516**	**4,293**
Depreciation			
At 1 April 2012	4,019	527	4,546
AMP adjustment	-	-	-
Reclassification adjustment	(2,006)	(270)	(2,276)
RPI adjustment	66	8	74
Disposals	(10)	(2)	(12)
Charge for year	207	30	237
Depreciation 31 March 2013	**2,276**	**293**	**2,569**
Net book amount at 31 March 2013	**1,501**	**223**	**1,724**
Net book amount at 1 April 2012	3,678	516	4,194

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

7 Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2013

	2013			**2012**		
	Gross	**Grants and contributions**	**Net**	**Gross**	**Grants and contributions**	**Net**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Capital expenditure						
Base						
Infrastructure renewals expenditure (IRE)	1,840	(440)	1,400	1,502	(456)	1,046
Maintenance non infrastructure (MNI)	10,880	-	10,880	6,372	-	6,372
Enhancements						
Infrastructure	643	(672)	(29)	460	(563)	(103)
Non infrastructure	674	-	674	641	-	641
Total capital expenditure	**14,037**	**(1,112)**	**12,925**	**8,975**	**(1,019)**	**7,956**
Grants and contributions						
Developer contributions		(678)			**(555)**	
Infrastructure charge receipts		(214)			**(218)**	
Other contributions		(220)			**(246)**	
Total grants and contributions		**(1,112)**			**(1,019)**	
Land sales – Proceeds from disposals of protected land			-			-

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

8 Analysis of working capital

		2013 £000	2012 £000
Stocks		**208**	192
Trade debtors	- Measured household	**844**	772
	- Unmeasured household	**750**	611
	- Measured non household	**634**	709
	- Unmeasured non household	**107**	105
	- Other	**102**	80
Measured income accrual		**1,459**	1,410
Prepayments and other debtors		**5**	75
Trade creditors		**(917)**	(1,160)
Deferred income - customer advance receipts		**(417)**	(482)
Capital creditors		**(743)**	(2,001)
Accruals and other creditors		**(2,228)**	(2,078)
Total working capital		(196)	(1,767)
Total revenue outstanding -	household	**3,070**	2,735
-	non household	**737**	687

9 Analysis of net debt, gearing and interest costs

Net debt analysis (appointed business only)	Interest rate risk profile: Fixed rate £000	Floating rate £000	Index linked £000	Total 2013 £000
Borrowings (excluding irredeemable debentures)	6,042	7,715	48,867	62,624
Irredeemable debentures	114	-	-	114
Total borrowings	**6,156**	**7,715**	**48,867**	**62,738**
Cash	-	-	-	-
Short term deposits	-	(8,150)	-	(8,150)
Net debt	6,156	(435)	48,867	54,588
Regulatory capital value				73,568
Gearing				74.2%
Full year equivalent nominal interest cost	94	38	1,776	1,908
Full year equivalent cash interest payment	94	38	1,761	1,893
Indicative interest rates				
Indicative weighted average nominal interest rate	1.527%	0.5%	3.635%	3.500%
Indicative weighted average cash interest rate	1.527%	0.5%	3.604%	3.468%
Weighted average years to maturity	-	-	19	19

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

10 Non financial information for the 12 months ended 31 March 2013

	2013	2012
Number of properties (000's)		
Households billed	111.995	111.089
Non households billed	8.169	8.173
Household voids	2.021	2.282
Non household voids	1.651	1.643
Per capita consumption(excluding supply pipe leakage) l/h/d		
Unmeasured household	148.21	161.31
Measured household	121.17	113.89
Volume (Ml/d)		
Bulk supply export	0.03	0.03
Bulk supply import	0.08	0.08
Distribution input	61.25	62.54

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

11 Reconciliation between statutory and regulatory accounts

Profit and loss account	**Statutory (UK GAAP)**	**Regulatory**	**Difference**		**Explanation**
	£000	**£000**	**£000**	**£000**	
Turnover	22,807	22,753	54		Income treated as deduction from operating costs in regulatory accounts
Operating profit	7,428	5,613	(1,815)		Commission income included in operating profit in the statutory accounts shown in Other Income in the regulatory accounts
Profit before taxation	4,395	4,440	45		Interest on inter-company balance not charged in statutory accounts
Taxation	(63)	(451)	388		Deferred taxation is discounted in the statutory accounts. The discount is not included in the regulatory accounts.
Balance sheet					
Tangible fixed assets (net book value)	64,656	70,079	5,423	2,109	In the statutory accounts the company adopts infrastructure accounting as set out in FRS 15. Ofwat requests that, for regulatory accounting purposes, FRS 15 is not applied for infrastructure renewals accounting. The infrastructure renewals accrual is excluded from the fixed asset net book value.
				3,314	Represents historic difference in accounting treatment for certain elements of capital expenditure
				5,423	
Investments	-	12,214	12,214		In the statutory accounts, intercompany debtors are disclosed within debtors. Ofwat accounting guidelines state that it should be classified as an investment
Provision for liabilities and charges	(5,741)	(4,184)	1,557	3,934	Defined benefit pension scheme assets shown as asset in statutory accounts, included within provisions in regulatory accounts
				(2,377)	Removal of deferred tax discount referred to above
				1,557	
Preference share capital	-	(114)	(114)		Preference share capital is included in creditors falling due after one year in the statutory accounts

NOTES TO THE REGULATORY FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

12 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.

13 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 2013 there is inter-group indebtedness due to Dee Valley Water plc of £12,214,0000 *(2012: £12,053,000)* and Dee Valley Water plc is indebted to Wrexham Water plc for £2,995,600 *(2012: £2,995,600)*.