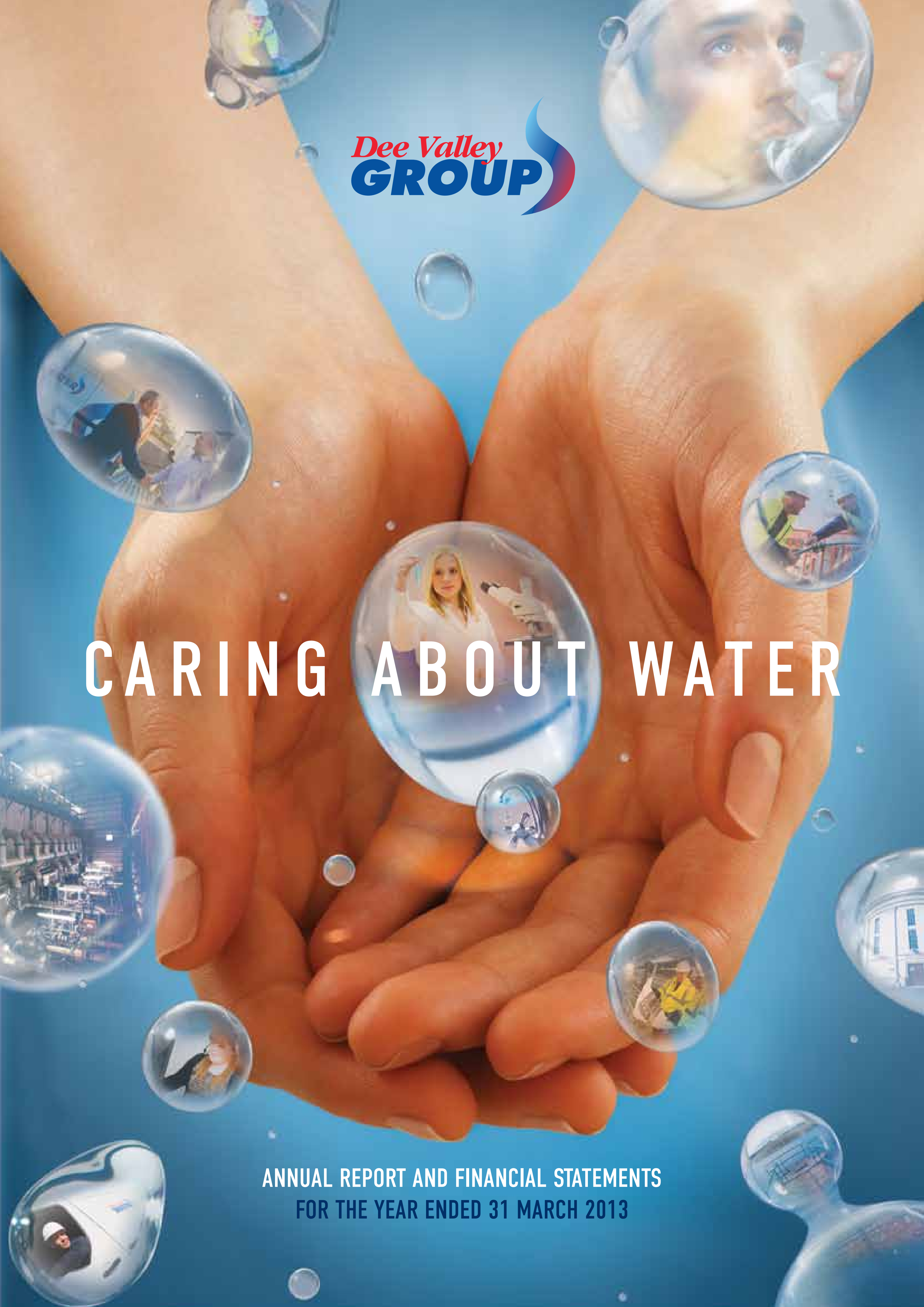


Dee Valley GROUP

CARING ABOUT WATER

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

DEE VALLEY GROUP AT A GLANCE

Dee Valley Group plc, through its trading subsidiary Dee Valley Water plc, supplies drinking water to 262,000 domestic and business customers in north east Wales and the north west of England.

Our objective is to maintain a consistent supply of wholesome water that gives customers good value for money.

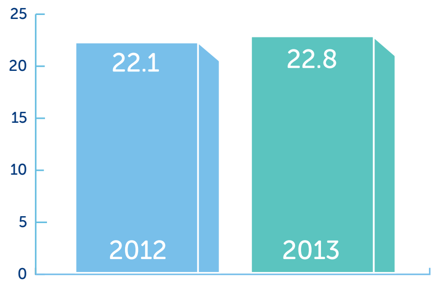
- 835 square kilometres supply area
- 61 million litres of water supplied per day
- 1,980 kilometres of mains network
- 6 water treatment works
- 28 pumping stations

OPERATIONAL HIGHLIGHTS

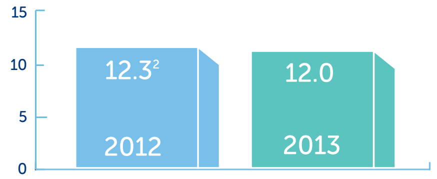
For further information visit our investor website at www.deevalleygroup.com

FINANCIAL HIGHLIGHTS

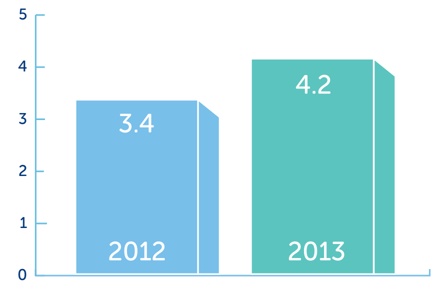
Revenue (£million)



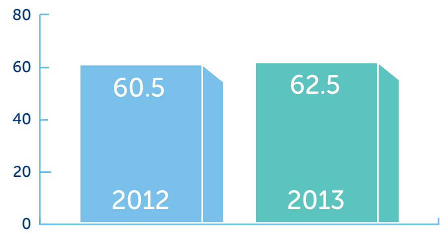
Profit before depreciation and finance costs (£million)



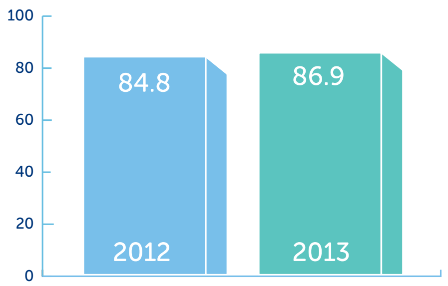
Profit before tax (£million)



Total dividend (pence per ordinary share)



Basic earnings (pence per ordinary share)



[1] On a calendar year basis
[2] Restated

CONTENTS

CHAIRMAN'S STATEMENT

Dee Valley Group plc has recorded a further successful year of providing good quality water to customers at some of the lowest prices in the sector while also investing heavily for the future.

Financial performance was broadly consistent with expectations and with the results for the previous year. Retained profit for the year was £4.0 million (2012: £3.9 million) resulting in a basic earnings per share of 86.9 pence per ordinary share (2012: 84.8 pence per ordinary share).

This has allowed the Board to recommend a final dividend of 42.7 pence which, together with the interim dividend paid during the year, makes a total dividend for the year of 62.5 pence (2012: 60.5 pence). The Board has therefore met its current objective of increasing dividends for the year by at least inflation.

Operational performance has also remained consistent with the previous year with an overall drinking water quality compliance for the 2012 calendar year of 99.93% (2011: 99.93%).

INVESTMENT

The Group continues to invest heavily in the local community through both operating and capital expenditure.

In terms of capital investment, £14.0 million was invested during the year compared to £9.0 million in the previous year. The increasing capital investment reflects the rebuilding of the Llwyn Onn water treatment works, the largest capital project ever undertaken by the Group. This project will be completed, as planned, in 2013.

REGULATORY DEVELOPMENTS

The Board is committed to providing strong leadership and transparency and to ensuring good corporate governance in respect of the activities of the Group. It has a simple, transparent structure and seeks to adhere to the highest standards of corporate governance. In this respect, we welcome Ofwat's emphasis on governance arrangements and our Annual Report seeks to provide further information in respect of the Board's activities in this area. In particular, as a listed Company, the Group complies with the UK Corporate Governance Code (Code) and where, by exception, there are provisions of the Code which are not complied with these are separately identified and explained.

The water industry in England and Wales is undergoing a period of change with both the Westminster and Welsh Governments in the process of formulating and implementing new strategies for the management of water supply. The Group continues to engage with these developments in the best interests of all its stakeholders.

During the year the Regulator, Ofwat, consulted on the process by which price limits will be determined for the forthcoming regulatory business plan period which covers the five years from 2015. The business plan for this period is expected to be submitted in the last quarter of 2013 with significant preparatory work already having been undertaken.

OUR CUSTOMERS

The focus on improving the experience of our customers continues and it was pleasing to note an improved score on Ofwat's Service Incentive Mechanism.

During the year, we established a Customer Challenge Panel (Panel) to ensure the views of our customers are taken into account as we plan for the future. As its name suggests, the Panel comprises both customers and other interested parties and will provide invaluable input to, and feedback on, our business plan. We are delighted that the Panel is led by an independent Chair, Diane McCrea, who is currently Chair of the Wales Committee for The Consumer Council for Water, and a powerful consumer advocate. We look forward to continuing constructive engagement with the Panel in the forthcoming year.

The Board members are keenly aware of their responsibilities as directors of a Group which delivers an essential utility service and which is of such strategic importance to the local economy and its people. We remain fully committed to ensuring the highest standards of performance and monitoring in relation to our stewardship of our responsibilities and in minimising the safety risk to the public from our extensive operations and construction activity.

OUR PEOPLE

The Group's employees are vital to all that we do and I would like to thank all of them for their continued commitment and the invaluable contribution that they make to our continuing success.

Our apprenticeship programme continues, with four excellent apprentices continuing their development through a range of specialist training and mentoring by their colleagues.

This year we welcomed David Strahan to the Board as Finance Director. He brings excellent experience from his previous employment with Phoenix Supply Ltd where he was Managing Director for almost six years. David Guest has retired from the Board after over two decades of outstanding contribution to the Group. We wish him well and thank him for his dedicated service.

OUTLOOK

We remain committed to the local community and maintaining our focus on customers in order to deliver continuing excellent customer service and operational efficiency resulting in competitive prices.

The year ahead will be a challenging one as important work takes place preparing the ground for the next business plan submission covering the 2015 – 2020 period. However, we look forward to the future with renewed confidence and determination to build on the success our people have delivered over the past year.

Graham Scott
Chairman

OPERATING REVIEW

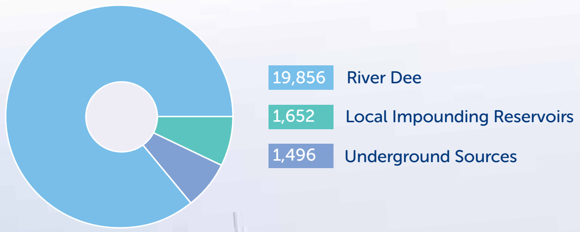
During the year the Group, through its operating company Dee Valley Water plc, continued to focus on its core activity of supplying a consistent supply of wholesome water to customers.

Dee Valley Water supplies potable water to 112,000 household properties and 8,000 non-household properties. It also supplies non-potable water to some large industrial customers, however, this represents just over 1 per cent of total water supplied.

Dee Valley Water is a water only supplier. It does not provide sewerage services although it does bill customers and collects revenue on behalf of the sewerage providers operating in the Group's licence area. Commission, disclosed in the Financial Statements as other operating income, is received in respect of this activity.

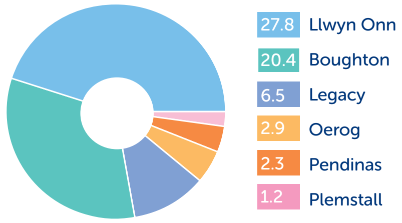
The main source of raw water is the River Dee which flows through the licence area with the remainder coming from eight local impounding reservoirs and two underground sources. The chart shows the quantities abstracted from these various sources during the year.

Abstracted (million litres)



Raw water is treated to the required regulatory standards at six water treatment works. The volume of water treated at each treatment works operated by the Group is shown in the chart below.

Treated (million litres/day)



Once treated, water is distributed through a mains network of 1,980 kilometres that delivers drinking water to customers. The age of the network infrastructure reflects the historic roots of the original water undertakings that have been amalgamated to form Dee Valley Water, with some pipes laid in the 1860's still in operational use.

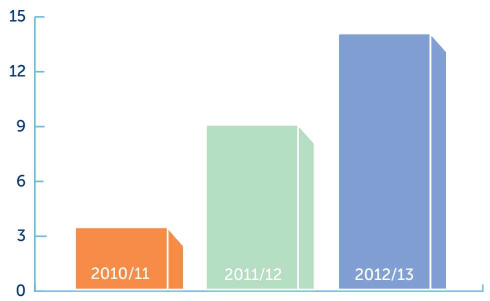
CAPITAL INVESTMENT

The year ended 31 March 2013 was the third year of the current five-year capital investment programme and saw capital investment increase to £14.0 million, an increase of £5.0 million from the previous year. This was due to the continued construction of the new Llwyn Onn water treatment works which, at the year end, was nearing completion. The project to replace this water treatment works is the largest construction project ever undertaken by Dee Valley Water and is currently scheduled to be completed in September 2013.

During the construction project Dee Valley Water has worked in close collaboration with the contractor, Black & Veatch Ltd. Both companies were recognised for their commitment to occupational health and safety by being awarded the RoSPA Gold Award for Occupational Health and Safety which highlights the safety conscious ethos of the Group.

Renewal of water mains, the other significant capital investment aspect of the current five-year programme, also continued. The chart below shows the capital expenditure for each year of the current five-year investment programme to date.

Capital Expenditure (£ million)

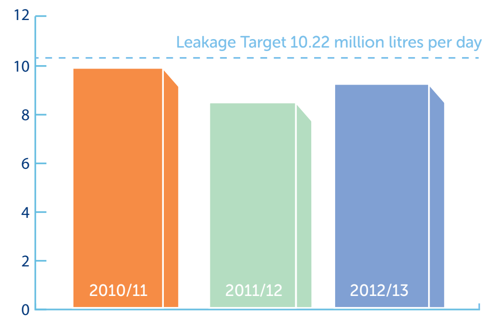


LEAKAGE

Minimising leakage is an important issue for our customers and is a significant area of focus.

The volume of water lost as a result of leakage during the year ended 31 March 2013 was 9.28 million litres per day which was an increase of 8.9% from the level of 8.52 million litres per day reported for the year ended 31 March 2012. However, the leakage level for the period under review was ahead of the Ofwat target of 10.22 million litres per day and is one of the lowest leakage levels in the industry. The local knowledge of our employees, advances in leakage detection technology and operational measures such as reducing water pressure in areas where it is higher than necessary are all contributory factors in outperforming the leakage target.

Leakage (million litres per day)



Dee Valley Water continues to promote water efficient products such as the Save-a-Flush cistern displacement device and, through our website, customers can complete a water audit to assess how their water consumption compares to an average customer. We are particularly encouraged by our work in local schools educating children about water efficiency.

The low level of leakage together with responsible water consumption by our customers helps protect water resources, which is particularly important in periods of low rainfall. Efforts to minimise leakage and waste reduces the burden on the environment as water resources are conserved and the energy, and resulting carbon emissions, required to pump water through the mains network is decreased.

Further reductions in leakage levels will be difficult to achieve without significant additional investment in replacing the ageing mains network.

RoSPA 20 13 GOLD Award

OPERATING REVIEW continued

REGULATORY FRAMEWORK

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 good quality services and value for money.

The Drinking Water Inspectorate is the regulator responsible for ensuring that water is safe to drink and acceptable to customers. For the environment in Wales, Natural Resources Wales is now the regulatory authority having merged the roles of the Countryside Council for Wales, the Environment Agency and Forestry Commission in Wales. Natural Resources Wales regulates our interface with the environment, ensuring in particular that abstractions from and discharges to water bodies are within licensed limits. We look forward to continued constructive dialogue with them.

Dee Valley Water operates mainly in Wales and is therefore accountable to the Welsh Government which has devolved powers and provides the strategic direction for water policy in Wales. During the year the Welsh Government has been developing its water strategy and a consultation on the water strategy is expected during 2013.

The Group also works with the Consumer Council for Water, which represents the interest of water customers.

Dee Valley Water seeks to develop and maintain good working relationships with all key stakeholders.

Every five years, Ofwat determines the limits on prices that water companies can charge their customers for the five years following a periodic review process. The underlying principle of the price limits is that they should be sufficient for an efficiently-operated company to adequately remunerate its investors. Price limits for the period from April 2010 to March 2015 (known as the AMP5 period) were determined in November 2009. The period that this Annual Report covers is therefore the third year of the current five-year period.

Work is well underway to prepare for the next price review covering the period from April 2015 to March 2020. Ofwat is changing its approach to the forthcoming price review moving to separate wholesale and retail controls and also to adopt a total expenditure approach to investment instead of the previous separate assessment of capital and operating expenditure requirements. It is anticipated that the Group's business plan will be submitted to Ofwat in December 2013 setting out the Group's investment proposals for the 2015 – 2020 period. The outcome of this process will be crucial in determining the rate of renewal of ageing infrastructure and consequently the quality of water and service provided to customers.

CUSTOMERS

As a small company embedded in the local community Dee Valley Water's relationship with, and responsiveness to, its customers is fundamental to its overall strategy and sets the Group apart from larger water suppliers.

During the year, the Customer Challenge Panel (Panel) commenced its important work under the chairmanship of Diane McCrea, currently Chair of the Wales Committee for The Consumer Council for Water. The purpose of the Panel is to ensure the views of customers are taken into account during the process for preparing the Group's five-year business plan and investment strategy. The Panel has already completed invaluable work and we look forward to continuing our dialogue with them throughout the year.

Customers who contact Dee Valley Water by telephone are directed to the department best able to respond to their query, avoiding the traditional call centre approach to handling customer contacts by telephone, where understanding of queries may be limited. Dee Valley Water provides a personal service to customers by staff who are trained to deal with their query.

Last year we reported on the implementation of an action plan designed to reduce the number of complaints received by the Group, particularly written complaints. In the first full year of implementation of the agreed plan a reduction in written complaints of 15% was achieved. This improvement has continued and for the year ended 31 March 2013 the Group achieved a further 29% reduction in written complaints on the level reported in the previous year. This demonstrates our commitment to understanding the cause of each complaint and seeking to proactively address their cause.

All written complaints receive a personal response from either the Managing Director or Finance Director. The Consumer Council for Water audits a sample of the Group's response to written complaints and for the year ended 31 March 2013 96% of the sample responses examined were rated as good (2012: 100%).

The experience of customers is also monitored through Ofwat's quarterly Customer Experience Survey and while the Group's ranking compared to other companies fell from 6 to 9 out of a total of 21 companies. The overall score shows a slight improvement increasing from 4.50 to 4.52 over the course of the year. This highlights the customer service improvements across the sector and stresses the importance of Dee Valley Water continuing to focus on delivering real service improvements that customers value.

Ofwat's Service Incentive Mechanism score, the metric used to measure overall customer service, increased from 70 to 76 out of a total of 100 during the year.

KEY PERFORMANCE INDICATORS

The key performance indicators for the Group are summarised in four high-level areas which provide a broad overview of performance.

	2013		2012		
	Performance	**Status**	**Performance**	**Status**	**Measurement**
Customer Experience					
Service Incentive Mechanism (SIM)	**76**		70		Score (out of 100)
Water supply interruptions	**0.3**		0.2		Hours per total properties supplied
Reliability and Stability					
Serviceability water non-infrastructure	**Stable**		Stable		
Serviceability water infrastructure	**Marginal**		Marginal		
Leakage	**9.28**		8.52		Million litres per day
Security of Supply Index (SoSI)	**100**		100		Index score
Environmental Impact					
Greenhouse Gas (GHG) emissions	**9.5**		9.7		$ktCO_2e$
Financial					
Gearing	**66%**		59%		
Interest cover	**3.8**		3.8		

For a definition of terms refer to the Glossary on page 62.

- performance is in line with or better than expected
- performance is not in line with expectations but has slipped only slightly
- performance is significantly below target or expectations

The various key performance indicator categories have been discussed in this Operating Review and the Financial Review on pages 12 and 13.

OPERATING REVIEW continued

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is managed through a corporate risk management process. As part of this framework, risks are recorded on a risk register which details the nature of the risk and an assessment of the probability of the risk materialising and the potential impact using standardised procedures. The executive Directors keep the risk register under continuous review which is also reviewed by the Audit Committee on a bi-annual basis as part of a wider review of the effectiveness of the Group's system of internal control. The Board also monitors key risk and performance indicators at each Board meeting.

Risks are considered across the various areas of the Group's activities and includes areas such as:

- Health and safety;
- Environmental;
- Operational;
- Reputational;
- Business and financial; and
- Regulatory and statutory.

The risk indicators overlap the key performance indicators that Ofwat requires water companies to publish annually, as described in this Operating Review.

Where appropriate, the table below contains a summary of the principal risks and uncertainties of the Group.

Risk	What does it mean?	Mitigation
Failure to meet the wholesomeness of water obligation.	In addition to the breach of statutory standards and consequent regulatory sanction, water quality failures could adversely affect the Group's reputation and have an impact on costs. Recurrent discoloured water incidents is a particular problem at present that the Group is seeking to address.	A Drinking Water Safety Plan addresses the management of risks throughout the supply system from catchment to customer. This ensures there are adequate mitigations in place for all risks in the form of operational procedures, processes, maintenance, monitoring and appropriately trained staff. Risk-based investment planning plays an important part by ensuring equipment performs effectively and emerging risks are addressed. There is a strategy in place to deal with the discoloured water problem in the short-term whilst an asset investment solution is completed to resolve the problem permanently. Contingency plans provide for major failures.
Failure to maintain a constant supply of water.	Failure of certain important assets could cause widespread loss of supply to customers with the risk of regulatory sanction, loss of reputation and higher operating costs. Failure of assets could be through structural or equipment failure or extreme events, particularly flooding. There is not an operational back-up for some assets.	Assets are managed through condition monitoring and maintenance. When appropriate, risk-based asset investment planning identifies assets for replacement, which is a continuing process. Planning is progressing for a flood protection scheme for a vulnerable river intake. Contingency plans provide for major failures.

Risk	What does it mean?	Mitigation
Difficulty financing activities due to an inadequate determination at the next periodic review of price limits.	Regulation of the water sector is in a period of change. In particular, Ofwat is changing its periodic review methodology. The implications and possible effects of the changes are not yet clear as Ofwat's work is continuing. Price limits will be set by Ofwat in December 2014 for the period 2015 – 2020. The Group's business plan will be submitted in December 2013. The risk exists of a sub-optimal outcome from the periodic review process.	A dedicated regulatory function is maintained to ensure the Group keeps abreast of regulatory changes and ensure they are understood. The Group engages in consultation with Ofwat and others on the various regulatory changes and seeks to influence outcomes, when appropriate. The Group will engage fully with Ofwat during the periodic review process to minimise the risk of a sub-optimal outcome.
Difficulty financing functions due to increased operating costs.	Particular financing risks are the volatility of electricity and pension costs.	Electricity cost risk is partly mitigated through adopting a portfolio approach to purchasing. The Group has hedged all its electricity requirements to 2015, except for cost pass-through components. The cost associated with funding the Group's defined benefit pension scheme, which was closed to new members in 2002, is subject to significant volatility. A pensions strategy exists to seek to minimise volatility.

N C Holladay

Norman Holladay
Managing Director

FINANCIAL REVIEW

Financial performance for the year ended 31 March 2013 was consistent with expectations and the results for the previous year.

REVENUE

Revenue for the year of £22.8 million was £0.7 million higher than in 2012 representing an increase of 3.2%. The increase in revenue was due to an average annual increase in prices of 5.8% which took effect from 1 April 2012. However, the increase in average prices was partially offset by a decrease in consumption in the industrial and commercial sector and by the impact of household customers continuing to switch from the unmeasured tariff to measured charging.

OPERATING EXPENDITURE

Operating expenditure increased by £1.1 million during the year representing an increase of 9.6% from 2012 levels. Power-related costs, including Carbon Reduction Commitment, accounted for £0.5 million of the increase. £0.2 million related to an increase in maintenance costs, highlighting the ageing nature of infrastructure assets, and a further £0.2 million related to an increase in employment-related expenses.

PROFIT BEFORE TAX

As a result of the pressure on operating costs, profit before depreciation and finance costs reduced by £0.3 million to £12.0 million. However, profit before tax increased by 22.0% to £4.2 million, up from £3.4 million in 2012. The increase in profit before tax is largely attributable to a reduction in financing costs associated with the indexation of the principal on index-linked debt.

EARNINGS PER SHARE

Despite reporting a 22.0% increase in profit before tax, earnings per share at 86.9 pence was an increase of 2.5% over the previous year's level of 84.8 pence. This is because the tax charge for the year was £0.1 million compared to a tax credit of £0.5 million in 2012. The tax charge in both years is significantly reduced as a result of taking into account the decrease in corporation tax rates and the impact this has on the deferred tax liability. A reconciliation of the tax charge is contained in note 6 to the Financial Statements.

DIVIDENDS

The Board has proposed a final dividend of 42.7 pence per ordinary share in respect of the year ended 31 March 2013. Taken together with the interim dividend of 19.8 pence per ordinary share paid in January 2013, this produces a total dividend of 62.5 pence per ordinary share for the year ended 31 March 2013. This is an increase of 3.3%, compared with the dividend relating to the previous year and is in keeping with the Board's current objective of seeking to increase annual dividends by at least inflation.

The final dividend is expected to be paid on 1 August 2013 to shareholders on the register at close of business on 5 July 2013.

CASH FLOW

Net cash flow showed a decrease of £1.4 million over the course of the year which represents a net movement of £1.6 million when compared to the previous year's net cash flow increase of £0.2 million. The reason for the decrease in net cash flow was the increase in capital expenditure associated with the construction of the new water treatment works at Llwyn Onn.

In summary, net cash flow from operating activities of £10.7 million (2012: £10.0 million) was absorbed by capital expenditure of £15.2 million (2012: £7.1 million) and dividends of £2.8 million (2012: £2.8 million). The balance of the expected increase in capital expenditure during the year was financed through borrowing on the revolving credit facility of £6.0 million.

NET ASSETS

The balance sheet shows net assets of £25.5 million, an increase of £0.8 million over the reporting period. The increase was due to the retained profit for the year of £4.0 million less dividends paid of £2.8 million and less an actuarial loss, net of deferred taxation, on the defined benefit pension scheme of £0.4 million.

Current interest-bearing loans and borrowings at £7.6 million at the year end are £5.9 million higher than in the previous year due to the borrowing on the Group's revolving credit facility.

CAPITAL STRUCTURE

The Group's current capital structure was established in 2002 following a Scheme of Arrangement and return of funds to shareholders. In view of the stable and predictable nature of the Group's cash flows, the Board considers that gearing at the current level is both appropriate and financially efficient.

FINANCING

The financing of capital expenditure is through retained earnings and drawings under a £9.0 million revolving credit facility which is committed until 2016. The interest rate is fixed at the date of each drawdown.

The majority of the Group's borrowings are at a fixed rate although there is exposure to the Retail Price Index as a consequence of the index-linked nature of the long-term borrowing, which is repayable in 2032. The original loan of £35 million was drawn down in 2002 and by 31 March 2013, the total outstanding had increased to £48.9 million.

Bank balances at 31 March 2013 stood at £8.2 million which was down from £9.6 million at the end of the previous year reflecting the higher level of capital investment during the year.

LIQUIDITY

Short-term liquidity requirements are met from the Group's normal operating cash flow and short-term bank borrowings. The objective is to ensure continuity of funding whilst also arranging funding in advance of being required to ensure that sufficient undrawn committed bank facilities are maintained. The Group has in place a revolving credit facility of £9.0 million in addition to an undrawn committed overdraft facility of £3.0 million.

During the year, the Group utilised the revolving credit facility in order to fund capital expenditure and at 31 March 2013 £6.0 million was drawn on this facility.

CHANGE OF ACCOUNTING POLICY

During the year, the Directors reviewed the Group's policy in respect of the treatment of third party contributions received in respect of fixed assets. Previously third party contributions were accounted for and presented as a deduction from the carrying value of property, plant and equipment.

After reviewing this treatment, the Directors have determined that it would be more appropriate in accordance with the provisions of IAS 18 to present third party contributions in respect of property, plant and equipment as deferred income. Accordingly, the contributions which were previously presented separately as a deduction from the carrying value of property, plant and equipment have been reclassified as deferred income within current and non-current liabilities. While the adjustment results in an increase in other income and depreciation there is no net effect on profit recognised. Further information in respect of this change of treatment is contained in note 17 to the Financial Statements.

In respect of the carrying value of long life assets, the Directors continue to believe that asset lives are appropriate and similar to those adopted by comparator companies.

PENSIONS

The assumptions underlying the calculation of liabilities of the defined benefit pension scheme represent the current central estimates as recommended by the Group's actuarial advisers.

Further detail in respect of pensions is provided in note 22 to the Financial Statements.

David Strahan
Finance Director

BOARD OF DIRECTORS

GRAHAM SCOTT (68)
BSc, CEng, MIChemE

Independent
Non-Executive Chairman

Appointed to the Board
on 1 August 2003

Graham brings a wealth of senior management experience to the Board having been appointed Chief Executive of NWF Group plc in 1995. Under his leadership all four operating divisions of NWF Group plc expanded through a combination of acquisition and organic growth. He retired as Chief Executive in 2007. Graham commenced his career with Unilever and in addition he also worked for BP.

External appointments: Non-executive Director of Butcher's Pet Care Ltd

Committee membership: Member of Remuneration Committee

NORMAN HOLLADAY (61)
BSc(Eng), CEng, FCIWEM, MICE

Managing Director

Appointed to the Board
on 1 December 2009

Norman has spent his entire career in the water industry and brings significant and varied water sector expertise to the Board. He started his career with Binnie & Partners gaining 19 years experience delivering major engineering projects in the water sector both in the UK and abroad. He joined the company in 1992 as Planning and Regulation Manager and has played a key role in the delivery of four Ofwat Price Reviews. He was appointed Regulation Director in 2008 before his appointment to the Group Board as Managing Director.

External appointments: None

Committee membership: None

DAVID STRAHAN (35)
ACA

Finance Director
and Company Secretary

Appointed to the Board
on 1 January 2013

David has senior management experience and understanding of the development of competition from the energy sector. He was formerly Managing Director of Phoenix Supply Ltd, the largest natural gas supplier in Northern Ireland. Under his leadership he was responsible for the strategic expansion of the Phoenix Group into the Republic of Ireland and Phoenix rapidly grew to become the second largest natural gas supplier on the island of Ireland.

External appointments: None

Committee membership: None

JON SCHOFIELD (52)
FCA

Independent
Non-Executive Director

Appointed to the Board
on 19 November 2010

Jon is a founding partner of Dow Schofield Watts, a leading corporate finance advisory firm which he established in 2002. He qualified as a Chartered Accountant with KPMG, working there for 12 years before joining a 3i backed management buyout in 1994. After exiting from the buyout, Jon became a Partner in Grant Thornton advising corporate clients and financial institutions. In 1999 he joined Cammell Laird Holdings plc as Finance Director and subsequently was appointed Acting Chief Executive.

External appointments: Non-executive Director of Atlantic & Peninsula Marine Services Ltd and The Liverpool School of Tropical Medicine, Director of Dow Schofield Watts

Committee membership: Chairman of Audit Committee, Member of Remuneration Committee

DAVID WEIR (66)
FCA

Senior Independent
Non-Executive Director

Appointed to the Board
on 17 June 2002

David has over 30 years experience involving both financial and energy and natural resource companies. Most latterly he served as Chief Executive Officer of Caird Group plc, a leading waste management company, between 1993 and 1999. Previously, he was Managing Director of Waste Services at Cleanaway's UK waste services subsidiary. In addition, David has held a number of non-executive directorships of UK public and private companies.

External appointments: Non-executive Director of Renewable Energy Holdings plc and Webb Capital plc

Committee membership: Chairman of Remuneration Committee, Member of Audit Committee

DAVID GUEST (60)
FCA

Former Finance Director
and Company Secretary

Appointed to the Board
on 17 June 2002

Prior to joining the company in 1991, David worked for Cheshire Wholefoods Ltd, latterly as Financial Director. He also held various finance roles at JCB and played a key role in establishing the JCB Transmissions operation in Wrexham. During his time as Finance Director of Dee Valley Group he oversaw the listing of the company on the London Stock Exchange. David retired from the Board on 1 January 2013.

External appointments: Trustee of Water Companies Pension Scheme

Committee membership: None

CORPORATE GOVERNANCE REPORT

The Board is committed to the highest standards of corporate governance and ensuring effective, transparent reporting.

The Group has, throughout the period under review, been fully compliant with the UK Corporate Governance Code (Code) save as where explained below.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for ensuring that appropriate governance processes are in place and complied with. The Board is also responsible for:

- setting the long-term strategy and objectives of the Group;
- approving the annual operating and capital expenditure budgets;
- reviewing and approving changes to the Group's capital structure;
- approving the periodic review business plan in advance of submission to Ofwat;
- the Group's corporate responsibility arrangements including health, safety and environmental matters;
- determining dividend policy; and
- ensuring sufficient resources are available to meet Board objectives.

The roles of Chairman and Managing Director are not exercised by the same individual and there is a clear division of responsibilities between the Managing Director and Chairman, which is set out in writing.

During the year the Chairman and the senior independent non-executive Director attended meetings with Ofwat, reflecting the regulator's expectations of increased engagement by the boards of water companies.

BOARD MEMBERSHIP

The Board comprises the Chairman, Managing Director, Finance Director and two non-executive Directors considered by the Board to be independent. Photographs of the members of the Board together with a brief description of their experience is contained on pages 14 and 15. David Weir was the senior independent non-executive Director throughout the period under review.

All Directors are subject to re-election by shareholders at intervals of no more than three years and new Directors appointed to the Board are subject to election by shareholders at the first Annual General Meeting after their appointment. Non-executive Directors who have served longer than nine years are subject to annual re-election.

Directors, including non-executive Directors, have access to independent professional advice at the Group's expense when they judge it necessary to discharge their responsibilities as directors. The committees of the Board are also provided with sufficient resources to effectively undertake their duties and the Group has in place appropriate insurance cover in respect of legal action against its directors.

INDUCTION

Upon joining the Board, the new director is provided with a full, formal and tailored induction programme which includes information on the Group structure, the regulatory framework in which the Group operates, financial and other key performance indicators. This also includes meetings with members of the Group's wider management team and site visits.

During the year, the Board regularly meets senior managers who are responsible for managing and implementing all the day to day activities of the Group. This ensures that Directors continue to refresh their skills and knowledge of the Group's activities.

On an annual basis, the Chairman reviews with each Director and the Board any training and development needs of Directors.

COMPANY SECRETARY

The role of the Company Secretary is to provide the Board and committees with guidance on all governance matters and ensure compliance with Board procedures. The Company Secretary's responsibilities also include ensuring good information flows within the Board and its committees and between senior management and non-executive Directors.

The appointment and resignation of the Company Secretary is a matter for consideration by the Board as a whole. At the year end the Company Secretary was David Strahan.

BOARD MEETINGS

The Board meets sufficiently regularly to ensure that it discharges its duties in a responsible and effective manner and it considers those matters that are exclusively reserved for the Board's decision. All Directors are expected to attend all Board and relevant Committee meetings.

The Board scheduled and held 9 meetings during the year with a number of other meetings being held as business circumstances dictated. The table below shows the attendance of each Director at the scheduled meetings of the Board. The figures in brackets show the maximum number of meetings which the Director could have attended.

David Guest[1]	7 (7)
Norman Holladay	9 (9)
Jon Schofield	9 (9)
Graham Scott	8 (9)
David Strahan[2]	2 (2)
David Weir	9 (9)

[1] David Guest retired as a Director on 1 January 2013

[2] David Strahan was appointed a Director on 1 January 2013

BOARD COMMITTEES

The Board has established committees in order to deal with specific issues.

There are two permanent committees of the Board – the Audit and Remuneration committees. Reports from the Chairmen of these committees are set out on pages 20 to 25 of this report.

The Company is not in compliance with Code Provision B.6.1 in that the performance of the Audit and Remuneration committees was not formally evaluated during the year.

During the year, the Board appointed a Nomination Committee comprising Jon Schofield who acted as Chairman and David Weir, both independent non-executive Directors. They led the process for the appointment of a replacement for the Group's Finance Director which resulted in the appointment of David Strahan to the Board on 1 January 2013.

To the extent that there is not a continuing Nomination Committee, the Company is not in compliance with Code Provision B.2.1. When there are no vacancies under consideration, the responsibilities of a Nomination committee are carried out by the Board which includes consideration of the composition of the Board and succession planning.

PERFORMANCE EVALUATION

During the year a formal internal review of the performance of the Board and of each individual Director was completed. The review considered the balance of skills, experience, independence and knowledge of the Group on the Board along with a review of the detail and structure of Board papers. As part of this effectiveness review process, objectives have been set for the Board for the forthcoming year.

Non-executive Directors, led by the senior independent Director, reviewed the performance of the Chairman, taking into account the views of executive Directors.

The Board continues to consider that the skills and experience of the Board as a whole ensure effective leadership of the organisation and good corporate governance.

RELATIONS WITH SHAREHOLDERS

The Board values and attaches great importance to communicating with shareholders, and as such, its policy is to be available for meetings with institutional shareholders in order to explain the Group's strategy, results, policies and other areas of interest to shareholders. These meetings are normally attended by the Managing Director and Finance Director who, in turn, report the views expressed by shareholders to the Board. To the extent that none of the Company's non-executive Directors usually have direct face to face contact with major shareholders, the Company is not in full compliance with Code Provision E.1.1.

The Board welcomes and encourages shareholder participation at the Annual General Meeting. At such meetings, Directors make themselves available to answer questions, both formally and informally, in respect of their responsibilities as a member of the Board or a member of one of the committees of the Board. All shareholders receive a copy of the Annual and Interim Reports.

The Group's website contains up-to-date information for shareholders and other interested parties including Annual and Interim Reports, strategic direction statement, investors presentation and news releases.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. The risk management system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and provides reasonable, not absolute, assurance against the realisation of material adverse circumstances, misstatement or loss.

The Board confirms that there is a continuing process for identifying, assessing and managing the significant risks faced by the Group. The executive team is responsible for the identification and evaluation of significant risks together with implementing mitigating actions to reduce either the impact or probability of risk materialising. Further information in respect of material risks is included in the Operating Review on pages 6 to 11.

GOING CONCERN

The Group's business activities together with the factors that are likely to affect its future development, performance and position are set out in the Operating Review on pages 6 to 11 and the Financial Review on pages 12 and 13. The financial position of the Group including cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 13. In addition, notes 23 and 25 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, financial risk and management objectives, details of financial instruments and also exposure to credit and liquidity risk.

The Financial Statements have been prepared on the going concern basis. The Group has considerable financial resources together with a customer monopoly in its area of supply. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully.

REPORT OF THE AUDIT COMMITTEE

This report summarises the activities of the Audit Committee during the year and has been approved by the Committee and the Board.

SUMMARY TERMS OF REFERENCE

The Audit Committee's (Committee) terms of reference were reviewed and updated during the year to reflect best practice. The main responsibilities include:

- considering the appointment of the external auditors, their reports to the Committee and their independence, including an assessment of their appropriateness to carry out any non-audit work;
- reviewing and monitoring the integrity of the Financial Statements and announcements relating to the financial performance of the Group;
- reviewing the effectiveness of the Group's internal controls and risk management systems;
- considering management's response to any external audit recommendations; and
- reporting to the Board and shareholders on the Committee's activities during the year.

The Committee's full terms of reference are available on the Group's website at www.deevalleygroup.com

MEMBERSHIP

The Committee's membership is comprised of two independent non-executive Directors, Jon Schofield, who acts as Chairman of the Committee, and David Weir.

The Board is satisfied that the membership of the Committee includes recent and relevant financial experience. Further information in relation to the experience of Committee members is contained in the biographies on pages 14 and 15.

MEETINGS

The Committee met three times during the year with full attendance at each meeting.

Only Committee members are entitled to attend a meeting. However, the Chairman, executive Directors, External Audit Engagement Partner and others are invited to attend meetings as considered appropriate and at the invitation of the Chairman.

The Company Secretary acts as Secretary to the Committee.

During the year, the Committee reviewed the Financial Statements and accounting policies upon which they were based and considered the independence, objectivity and fees of the external auditors and scope of audit and non-audit services.

INTERNAL AUDIT

During the year, the Committee reviewed the need for an internal audit function. The review concluded that due to the size of the organisation, the internal controls in place and the level of external independent review of financial and business processes, including by the external auditors, an internal audit function was not necessary at this time.

The need for an internal audit function is kept under annual review.

EXTERNAL AUDITORS

The Committee is responsible for the appointment of the external auditor together with approving the level of their remuneration. It also reviews the auditor's effectiveness on an annual basis.

Note 4 to the Financial Statements discloses the fees paid to the external auditor in respect of the statutory audit and also the fees paid in respect of non-audit work. KPMG Audit plc have been the Group's auditors since the audit for the year ended 31 March 2007 which was when the last tender in respect of the provision of audit services was conducted.

In order to preserve auditor independence and objectivity, non-audit work may only be awarded to the external auditor when the work is of such a nature that a detailed understanding of the Group is considered necessary, or when significant benefit can be gained from work previously completed. The independence and objectivity of the external auditor is considered on an annual basis, particularly in the context of the provision of non-audit services.

During the year, the Committee adopted a policy in respect of the appointment of former employees of the external auditor. This was designed to further enhance the Group's corporate governance framework and strengthen transparency and independence.

The Committee has approved a formal whistle-blowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoing by any of the Group's employees or the Group in general without fear of reprisal.

The Report of the Audit Committee was approved by the Audit Committee and Board of Directors and signed on its behalf by:

J H Schofield

Jon Schofield
Chair of the Audit Committee
11 June 2013

REPORT OF THE REMUNERATION COMMITTEE

This report, prepared by the Remuneration Committee on behalf of the Board, sets out the remuneration of executive and non-executive Directors.

The report has been approved by both the Remuneration Committee (Commitee) and the Board, and a resolution to approve the report will be proposed at the Annual General Meeting of the Company on 25 July 2013.

PART A – UNAUDITED INFORMATION

SUMMARY TERMS OF REFERENCE

The Committee's main responsibilities include:

- reviewing and recommending the framework and policy for remuneration of the executive Directors and other senior executives;
- approving the individual employment and remuneration packages for executive Directors and other senior executives;
- monitoring trends in remuneration and ensuring the remuneration policy is such that the Group can attract, retain and motivate executives of the quality required to run the Group successfully; and
- reporting to the Board and shareholders on the Committee's activities during the year.

The Committee's full terms of reference are available on the Group's website at www.deevalleygroup.com

MEMBERSHIP

The Committee's membership comprises solely independent non-executive Directors. The members of the Committee are David Weir, Chairman of the Committee, and Jon Schofield. Graham Scott, the Company Chairman, who was independent on his appointment to the Board, is also a member.

Details of non-executive Directors' experience and short biographies are set out on pages 14 and 15. The Board considers that these Directors have suitable experience to serve on the Committee.

MEETINGS

During the year, the Committee met on two occasions with full attendance at each meeting. Executive Directors may attend Committee meetings as required and at the invitation of the Chairman. However, no executive Director is involved in determining his own remuneration nor is present when their own remuneration is discussed.

The Company Secretary acts as Secretary to the Committee.

REMUNERATION POLICY

The Committee aims to ensure that remuneration packages are competitive and sufficient to attract, retain and motivate Directors of a suitable calibre. In seeking to achieve this aim, the Committee has due regard to the remuneration packages offered by similar organisations. Similar organisations are selected taking into account the industry sector, size and turnover, the diversity and complexity of operation and responsibilities in respect of public health and regulatory requirements.

The Committee reviews this policy and whether remuneration arrangements appropriately reflect the policy annually.

The remuneration package for each executive Director is determined by the Committee, with the Chairman and executive Directors being responsible for the agreement of non-executive Directors' remuneration.

BASE SALARY AND BENEFITS

Basic salary and benefits for executive Directors take into account the individual's experience, roles, responsibilities and performance. This is reviewed, in accordance with the policy set out above, on an annual basis with any change being effective from 1 April.

The non-salary benefits for executive Directors comprise:

- a company car or cash alternative;
- private medical insurance; and
- life assurance.

In addition, Norman Holladay receives a fuel benefit.

Given the nature of the Group's activities, the Committee does not consider it appropriate for performance-related elements of remuneration to form a proportion of the total remuneration package of executive Directors, a non-compliance with Code Provision D.1.1.

PENSIONS

Norman Holladay is a member of the Dee Valley Water section of the Water Companies Pension Scheme, the main provisions of which are:

- a maximum pension on retirement of 50% of final pensionable remuneration plus a lump sum of three times that amount;
- a normal retirement age of 60; and
- spouses pension and pension payable in the event of ill health.

Pensionable remuneration includes those taxable benefits which comprise the overall remuneration package.

The Group makes contributions to a defined contribution pension scheme in respect of David Strahan. Details in respect of the level of contributions are included in Part B of the Report of the Remuneration Committee.

Non-executive Directors are not entitled to participate in any Group pension scheme.

DIRECTOR SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The Group's policy is that executive Directors normally have service contracts terminable by the giving of not less than 12 months notice, by either party.

The Group retains the right to terminate any executive Director's service contract by paying the executive's basic salary (as at the date of termination) for the unexpired portion of the notice period. Any such 'payment in lieu' may be paid by equal monthly instalments until the notice period would have expired if given. The payment would also be reduced by the value of any basic salary earned in new paid employment during the notice period.

During the year, David Guest retired from the Board on 1 January 2013 and was replaced on the same date by David Strahan. The service contracts in respect of Norman Holladay and David Strahan are dated 1 December 2009 and 26 October 2012, respectively.

For the period under review, no executive Director held any non-executive directorships.

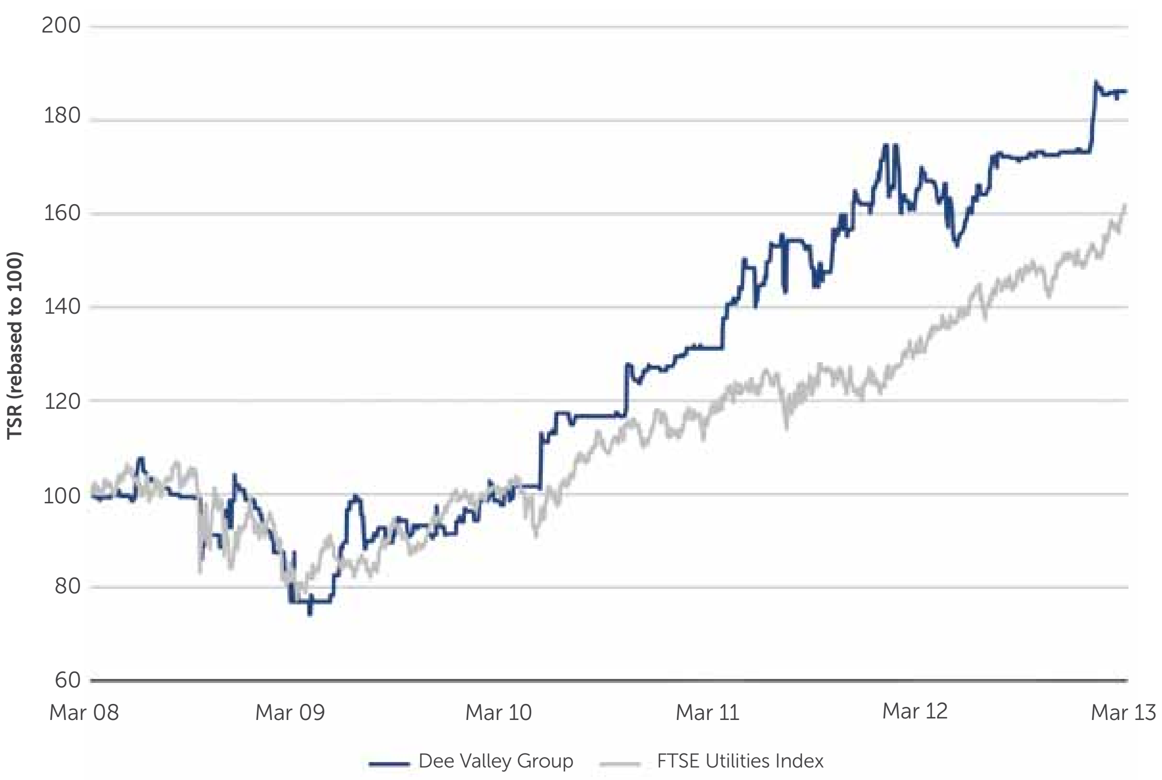
Non-executive Directors have letters of appointment, rather than service contracts, which provide for six months termination notice by either party. In the event of early termination, non-executive Directors are not entitled to receive compensation for loss of office. The letter of appointment of each non-executive Director sets out the expected time commitment and is available for inspection at the Company's registered office address and also at the Annual General Meeting.

Non-executive Directors under the age of 70 normally have a letter of appointment for three years, however, non-executive Directors who have served for nine years or more have a letter of appointment for one year.

TOTAL SHAREHOLDER RETURN (TSR) PERFORMANCE

TSR is the notional return from a stock or index based on movements in share prices and reinvestment of dividend income.

The following graph shows the TSR performance of the Company since March 2008 compared to the FTSE Utilities Index. The FTSE Utilities Index has been selected as the most relevant benchmark for comparison purposes as it is an established comparator group of companies trading in the same sector.



PART B – AUDITED INFORMATION

This section of the Report of the Remuneration Committee provides details of the remuneration, pension and share interests of the Directors for the year ended 31 March 2013.

DIRECTORS' REMUNERATION

	Base salary and fees £000	Benefits in kind £000	Total 2013 £000	Total 2012 £000
David Guest[1]	78	7	85	111
Norman Holladay	105	19	124	119
Jon Schofield	21	-	21	21
Graham Scott	35	-	35	34
David Strahan[2]	32	-	32	-
David Weir	22	-	22	21
	293	**26**	**319**	**306**

[1] David Guest retired as a Director on 1 January 2013.
[2] David Strahan was appointed a Director on 1 January 2013.

In addition to the above benefits executive Directors also receive pension entitlements in respect of which further details are provided below.

DIRECTORS' PENSION ENTITLEMENTS

	Norman Holladay	David Guest[1]
Current age	61	60
Normal retirement age	60	60
Employee contributions paid during the year	£4,000	-
Spouse's pension as a % of member's pension	50	50
Accrued pension per annum at 31 March 2013	£41,300	£45,000
Increase in accrued pension during the year		
• Including inflation	£2,800	£4,700
• Excluding inflation	£2,000	£3,800
Accrued lump sum at 31 March 2013	£124,000	£167,400
Increase in lump sum during the year		
• Including inflation	£8,600	£13,300
• Excluding inflation	£6,100	£9,800
Transfer value of accrued benefits		
• At 31 March 2013[2]	£1,236,500	£1,352,000
• At 31 March 2012	£1,002,900	£1,063,400
Increase in transfer value less Director's contribution	£229,600[3]	£288,600

[1] David Guest retired as a Director with effect from 1 January 2013 and left the Group on 31 March 2013.
[2] The Scheme's Cash Equivalent Transfer Value basis has been updated over the period. This has been allowed for in the transfer values as at 31 March 2013.
[3] Norman Holladay's benefits include AVC added years up to the date of the calculations.

The Group made contributions of £5,000 into a defined contribution pension scheme in respect of David Strahan. Jon Schofield, Graham Scott and David Weir are not members of any Group pension scheme.

DIRECTORS' SHARE INTERESTS

The Directors of the Company at 31 March 2013 and their beneficial interests in the shares of the Company were as follows:

	Ordinary Shares	
	2013 No.	2012 No.
Norman Holladay	100	100
Jon Schofield	-	-
Graham Scott	666	666
David Strahan	-	-
David Weir	1,666	1,666

Directors' share interests include interests of their spouses, civil partners and infant children, or stepchildren as required by Section 822 of the Companies Act 2006.

There were no changes in the beneficial interests of the Directors in the Company's shares between 1 April 2013 and 11 June 2013.

The Report of the Remuneration Committee was approved by the Remuneration Committee and Board of Directors and signed on its behalf by:

David Weir
Chair of the Remuneration Committee
11 June 2013

DIRECTORS' REPORT

This Director's Report should be read in conjunction with the Corporate Governance Report and the Reports of the Audit and Remuneration Committees contained on pages 16 to 25.

PRINCIPAL ACTIVITIES

The principal business of the Group is the provision of water services to customers in an area of 835 square kilometres, in north east Wales and north west England, for which Dee Valley Water plc is the licensed water supply undertaker.

BUSINESS REVIEW

The results for the year, set out in the Group Income Statement on page 32, show a profit from continuing operations of £4.2 million before taxation. After the tax charge for the year of £0.1 million, profit for the period on continuing operations amounted to £4.0 million.

A review of the business of the Group, including the principal risks and uncertainties facing the Group, as well as Key Performance Indicators are set out in the Operating Review on pages 6 to 11.

FUTURE DEVELOPMENT

The Directors' Report should be read in conjunction with the Chairman's Statement on pages 4 and 5, the Operating Review on pages 6 to 11 and Financial Review on pages 12 and 13, which include information about the likely developments in the Group's business.

DIVIDENDS PER SHARE

	Interim Paid pence per share	Final Proposed pence per share	Total pence per share
Ordinary shares and non-voting ordinary shares	19.8	42.7	62.5

The final dividend is payable on 1 August 2013.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment, including infrastructure renewals, amounted to £14.0 million (2012: £9.0 million).

Changes in property, plant and equipment during the year are summarised in note 10 to the Financial Statements.

Land and buildings included within property, plant and equipment are used for the purpose of the Group's water business. Significant portions of the Group's buildings and installations are specialised and have a market value only in the context of the provision of a potable water supply.

DIRECTORS

The current members of the Board of Directors are listed below and their details are set out on pages 14 and 15.

Norman Holladay
Jon Schofield
Graham Scott
David Strahan
David Weir

David Guest retired as a Director on 1 January 2013.

Norman Holladay is to retire at the Annual General Meeting and offers himself for re-election. As provided by the UK Corporate Governance Code, David Weir and Graham Scott who have each served for more than nine years, are subject to annual re-election. The letters of appointment in respect of David Weir and Graham Scott expire on 23 March 2014 and 22 July 2013, respectively. Although their length of service exceeds nine years, the Board regards David Weir and Graham Scott as independent and considers their broad-based commercial experience and extensive business-specific knowledge to be extremely beneficial. However, the Board will continue to monitor the situation. There is an agreed succession plan for the orderly retirement of both executive and non-executive Directors.

Following performance evaluation, the Board considers that Norman Holladay, David Weir and Graham Scott continue to perform effectively and to demonstrate commitment to their roles.

David Strahan was appointed Finance Director and Company Secretary on 1 January 2013 following the retirement of David Guest. Having been appointed since the date of the last Annual General Meeting he therefore offers himself for re-election.

The Articles of Association of the Company are in compliance with the UK Corporate Governance Code, which provides that all Directors submit themselves for re-election at regular intervals and at least every three years. In line with the Code, all non-executive Directors who have served for nine years or more will be subject to annual re-election.

Further details of Directors' service contracts and Directors' interests are given in the Report of the Remuneration Committee on pages 22 to 25.

During the year, none of the Directors had an interest in any material Group transactions.

SUBSTANTIAL INTERESTS

At 1 June 2013, the Company was aware of the following interests of 3% or more in its issued Ordinary Shares:

	Number of shares	%
Axa S.A.	1,454,407	35.1

CHARITABLE DONATIONS

During the year, the Group contributed £1,369 (2012: £2,279) to WaterAid.

CREDITOR PAYMENT POLICY

Payment terms form one element of contracts negotiated with major suppliers. Once contracts have been concluded, the Group will pay its suppliers within the agreed credit period in respect of goods and services supplied in accordance with contractual terms. When goods and services supplied are not in compliance with the contract, payment is made at the later of the due date and the date that the non-compliance is resolved.

Other suppliers will be paid in accordance with their normal credit terms.

Group trade creditors at 31 March 2013 represented 10 days' purchases (2012: 22 days).

REDEMPTION OF B SHARES

During the financial year, the Company redeemed 36,778 B shares, representing 0.26% of the original issued capital. The nominal value and consideration amounted to £84,589. The B shares were issued in connection with a return of capital to shareholders in 2002. The rights attaching to the B shares are shown in note 15 to the Financial Statements.

ANNUAL GENERAL MEETING

An explanatory note concerning the resolutions to be proposed at the Company's Annual General Meeting is set out after the Notice of Annual General Meeting on pages 69 and 70 of this Annual Report.

DISCLOSURE OF INFORMATION TO AUDITOR

In accordance with section 418 of the Companies Act 2006, each person who is a Director at the time this report is approved confirms that, so far as he is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

A resolution proposing the reappointment of KPMG Audit Plc as auditor to the Company and authorising the Directors to determine its remuneration will be submitted at the forthcoming Annual General Meeting.

By order of the Board

David Strahan
Secretary
11 June 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements on the same basis.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Report of the Remuneration Committee and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's web site. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:

Graham Scott
Chairman

David Strahan
Finance Director

FINANCIAL STATEMENTS 29 – 62

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEE VALLEY GROUP PLC

We have audited the Financial Statements of Dee Valley Group plc for the year ended 31 March 2013 set out on pages 32 to 61. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2013 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- information given in the Corporate Governance Report set out on pages 16 to 19 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern; and
- the part of the Corporate Governance Report on pages 16 to 19 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Evans (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Princes Parade, Liverpool, L3 1QH
11 June 2013

GROUP INCOME STATEMENT

for the year ended 31 March 2013

	Notes	2013 £000	Restated[1] 2012 £000
Revenue		**22,807**	22,100
Other operating income	2	**2,079**	1,991
Raw materials and consumables used		**(712)**	(656)
Employee benefits expense	3	**(4,620)**	(4,405)
Other operating expenses	4	**(7,573)**	(6,715)
Profit before depreciation and finance costs		**11,981**	12,315
Depreciation	10	**(4,722)**	(5,089)
Finance income	5	**2,285**	2,519
Finance expenses	5	**(5,370)**	(6,324)
Profit before tax		**4,174**	3,421
Taxation	6	**(146)**	505
Profit for the year		**4,028**	3,926
Basic and diluted earnings per ordinary share	8	**86.9p**	84.8p

All result arise from continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Profit for the year		**4,028**	3,926
Actuarial (loss)/gain on defined benefit pension scheme	22	**(673)**	483
Deferred tax credit/(charge) on actuarial (loss)/gain		**155**	(116)
Effect of change in corporation tax rate on accumulated actuarial gains		**76**	142
Other comprehensive (expense)/income for the year		**(442)**	509
Total comprehensive income for the year net of tax		**3,586**	4,435

[1]See note 17 to the Financial Statements for further details in respect of the restatement.

GROUP AND PARENT COMPANY BALANCE SHEET

as at 31 March 2013

	Notes	Group 2013 £000	Restated[1] Group 2012 £000	Company 2013 £000	Company 2012 £000
Assets					
Non-current assets					
Goodwill	9	**5,381**	5,381	**-**	-
Property, plant and equipment	10	**92,757**	83,698	**-**	-
Retirement benefit surplus	22	**5,109**	4,965	**-**	-
Investments	11	**2**	2	**32,365**	32,365
		103,249	**94,046**	**32,365**	**32,365**
Current assets					
Inventories – raw materials and consumables		**208**	192	**-**	-
Trade receivables	12	**2,880**	2,694	**-**	-
Other receivables	13	**1,559**	2,412	**3,725**	3,725
Cash and cash equivalents	14	**8,153**	9,563	**-**	-
		12,800	**14,861**	**3,725**	**3,725**
Total assets		**116,049**	**108,907**	**36,090**	**36,090**
Liabilities					
Current liabilities					
Interest-bearing loans and borrowings	15	**7,585**	1,689	**1,543**	1,628
Trade and other payables	16	**11,000**	12,162	**2,292**	2,145
Current income tax liabilities		**389**	397	**-**	-
		18,974	**14,248**	**3,835**	**3,773**
Non-current liabilities					
Interest-bearing loans and borrowings	15	**48,966**	47,473	**-**	-
Deferred income	17	**7,427**	6,512	**-**	-
Deferred tax	18	**15,165**	15,907	**-**	-
		71,558	**69,892**	**-**	**-**
Total liabilities		**90,532**	**84,140**	**3,835**	**3,773**
Net assets		**25,517**	**24,767**	**32,255**	**32,317**
Issued share capital	19	**232**	232	**232**	232
Other reserves		**6,049**	5,964	**30,422**	30,337
Retained earnings		**19,236**	18,571	**1,601**	1,748
Total equity		**25,517**	**24,767**	**32,255**	**32,317**

Approved by the Board of Directors on 11 June 2013 and signed on its behalf by:

Graham Scott
Chairman

David Strahan
Finance Director

Company registered in England and Wales with Company Number 4316684.

OVERVIEW
BUSINESS REVIEW
GOVERNANCE
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

GROUP STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Capital redemption reserve £000	Other reserves £000	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2011		232	30,297	(32,316)	7,943	16,928	23,084
Total comprehensive income for the year:							
Profit		-	-	-	-	3,926	3,926
Actuarial gain (net of deferred tax) on defined benefit pension scheme		-	-	-	-	509	509
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**4,435**	**4,435**
Transactions with owners of the Company, recognised directly in equity:							
Contributions by, and distributions to, owners of the Company:							
Repayment of B shares		-	40	-	-	(40)	-
Dividends	20	-	-	-	-	(2,752)	(2,752)
Total contributions by, and distributions to, owners of the Company		**-**	**40**	**-**	**-**	**(2,792)**	**(2,752)**
Balance at 1 April 2012		232	30,337	(32,316)	7,943	18,571	24,767
Total comprehensive income for the year:							
Profit		-	-	-	-	4,028	4,028
Actuarial loss (net of deferred tax) on defined benefit pension scheme		-	-	-	-	(442)	(442)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**3,586**	**3,586**
Transactions with owners of the Company, recognised directly in equity:							
Contributions by, and distributions to, owners of the Company							
Repayment of B shares	19	-	85	-	-	(85)	-
Dividends	20	-	-	-	-	(2,836)	(2,836)
Total contributions by, and distributions to, owners of the Company		**-**	**85**	**-**	**-**	**(2,921)**	**(2,836)**
Balance at 31 March 2013		**232**	**30,422**	**(32,316)**	**7,943**	**19,236**	**25,517**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Capital redemption reserve £000	Other reserves £000	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2011		232	30,297	-	-	1,851	32,380
Total comprehensive income for the year:							
Profit		-	-	-	-	2,689	2,689
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**2,689**	**2,689**
Transactions with owners of the Company, recognised directly in equity:							
Contributions by, and distributions to, owners of the Company:							
Repayment of B shares		-	40	-	-	(40)	-
Dividends	20	-	-	-	-	(2,752)	(2,752)
Total contributions by, and distributions to, owners of the Company		**-**	**40**	**-**	**-**	**(2,792)**	**(2,752)**
Balance at 1 April 2012		232	30,337	-	-	1,748	32,317
Total comprehensive income for the year:							
Profit		-	-	-	-	2,774	2,774
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**2,774**	**2,774**
Transactions with owners of the Company, recognised directly in equity:							
Contributions by, and distributions to, owners of the Company:							
Repayment of B shares	19	-	85	-	-	(85)	-
Dividends	20	-	-	-	-	(2,836)	(2,836)
Total contributions by, and distributions to, owners of the Company		**-**	**85**	**-**	**-**	**(2,921)**	**(2,836)**
Balance at 31 March 2013		**232**	**30,422**	**-**	**-**	**1,601**	**32,255**

GROUP AND PARENT COMPANY CASH FLOW STATEMENT

for the year ended 31 March 2013

	Notes	Group 2013 £000	Restated Group 2012 £000	Company 2013 £000	Company 2012 £000
Cash flows from operating activities					
Profit before tax		**4,174**	3,421	**-**	-
Adjustments for:					
Depreciation	10	**4,722**	5,089	**-**	-
Loss on disposal of assets	4	**222**	151	**-**	-
Net finance costs	5	**3,085**	3,805	**-**	-
		12,203	**12,466**	**-**	**-**
Increase in inventories		**(16)**	(38)	**-**	-
Increase in trade and other receivables		**(28)**	(355)	**-**	-
Increase in trade and other payables		**1,014**	1,068	**147**	103
Increase in retirement benefit surplus		**(556)**	(246)	**-**	-
Cash generated from operating activities		**12,617**	**12,895**	**147**	**103**
Interest paid	5	**(1,894)**	(1,891)	**(62)**	(63)
Tax paid		**(27)**	(1,021)	**-**	-
Net cash from operating activities		**10,696**	**9,983**	**85**	**40**
Cash flows from investing activities					
Purchase of property, plant and equipment		**(15,249)**	(7,069)	**-**	-
Proceeds from sale of plant and equipment		**41**	8	**-**	-
Equity dividends received		**-**	-	**2,836**	2,752
Interest received	5	**42**	82	**-**	-
Net cash (used in) / generated from investing activities		**(15,166)**	**(6,979)**	**2,836**	**2,752**
Cash flows from financing activities					
Drawing on revolving credit facility		**6,000**	-	**-**	-
Repayment of B shares	19	**(85)**	(40)	**(85)**	(40)
Equity dividends paid	20	**(2,836)**	(2,752)	**(2,836)**	(2,752)
Net cash generated from / (used in) financing activities		**3,079**	**(2,792)**	**(2,921)**	**(2,792)**
Net (decrease)/increase in cash and cash equivalents		**(1,391)**	212	-	-
Cash and cash equivalents at beginning of period	14	**9,502**	9,290	-	-
Cash and cash equivalents at end of period	**14**	**8,111**	**9,502**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

Dee Valley Group plc (Company) is incorporated and domiciled in the United Kingdom and is listed on the London Stock Exchange. Both the Parent Company Financial Statements and the Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). On publishing the Parent Company Financial Statements here together with the Group Financial Statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes as a part of these approved Financial Statements.

The Financial Statements are prepared on the historical cost basis except for certain items of property, plant and equipment that had been revalued to fair value at the date of transition to Adopted IFRSs and which are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

The Financial Statements have been presented in pounds sterling, rounded to the nearest thousand.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these Financial Statements.

GOING CONCERN

The Financial Statements have been prepared on the going concern basis. The Group has considerable financial resources together with a customer monopoly in its area of supply. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and consider that the going concern basis continues to be appropriate in preparing the Financial Statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Financial Statements requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of estimates. These estimates and assumptions affect the reported amount of assets and liabilities at the date of the Financial Statements and the reported amount of revenue and expenses during the periods presented.

These estimates and judgements are reviewed on an ongoing basis using historic experience, consultation with experts and other methods considered reasonable in the particular circumstances. However, actual results may differ positively or negatively from these estimates.

CARRYING VALUE OF LONG-LIFE ASSETS

The carrying value of property, plant and equipment (PPE) at 31 March 2013 was £92.8 million. Additions to PPE during the year totalled £14.0 million and the depreciation charge for the year was £4.7 million. The estimated useful lives of PPE are based on management's judgement and experience and those lives used generally in the water industry. When management identifies that actual useful lives differ materially from estimated useful lives used to calculate depreciation, the charge is adjusted prospectively.

The Group is required to evaluate whether the carrying value of PPE may be impaired and not recoverable. An impairment review requires subjective judgements concerning cash flows and discount rates for the cash generating unit under review. The Directors do not consider there to be a significant risk of material adjustment within the next twelve months.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

PROVISION FOR DOUBTFUL RECEIVABLES

The Group estimates the recoverability of trade receivables on a regular basis during the year and at the balance sheet date. The provision for impairment is based on the relative age of receivables and customer segmentation. The actual level of receivables recovered may differ from the estimated net recoverable value of receivables at the balance sheet date. At 31 March 2013, the Group's gross trade receivables were £4.4 million and the provision for impairment amounted to £1.5 million.

GOODWILL

Goodwill is based on the difference between the fair value of consideration and the net assets acquired and is subject to an annual impairment review. The impairment analysis requires management to make subjective judgements concerning the fair value of cash-generating units.

Estimates of fair value are based on Dee Valley Water's approved five-year plan updated for the latest available information.

DEFINED BENEFIT PENSION SCHEME

The estimation of the cash flows used in the calculation of the pension scheme's liabilities includes a number of assumptions on mortality, inflation rates and the average expected service lives of employees. It also includes an assumption on the discount rate used to calculate the defined benefit scheme liabilities. The selection of these assumptions requires the application of significant judgement by management, guided by independent actuarial advice. The assumptions are disclosed in note 22. Operating results may differ from actual results owing to changing market and economic conditions and longer or shorter lives of scheme members. Sensitivities to changes in the discount rate and mortality assumptions are shown in note 22.

DEFINED CONTRIBUTION PENSION SCHEME

The Group operates two defined contribution pension schemes. Contributions to these schemes are charged to the Group Income Statement as they are incurred.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

There are a number of standards that are not yet effective but are not expected to have a significant impact on the results or net assets of the Group or Parent Company. The impact of the revisions to IAS19 "Employee Benefits" has been disclosed in note 22 to the Financial Statements.

BASIS OF CONSOLIDATION

The Group Financial Statements consolidate the financial results of Dee Valley Group plc and all its subsidiary undertakings made up to 31 March 2013.

Goodwill arising from business combinations is treated as a non-current asset and is reviewed annually for impairment.

In the Company's accounts, investments in subsidiary undertakings are stated at cost less any provision for impairment.

REVENUE RECOGNITION

Revenue comprises amounts due in respect of water supplied to measured and unmeasured customers during the year in the normal course of business. Revenue from the supply of other goods and services is not material.

Revenue from measured water charges comprises amounts billed plus an estimate of amounts unbilled at 31 March.

Revenue is stated net of VAT, where applicable.

SEGMENTAL ANALYSIS

It is the opinion of the Directors that there is one reportable segment requiring disclosure under IFRS 8, being the water business which operates wholly within the UK.

RECOGNITION OF DIVIDENDS

Dividends declared after the balance sheet date are not recognised as a liability as at the balance sheet date, but are charged against retained earnings when the dividends become unconditional.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost or production cost, less accumulated depreciation and impairment losses.

Depreciation is provided on all property, plant and equipment, excluding freehold land and easements, at rates calculated to write off the cost less estimated residual value of each asset evenly over the following estimated useful lives:

Fixed asset category	Type of asset	Estimated useful life
Freehold land, buildings and fixed plant	Buildings and service reservoirs Fixed plant	50 – 80 years 25 – 40 years
Infrastructure assets	Impounding reservoirs Raw water aquaducts Water mains	150 – 300 years 50 – 70 years 50 – 60 years
Mobile plant, vehicles and equipment	Equipment Water meters Mobile plant and vehicles Software	7 – 20 years 15 years 5 – 7 years 3 years

INVENTORIES

Inventories are stated at cost less any provision necessary to recognise damage and obsolescence. Cost includes materials and, where appropriate, labour and overheads.

TRADE AND OTHER RECEIVABLES

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 estimated recoverable amount.

TRADE AND OTHER PAYABLES

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.

NON-CURRENT LIABILITIES: INDEX-LINKED LOAN

The index-linked loan is stated at the principal amount of £35 million plus indexation based on the relevant movement in the Retail Price Index since the loan was raised. Loan interest paid on the indexed principal amount at 3.635% is taken to the Group Income Statement as a finance expense. Indexation added to the loan during the financial period is also taken to the Group Income Statement as a finance expense.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the Group Cash Flow Statement, as these are used as an integral part of the Group's cash management.

DEFERRED INCOME

Previously, third party contributions in respect of fixed assets were accounted for and presented as a deduction from the carrying value of property, plant and equipment. During the current period, the Directors have reviewed this presentation and determined that it would be more appropriate in accordance with the provisions of IAS 18 to present all such contributions as deferred income. As a result, the contributions which were previously presented separately as a deduction from the carrying value of property, plant and equipment have been reclassified as deferred income within current and non-current liabilities. The impact of this change in accounting policy is disclosed in note 17 to the Financial Statements.

Deferred income is credited to the Group Income Statement over the life of the asset to which the third party contribution relates.

DEFERRED TAX

Deferred tax is recognised using the liability method on taxable and deductible temporary differences at the balance sheet date, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax is not recognised for the initial recognition of goodwill nor for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is recognised in the Group Income Statement unless it relates to items accounted for in equity.

CURRENT INCOME TAX

Current income tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted, or substantively enacted, at the balance sheet date together with any adjustments to current tax payable in respect of previous years.

EMPLOYEE COSTS CAPITALISED

Employee costs arising directly from the construction or acquisition of property, plant and equipment are identified by internal procedures and transferred from Employee Benefits Expense (note 3) to Property, Plant and Equipment (note 10).

DERIVATIVES

In respect of forward contracts for energy, the Group applies the "own use" exemption in IAS 39 and accordingly does not account for them as financial instruments.

2 OTHER OPERATING INCOME

	2013 £000	Restated 2012 £000
Billing commission	**1,916**	1,862
Deferred contributions released	**143**	109
Other	**20**	20
	2,079	**1,991**

Billing commission represents the commission receivable for billing and collection of sewerage charges on behalf of sewerage providers operating in the Group's licence area, recognised on collection of the debt.

3 EMPLOYEE BENEFITS EXPENSE

	2013 £000	2012 £000
Wages and salaries	**5,194**	4,896
Social security costs	**493**	444
Pension costs – defined benefit scheme	**577**	606
Pension costs – defined contribution schemes	**61**	40
Other post-retirement benefits	**2**	3
	6,327	**5,989**
Less employee costs of own work capitalised (note 10)	**(1,707)**	(1,584)
	4,620	**4,405**

The average number of employees in the Group, including executive Directors, was as follows:

	2013 No.	2012 No.
Water operations	**41**	38
Water administration	**76**	73
Services division	**49**	48
	166	**159**

During the year the Company had no employees (2012: None).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

4 OTHER OPERATING EXPENSES

	2013 £000	2012 £000
Auditor's remuneration		
Audit of the Company's annual accounts and consolidation	**15**	14
Audit of the Company's subsidiaries	**33**	32
Other services pursuant to legislation	**13**	19
Tax services	**17**	39
Pension services	**49**	-
Other services	**-**	4
	127	**108**
Hire of property, plant and equipment	**302**	251
Loss on disposal of assets	**222**	151

5 FINANCE INCOME AND FINANCE EXPENSES

	2013 £000	2012 £000
Finance income		
Demand deposits	**42**	88
Expected return on pension scheme assets (note 22)	**2,243**	2,431
	2,285	**2,519**
Finance expenses		
Interest on pension scheme liabilities (note 22)	**1,982**	2,193
Loan interest	**1,833**	1,828
Loan indexation	**1,494**	2,240
Fixed dividend on B shares	**61**	63
	5,370	**6,324**

6 TAXATION

	2013 £000	2013 £000	2012 £000
(a) Analysis of charge in the year			
Current year tax			
Current tax expense – continuing operations		**660**	763
Adjustment in respect of prior years		**(3)**	(273)
Current tax charge		**657**	**490**
Deferred tax			
Accelerated capital allowances:			
Current year	**116**		
Prior years	**(841)**		
		(725)	**(1,173)**
Retirement benefits:			
Current year	**188**		
Prior years	**26**		
		214	**178**
Deferred tax credit		**(511)**	**(995)**
Total tax charge/(credit)		**146**	**(505)**
(b) Recognised in the Statement of Comprehensive Income			
Deferred tax attributable to the actuarial gain on defined benefit pension scheme		**(231)**	(26)
(c) Reconciliation of effective tax rate			
Profit before tax		**4,174**	3,421
Profit before tax multiplied by the standard rate of Corporation tax of 24% (2012: 26%)		**1,002**	889
Expenditure not deductible for tax purposes		**149**	126
Adjustment for prior years:			
Current tax	**(3)**		
Deferred tax	**(230)**		
		(233)	**(446)**
Effect of substantive enactment of change in rate of Corporation tax		**(587)**	(1,160)
Other tax adjustments		**(185)**	86
Total tax charge/(credit)		**146**	**(505)**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

A reduction in the UK corporation tax 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 Group's future tax charge accordingly. The deferred tax liability at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It was announced in the March 2013 Budget that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the further 3% rate reduction announced, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

The Company's wholly-owned subsidiary, Energy Supplies UK Ltd (ESUK), had unutilised tax losses of £1,788,000 at 31 March 2013 that can only be used by ESUK. As the criteria for recognition of a deferred tax asset were not met, no asset has been recognised at the balance sheet date.

7 PROFIT AFTER TAXATION

The profit for the year dealt with in the Financial Statements of the Company was £2,774,000 (2012: £2,689,000).

8 EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per ordinary share (EPS) have been calculated on the basis of the weighted average number of ordinary shares in issue during the year of 4,632,170 (2012: 4,632,170).

The net profit for the period used in the calculation of EPS was as follows:

	2013 £000	2012 £000
Continuing operations	**4,028**	3,926

9 GOODWILL

	2013 £000	2012 £000
Goodwill on the acquisition of Chester Water Ltd	**5,381**	5,381

Goodwill relates to the acquisition of Chester Water Ltd in 1997. It is subject to an annual impairment review by comparing the value in use with the carrying value. When this comparison indicates that the carrying value is not recoverable, it is written down through the Group Income Statement. The goodwill is allocated to the cash-generating unit that benefits from the acquisition, namely the whole of Dee Valley Water plc.

The value in use is calculated using cash flow projections based on the five-year business plan, updated to reflect latest information. The growth rate used beyond the current business plan is zero, based upon the nature of Dee Valley Water's monopoly business as a water undertaker. The amount by which revenue is permitted to increase beyond inflation, the 'K' factor, is assumed to be zero after 2015. The pre-tax discount rate used in the discounted cash flow calculations was 5.5%, as determined by Ofwat at the price review in 2009. The Directors consider that any reasonably possible change in any of these key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount based on value in use.

10 PROPERTY, PLANT AND EQUIPMENT

Restated	Freehold land, buildings and fixed plant £000	Infrastructure assets £000	Mobile plant, vehicles and equipment £000	Total £000
Cost				
At 1 April 2011	51,014	54,141	8,774	113,929
Additions:				
Purchased goods and services	6,548	378	464	7,390
Employee costs of own work capitalised	-	1,584	-	1,584
Disposals	-	(157)	(63)	(220)
At 1 April 2012	57,562	55,946	9,175	122,683
Reclassification of assets	(7,328)	-	7,328	-
Additions:				
Purchased goods and services	11,302	776	259	12,337
Employee costs of own work capitalised	-	1,707	-	1,707
Disposals	-	(224)	(170)	(394)
At 31 March 2013	**61,536**	**58,205**	**16,592**	**136,333**
Depreciation				
At 1 April 2011	16,328	10,360	7,269	33,957
Charge for the year	3,167	1,535	387	5,089
Disposals	-	-	(61)	(61)
At 1 April 2012	19,495	11,895	7,595	38,985
Reclassification of assets	(2,959)	-	2,959	-
Charge for the year	2,369	1,535	818	4,722
Disposals	-	-	(131)	(131)
At 31 March 2013	**18,905**	**13,430**	**11,241**	**43,576**
Net book value				
At 31 March 2013	**42,631**	**44,775**	**5,351**	**92,757**
At 1 April 2012	38,067	44,051	1,580	83,698
At 1 April 2011	34,686	43,781	1,505	79,972

At 31 March 2013 metering equipment assets with an associated total cost of £7,328,000 and net book value of £4,369,000 were reclassified from freehold land, buildings and fixed plant to mobile plant, vehicles and equipment representing the more appropriate categorisation of these assets.

As at 31 March 2013, the gross carrying value of property, plant and equipment that was fully depreciated was £10,809,000.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

Depreciation in the year includes additional depreciation of £1,101,000 (2012: £1,468,000) in respect of the reassessment of the useful lives of assets at the Llwyn Onn water treatment works that are expected to be decommissioned during the year ended 31 March 2014 upon completion of the new water treatment works.

Included within purchased good and services above are capitalised borrowing costs of £9,000 (2012: £Nil) related to the Group's construction investment programme. The capitalisation rate used in respect of borrowing costs capitalised is 1.5%

The Company has no property, plant and equipment (2012: £Nil). The Company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2013 or 31 March 2012.

11 INVESTMENTS

	Group Other investments (unlisted) £000	Company Shares in subsidiary undertakings £000
Cost at 31 March 2013	**2**	**32,365**
Cost at 31 March 2012	2	32,365

The Group holds more than 10% of the equity of the following undertakings:

Subsidiary Undertakings	Nature of business	Class of shares	Proportion held
Dee Valley plc[1]	Holding company	Ordinary	100%
Dee Valley Water (Holdings) Ltd	Holding company	Ordinary	100%
Dee Valley Water plc	Water	Ordinary	100%
Dee Valley Services Ltd	Non-trading	Ordinary	100%
North Wales Gas Ltd	Non-trading	Ordinary	100%
Energy Supplies UK Ltd	Non-trading	Ordinary	100%
Northern Gas Supplies Ltd	Non-trading	Ordinary	100%
Chester Water Ltd	Holding company	Ordinary	100%
Wrexham Water plc	Non-trading	Ordinary	100%
		Non-voting ordinary	100%
Aqua Deva Ltd	Dormant	Ordinary	100%

[1] Dee Valley plc is the only direct subsidiary of Dee Valley Group plc. All other subsidiaries are indirect.

All the above subsidiary undertakings are registered in England and Wales and operate entirely in the United Kingdom.

12 TRADE RECEIVABLES

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Trade receivables	**4,362**	3,983	**-**	-
Impairment provision	**(1,482)**	(1,289)	**-**	-
	2,880	**2,694**	**-**	**-**

13 OTHER RECEIVABLES

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Amounts owed by Group undertakings	**-**	-	**3,725**	3,725
Current income tax receivable	**-**	640	**-**	-
Other receivables	**94**	280	**-**	-
Prepayments and accrued income	**1,465**	1,492	**-**	-
	1,559	**2,412**	**3,725**	**3,725**

Amounts owed by Group undertakings are non-interest bearing and repayable on demand. In the opinion of the Directors, no impairment provision is required due to the financial resources available in the relevant Group undertakings.

14 CASH AND CASH EQUIVALENTS

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Demand deposits	**8,080**	9,325	**-**	-
Cash at bank and in hand	**73**	238	**-**	-
	8,153	**9,563**	**-**	**-**

For the purposes of the cash flow statement, cash and cash equivalents comprised the following at 31 March:

Cash at bank and in hand	**73**	238	**-**	-
Demand deposits	**8,080**	9,325	**-**	-
Overdrafts	**(42)**	(61)	**-**	-
	8,111	**9,502**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

15 INTEREST-BEARING LOANS AND BORROWINGS

Current	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
B shares	**1,543**	1,628	**1,543**	1,628
Short term loans	**6,000**	-	**-**	-
Overdrafts	**42**	61	**-**	-
	7,585	**1,689**	**1,543**	**1,628**

The rights attaching to the B shares are set out below.

DIVIDEND RIGHTS

With effect from 20 August 2002, out of the profits available for distribution in respect of each accounting period, the holders of B shares are entitled, in priority to any payment of dividend or other distribution to the holders of the ordinary shares, to be paid a non-cumulative preferential dividend at a fixed rate of 3.8% per annum on the value of 230 pence per B share. The dividend shall be paid, without having to be declared, semi-annually in arrears on 20 February and 20 August or the next following business day. The holders of B shares are not entitled to any further right of participation in the profits of the Company.

CAPITAL RIGHTS

On a return of capital on a winding-up (except on a redemption in accordance with the terms of issue of any share) there shall be paid to holders of the B shares the sum of 230 pence in respect of each B share held, together with a proportion of the preferential dividend from the last payment date to the date of the winding-up. If on such a winding-up the amount available for payment is insufficient to cover in full the amounts payable on the B shares, the holders of such shares will share rateably in the distribution of assets in proportion to the full preferential amounts to which they are entitled. The holders of B shares shall not be entitled to any further right of participation in the assets (or profits) of the Company.

REDEMPTION RIGHTS

Holders of B shares may elect to have their B shares redeemed at 230 pence per B share, semi-annually on 20 August or 20 February, by their holders giving not less than ten business days' written notice.

The Company may also give written notice to the holders of B shares to redeem all of the B shares then in issue, at a price of 230 pence per B share, in the following circumstances:

(a) a resolution being passed for the winding-up of the Company; or

(b) the Board resolves to undertake a reorganisation of the Company; or

(c) an offer to acquire shares in the Company is accepted by members holding shares carrying more than 50% of the voting rights in the Company; or

(d) an agreement for the sale of the whole of the undertaking of the Company.

VOTING RIGHTS

The holders of B shares are not entitled to receive notice of any general meeting of the Company nor to attend, speak or vote at any such general meeting.

Non-Current	Maturity date	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
3.5% Irredeemable Consolidated Debenture Stock		**99**	99	**-**	-
3.635% Secured Index-Linked Loan					
Principal	2032	**35,000**	35,000	**-**	-
Indexation	2032	**13,867**	12,374	**-**	-
		48,966	**47,473**	**-**	**-**

The index-linked loan was raised in August 2002 and is secured by a fixed and floating charge on the assets of Dee Valley Water plc and by a first fixed charge over the shares in Dee Valley Water plc held by Dee Valley Water (Holdings) Ltd. In the event of default, the interest and capital payments are guaranteed by Assured Guaranty (Europe) Ltd. The capital value of the loan is adjusted by the change in the Retail Price Index from year to year. Loan interest is calculated by charging interest on this inflated amount at 3.635% per annum. There are no terms allowing repayment of the index-linked loan prior to 2032.

16 TRADE AND OTHER PAYABLES

	Group 2013 £000	Restated Group 2012 £000	Company 2013 £000	Company 2012 £000
Amounts owed to Group undertakings	**-**	-	**2,292**	2,145
Trade payables	**9,142**	9,192	**-**	-
Other taxes and social security	**157**	146	**-**	-
Other payables	**59**	57	**-**	-
Deferred income – third party contributions	**165**	110	**-**	-
Accruals	**1,477**	2,657	**-**	-
	11,000	**12,162**	**2,292**	**2,145**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

17 DEFERRED INCOME

Third party contributions	Group 2013 £000	Group 2012 £000
Current	**165**	110
Non-current	**7,427**	6,512
	7,592	**6,622**

In respect of the change in accounting policy during the year, the Group has restated the Group Balance Sheet, as at 31 March 2012, and Group Cash Flow Statement. The effect of making these adjustments is to increase property, plant and equipment by £6,622,000, current liabilities by £110,000 and non-current liabilities by £6,512,000 as at 31 March 2012. There is a £Nil impact on the profit/loss and cash flow for the year ended 31 March 2012 and 31 March 2013 and a £Nil impact on net assets as at 31 March 2012 and 31 March 2013. The effect on the Income Statement is to increase other operating income and consequently profit before depreciation and finance costs by £109,000 and increase depreciation by an offsetting £109,000 with no effect on profit before tax.

The effect of the restatement on the individual financial statement components for the year ended 31 March 2012 is given in the table below.

	As previously reported 31 March 2012 £000	Adjustment £000	Restated 31 March 2012 £000
Balance sheet			
Property, plant and equipment	77,076	6,622	83,698
Trade and other payables	(12,052)	(110)	(12,162)
Deferred income – third party contributions	-	(6,512)	(6,512)

The effect of the restatement on the individual financial statement components for the year ended 31 March 2011 is given in the table below.

	As previously reported 31 March 2011 £000	Adjustment £000	Restated 31 March 2011 £000
Balance sheet			
Property, plant and equipment	74,260	5,712	79,972
Trade and other payables	(9,988)	(220)	(10,208)
Deferred income – third party contributions	-	(5,492)	(5,492)

The Directors have considered the impact of IAS 1 and due to there being no impact on either net assets or profit for the year ended 31 March 2011 have not presented a restated balance sheet as at 31 March 2011.

18 DEFERRED TAX

	Group £000
Balance at 1 April 2012	15,907
Deferred tax movement for the year	(742)
Balance at 31 March 2013	**15,165**

Deferred tax liabilities are calculated at a rate of 23% (2012: 24%) and are attributable to the following:

	At 1 April 2012 £000	Recognised in Income Statement £000	Recognised in Statement of Comprehensive Income £000	At 31 March 2013 £000
Accelerated capital allowances	14,715	(725)	-	**13,990**
Pension asset	1,192	214	(231)	**1,175**
	15,907	**(511)**	**(231)**	**15,165**

	At 1 April 2011 £000	Recognised in Income Statement £000	Recognised in Statement of Comprehensive Income £000	At 31 March 2012 £000
Accelerated capital allowances	15,890	(1,175)	-	14,715
Pension asset	1,040	178	(26)	1,192
	16,930	**(997)**	**(26)**	**15,907**

A reduction in the UK corporation tax 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 Group's future tax charge accordingly. The deferred tax liability at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It was announced in the March 2013 Budget that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the further 3% rate reduction announced, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

19 SHARE CAPITAL

SHARE CAPITAL IN EQUITY

	Voting Ordinary Shares		Non-Voting Ordinary Shares	
	2013 £000	2012 £000	**2013 £000**	2012 £000
At 31 March	**207**	207	**25**	25

	Authorised		Issued and fully paid	
	2013	**2012**	**2013**	**2012**
Number of voting 5p ordinary shares	**8,398,373**	8,398,373	**4,138,902**	4,138,902
Nominal value of voting 5p ordinary shares	**£419,919**	£419,919	**£206,945**	£206,945
Number of non-voting 5p ordinary shares	**932,931**	932,931	**493,268**	493,268
Nominal value of non-voting 5p ordinary shares	**£46,647**	£46,647	**£24,663**	£24,663
Number of £1 deferred shares	**1**	1	**1**	1
Nominal value of £1 deferred shares	**£1**	£1	**£1**	£1
Number of £1 redeemable preference shares	**49,999**	49,999	-	-
Nominal value of £1 redeemable preference shares	**£49,999**	£49,999	-	-

The rights attaching to the Non-Voting Ordinary Shares are set out below.

DIVIDEND RIGHTS

Profits available for distribution and resolved to be distributed by the Company in respect of any financial year are distributed amongst the holders of Ordinary Shares and Non-Voting Ordinary Shares (pari passu as if they constituted one class of share) rateably according to the amounts paid up or credited as paid up on such shares.

CAPITAL RIGHTS

In the event of the liquidation of Dee Valley Group plc, the remaining surplus assets shall be distributed amongst the holders of Ordinary Shares and Non-Voting Ordinary Shares rateably (without any priority) according to the amounts paid up thereon.

VOTING RIGHTS

The Non-Voting Ordinary Shares entitle the holders to receive notice of, but not to attend or vote at, any general meeting of Dee Valley Group plc, and to receive copies of all notices, circulars and other information sent by the Company to the holders of the Ordinary Shares.

The rights attaching to the Deferred Share are as follows:

The Deferred Share is non-voting, carries no right to dividend and is entitled to the payment of £1 on a return of capital or liquidation. The Deferred Share is redeemable at the option of the Company for £1.

SHARE CAPITAL IN DEBT

	Authorised		Issued and fully paid	
	2013	**2012**	**2013**	**2012**
Number of B shares	**13,897,717**	13,897,717	**670,870**	707,648
Nominal value of B shares	**£31,964,749**	£31,964,749	**£1,543,005**	£1,627,590

The rights attaching to the B shares are shown in note 15.

CAPITAL MANAGEMENT POLICIES

The Directors consider the above capital and reserves, together with non-current borrowings (note 15) to be the managed capital of the Company and of the Group. Capital is managed to maintain the ability of the Company and Group to pay dividends in line with the Group's dividend objective.

The Group is not subject to an externally imposed capital structure, however, does have due regard to Ofwat's capital structure assumptions. The Group does not have a specific gearing target but seeks to maintain gearing at a level consistent with the Group's capital management objectives. The interest cover ratio is maintained at a level above 1.5 to ensure compliance with the Group's covenant obligations.

20 DIVIDENDS

The following dividends were paid by the Group during the financial period:

	2013 Pence per share	**2013 £000**	**2012 Pence per share**	**2012 £000**
Ordinary shares				
Previous year final dividend	**41.4**	**1,714**	40.3	1,668
Current year interim dividend	**19.8**	**820**	19.1	791
Non-voting ordinary shares				
Previous year final dividend	**41.4**	**204**	40.3	199
Current year interim dividend	**19.8**	**98**	19.1	94
		2,836		**2,752**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

Dividends in respect of the financial period under review are as follows:

	2013 Pence per share	2013 £000	2012 Pence per share	2012 £000
Ordinary shares				
Current year interim dividend – paid	**19.8**	**820**	19.1	791
Current year final dividend – proposed	**42.7**	**1,767**	41.4	1,714
Non-voting ordinary shares				
Current year interim dividend – paid	**19.8**	**98**	19.1	94
Current year final dividend – proposed	**42.7**	**211**	41.4	204
		2,896		**2,803**

The final dividend for the year ended 31 March 2013 of £1,978,000 (equivalent to 42.7 pence per share) will be proposed for approval at the Annual General Meeting on 25 July 2013 and has not been provided for as a liability at 31 March 2013.

21 CONTRACTUAL OBLIGATIONS

	2013 £000	2012 £000
Capital expenditure contracted but not included in the financial statements	**2,610**	12,221

22 PENSION SCHEMES

The Group offers stakeholder pension schemes. For the year ended 31 March 2013 employer contributions to such schemes amounted to £61,000 (2012: £40,000).

The Group's trading company, Dee Valley Water plc (DVW), participates in a defined benefit pension scheme, the Water Companies Pension Scheme, for qualifying employees. This is a sectionalised scheme and DVW participates in the Dee Valley Water plc Section of the Scheme. The Section funds are administered by trustees and are independent of DVW's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. 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 IAS 19. As required by IAS 19, the value of the defined benefit obligation and the current service cost has been measured using the projected unit method.

During the year ended 31 March 2013, total employer contributions of £1,133,000 (2012: £851,000) were paid to the Section. The estimated amount of total employer contributions expected to be paid to the Section during the year ended 31 March 2014 is £1,120,000.

The following table sets out the key IAS 19 assumptions used in the Section.

Assumptions (per annum)	2013	2012	2011
Retail Price Index inflation	**3.60%**	3.50%	3.70%
Consumer Price Index inflation	**2.60%**	2.50%	3.00%
Discount rate	**4.30%**	4.70%	5.50%
Pension increases in payment			
• uncapped	**2.60%**	2.50%	3.00%
• capped at 5% per annum	**2.60%**	2.50%	3.00%
General salary increases	**3.60%**	3.50%	4.95%
Life expectancy of a male aged 60 at balance sheet date	**27.4 years**	26.9 years	26.5 years
Life expectancy of a female aged 60 at balance sheet date	**29.7 years**	29.2 years	29.1 years
Life expectancy of a male aged 60, twenty five years after the balance sheet date	**30.0 years**	28.9 years	29.1 years
Life expectancy of a female aged 60, twenty fives years after the balance sheet date	**31.8 years**	30.8 years	31.5 years

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

	2013 £000	2012 £000	2011 £000
Fair value of Section assets	**52,856**	47,609	44,386
Present value of defined benefit obligation	**(47,747)**	(42,644)	(40,387)
Net asset recognised in the balance sheet	**5,109**	**4,965**	**3,999**

The amounts recognised in the Group Income Statement were as follows:

	2013 £000	2012 £000
Expected return on Section assets	**2,243**	2,431
Interest cost	**(1,982)**	(2,193)
Employer's part of current service cost	**(577)**	(606)
Total expense included in Group Income Statement	**(316)**	**(368)**

The employer's part of the current service cost is recognised in operating costs and the interest cost and expected return on assets are recognised in finance expenses and finance income.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

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

	2013	2012	2011
Equity instruments	25%	35%	37%
Diversified growth funds	9%	9%	9%
Debt instruments	56%	56%	54%
Emerging markets multi-asset funds	5%	-	-
High yield bonds	5%	-	-
	100%	100%	100%

The expected rate of return on assets for the year ended 31 March 2013 was 5.0% per annum (2012: 5.9%). 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 2012.

The actual return on the Section's assets over the year to 31 March 2013 was a gain of £5,653,000 (2012: gain of £4,014,000).

Changes in the present value of the defined benefit obligation were as follows:

	2013 £000	2012 £000
Opening defined benefit obligation	42,644	40,387
Employer's part of current service cost	577	606
Interest cost	1,982	2,193
Contributions from scheme members	114	114
Actuarial loss	4,083	1,100
Benefits paid	(1,653)	(1,756)
Closing defined benefit obligation	47,747	42,644

Changes in the fair value of the Section assets were as follows:

	2013 £000	2012 £000
Opening fair value of Section assets	47,609	44,386
Expected return on Section assets	2,243	2,431
Actuarial gain	3,410	1,583
Contributions by the employer	1,133	851
Contributions by Section members	114	114
Benefits paid	(1,653)	(1,756)
Closing fair value of Section assets	52,856	47,609

The amount recognised outside profit or loss in the Group Statement of Comprehensive Income for the year ended 31 March 2013 is a loss of £673,000 (2012: gain of £483,000). The cumulative amount of actuarial gains and losses recognised outside profit and loss at 31 March 2013 was a gain of £6,915,000.

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

At 31 March	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Fair value of Section assets	52,856	47,609	44,386	41,964	34,848
Present value of defined benefit obligation	(47,747)	(42,644)	(40,387)	(44,004)	(32,148)
Surplus/(deficit)	5,109	4,965	3,999	(2,040)	2,700

The history of experience gains and losses was:

	2013	2012	2011	2010	2009
Experience adjustments on Section assets					
Amount of gain/(loss)	3,410	1,583	477	6,329	(7,508)
Percentage of assets	6%	3%	1%	15%	(22%)
Experience adjustments on Section liabilities					
Amount of (loss)/gain	(58)	275	636	594	2,116
Percentage of the present value of liabilities	(0%)	1%	2%	1%	7%

Other assumptions used to measure the Scheme's liabilities at 31 March 2013 were as follows:

MORTALITY 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 CMI 2011 projections from 2003 based on each member's date of birth, subject to a minimum rate of improvement of 1.0% per annum for males and 0.75% per annum for females.

— before retirement AC00 tables.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

Sensitivity analysis for the principal assumptions used to measure the Section's obligations at 31 March 2013 are set out below:

Key financial assumptions	Assumption adopted	Sensitivity	Indicative change in liabilities %	£000
Discount rate	4.3% pa	+/- 0.5%	-8%/+9%	(3,600)/4,100
Pension increases and deferred revaluation	2.6% pa	+/- 0.5%	+6%/-5%	2,800/(2,600)
Real salary increases (relative to CPI)	1.0% pa	+/- 0.5%	+/-1%	700/(700)
Life expectancy				
Current male pensioner aged 60 in 2013	27.4 years			
Current female pensioner aged 60 in 2013	29.7 years			
Future male pensioner aged 60 in 2038	30.0 years			
Future female pensioner aged 60 in 2038	31.8 years			
Sensitivity		+ 1 year	+3%	1,400

IAS 19 REVISED

A new version of IAS 19 was published in July 2011 and this will apply for the first time for the year ended 31 March 2014. Had the new version of IAS 19 applied for the year ended 31 March 2013, a reasonable estimate is that the net finance expense recognised in the Group Income Statement would have been £142,000 higher and the actuarial loss recognised in the Group Statement of Comprehensive Income would have been £142,000 lower.

IAS 19 revised requires the interest on the Group's defined benefit surplus to be recognised on a net basis using the discount rate applied to the scheme obligation. IAS 19 had previously required the finance income on the scheme's assets to be recognised at the expected rate of return on assets.

23 ANALYSIS OF INTEREST RATE EXPOSURE

	Total £000	No interest paid/ received £000	Fixed interest rate £000	Index-linked £000	Weighted average interest rate %	Weighted average period for which rate is fixed
B shares	(1,543)	-	(1,543)	-	3.800	-
Irredeemable consolidated debenture stock	(99)	-	(99)	-	3.500	-
Index-linked loan to 2032 (note 15)	(48,867)	-	-	(48,867)	3.635[1]	19 years
Short term loan	(6,000)	-	(6,000)	-	1.500	-
Cash at bank	73	73	-	-	-	-
Overdraft	(42)	(42)	-	-	-	-
Demand deposits	8,080	-	8,080	-	0.226	-
Net debt at 31 March 2013	**(48,398)**	**31**	**438**	**(48,867)**		

[1] Plus RPI

The Group's financial instruments comprise long and short-term borrowings, cash and liquid resources and various items such as trade debtors and creditors which arise directly from operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The main risk arising from the Group's financial policies is interest rate risk. The Group's policy is to finance its operations by a combination of long and short-term borrowings and retained profits. The objective is to ensure adequacy of funding by means of drawn and undrawn facilities. At 31 March 2013, the Group had an undrawn committed overdraft facility of £3.0 million together with a revolving credit facility of £9.0 million, of which £3.0 million was undrawn. These facilities are committed until 2016.

It is the Group's continuing policy that no trading in financial instruments shall be undertaken.

24 RELATED PARTY TRANSACTIONS

The Group regards its key management to be the Directors of the Company and their remuneration is shown in the Report of the Remuneration Committee on pages 22 to 25. During the year, the Company received dividends of £2,835,000 (2012: £2,752,000) from Dee Valley plc, one of its subsidiaries.

25 FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- interest rate risk.

This note gives information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. None of the Group's financial assets and liabilities has a material variation between book value and fair value, with the exception of the index-linked loan, which has a fair value of £68.6 million (2012: £59.2 million) compared to a book value of £48.9 million (2012: £47.4 million).

CREDIT RISK

The Group's exposure to credit risk is determined by the creditworthiness of each customer. As Dee Valley Water has a duty to supply all customers in its designated area, credit risk is not assessed prior to supply. However, bills for water services are regarded as due when issued, and customers without a payment plan are automatically issued with reminders and then assessed individually for further action.

The provision for impairment represents the Group's best estimate of the irrecoverable amount of trade receivables. The calculation of the impairment provision takes into account the age of the debt, the recovery stage reached and customer characteristics.

The ageing of trade receivables at the reporting date was:

	2013 Gross £000	2013 Impairment £000	2013 Net £000	2012 Gross £000	2012 Impairment £000	2012 Net £000
Up to 1 year	2,538	(92)	2,446	2,419	(96)	2,323
Up to 2 years	393	(121)	272	366	(114)	252
Up to 3 years	196	(78)	118	135	(56)	79
Over 3 years	174	(130)	44	72	(32)	40
Total amounts past due not individually impaired, with non-specific provision allowances	**3,301**	**(421)**	**2,880**	**2,992**	**(298)**	**2,694**
Total amounts past due and individually impaired, with specific provision allowances	1,061	(1,061)	-	991	(991)	-
Trade receivables (note 12)	**4,362**	**(1,482)**	**2,880**	**3,983**	**(1,289)**	**2,694**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

Impairment provisions are determined by reference to the age of debt and the stage reached in the debt collection process.

The movement in the allowance for impairment of trade receivables was as follows:

	Group £000
At 1 April 2011	(1,134)
Provided during the year	(440)
Written off during the year	285
At 1 April 2012	(1,289)
Provided during the year	(492)
Written off during the year	299
At 31 March 2013	**(1,482)**

None of the Company's assets was past due and impaired.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, both under normal operating conditions and under all reasonably possible scenarios.

Liquidity risk is managed by short and long-term cash flow forecasts. At 31 March 2013 the Group had an undrawn committed overdraft facility of £3.0 million together with a revolving credit facility of £9.0 million, of which £3.0 million was undrawn at the year end. These facilities are committed until 2016.

The following are the contractual maturities of the Group's non-derivative financial liabilities, including estimated interest payments:

As at 31 March 2013	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	>5 years £000
Secured bank loans	48,867	(121,721)	(899)	(922)	(1,866)	(5,883)	(112,151)
Short term loan	6,000	(6,010)	(6,010)	-	-	-	-
B shares	1,543	(1,543)	(1,543)	-	-	-	-
Irredeemable debenture stock	99	(100)	(2)	(2)	(4)	(12)	(80)
Trade and other payable	11,000	(11,000)	(11,000)	-	-	-	-
Bank overdraft	42	(42)	(42)	-	-	-	-
	67,551	**(140,416)**	**(19,496)**	**(924)**	**(1,870)**	**(5,895)**	**(112,231)**

As at 31 March 2012	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	>5 years £000
Secured bank loans	47,374	(122,715)	(872)	(893)	(1,809)	(5,704)	(113,437)
B shares	1,628	(1,628)	(1,628)	-	-	-	-
Irredeemable debenture stock	99	(100)	(2)	(2)	(4)	(12)	(80)
Trade and other payable	12,162	(12,162)	(12,162)	-	-	-	-
Bank overdraft	61	(61)	(61)	-	-	-	-
	61,324	**(136,666)**	**(14,725)**	**(895)**	**(1,813)**	**(5,716)**	**(113,517)**

Contractual cash flows for irredeemable debenture stock are based on interest payments for 25 years. Of the above financial liabilities, only the B shares relate to the Company.

INTEREST RATE RISK

At 31 March the interest rate profile of the Group's interest-bearing financial instruments was:

	2013 £000	2012 £000
Fixed rate instruments		
Financial assets	**8,080**	9,325
Financial liabilities	**(1,683)**	(1,727)
	6,397	**7,598**
Variable rate instruments		
Financial liabilities	**(48,867)**	**(47,374)**

PROFIT AND LOSS SENSITIVITY FOR VARIABLE RATE INSTRUMENTS

A change of 1% in the Retail Price Index during the reporting year would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

Profit or loss	1% increase £000	1% decrease £000
Variable rate instruments		
31 March 2013	**(397)**	**392**
31 March 2012	(416)	418

26 PURPOSE OF RESERVES

The Capital Redemption Reserve is the reserve arising on redemption of B shares.

Other Reserves are reserves arising from previous Schemes of Arrangement accounted for under the principles of merger accounting.

The Fair Value Reserve is a non-distributable reserve arising on restatement of infrastructure assets at fair value.

GLOSSARY OF TERMS

GEARING

Gearing is defined as net debt as a percentage of the Regulatory Capital Value at the financial year end.

GREENHOUSE GAS (GHG) EMISSIONS

Greenhouse gases are components of the atmosphere that contribute to the greenhouse effect. This indicator provides a measure of the annual operational GHG emissions of a water company.

INTEREST COVER

Interest cover is calculated as earnings before finance income and expenses and taxation divided by interest paid. Interest paid is comprised of loan interest and fixed dividend on B shares.

LEAKAGE

Total leakage measures the sum of distribution losses and supply pipe losses in megalitres per day (Ml/d). It includes any water lost between the treatment works and the customer's stop tap. It does not include internal plumbing losses..

REGULATORY CAPITAL VALUE (RCV)

The RCV has been developed for regulatory purposes and is primarily used by Ofwat in setting price limits. It represents the fixed asset / tangible asset capital base of the Group on which it is allowed to earn a return at the defined cost of capital set by Ofwat. The forecast RCV published by Ofwat as at 31 March 2013 was £73.6 million (2012: £67.4 million). The RCV is used as a basis for valuation of the regulatory assets rather than the accounting carrying value. Further details in respect of how the RCV is calculated can be found on the Ofwat website at www.ofwat.gov.uk.

SECURITY OF SUPPLY INDEX (SOSI)

This assesses the ability of a water company to supply customers in dry years without demand restrictions such as hosepipe bans. Companies with higher index scores have better security of supply.

SERVICEABILITY INDICATOR (INFRASTRUCTURE AND NON-INFRASTRUCTURE)

These indicators are used to monitor the output, or effectiveness, of asset management and maintenance from year to year. Serviceability indicators support the development of longer-term strategic plans for asset management, including submissions for price reviews.

SERVICE INCENTIVE MECHANISM (SIM)

SIM assesses the overall service that customers experience from a water company. It provides a framework that allows each company to develop its own solutions to meeting the expectations of customers.

WATER SUPPLY INTERRUPTIONS

This is the number of hours lost due to water supply interruptions for three hours or longer, per property served.

NOTICE OF MEETING

This document is important and requires your immediate attention. If you are in any doubt about the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other independent adviser authorised pursuant to the Financial Services and Markets Act 2000 immediately.

If you have sold or transferred all of your holding of shares in Dee Valley Group plc, please send this notice and the accompanying Form of Proxy to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notes explaining the resolutions to be proposed at the Company's Annual General Meeting are set out after the Notice of Annual General Meeting on pages 69 and 70 of this Annual Report.

The Directors consider that the proposals set out in the Notice of Annual General Meeting are in the best interests of the Company and shareholders as a whole. The Directors recommend shareholders vote in favour of the resolutions set out in the Notice as they intend to in respect of their own beneficial holdings, which as at 11 June 2013 amounted to 2,432 shares (0.06% of the issued voting share capital).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Dee Valley Group plc will be held on 25 July 2013 at Ramada Plaza Hotel, Ellice Way, Wrexham, LL13 7YH at 3.00 p.m. The business of the Meeting will be:

ORDINARY BUSINESS

1. To receive the Directors' Report and audited Financial Statements for the Company for the year ended 31 March 2013 together with the Independent Auditor's report thereon.

2. To approve the Report of the Remuneration Committee for the year ended 31 March 2013.

3. To declare a final dividend of 42.7 pence per share on the Ordinary Shares and Non-Voting Ordinary Shares.

4. To re-elect as a Director Norman Holladay who, being required to retire by rotation, offers himself for re-election.

5. To re-elect as a Director David Weir who, having served on the Board for more than nine years and being required to retire by rotation, offers himself for re-election.

6. To re-elect as a Director Graham Scott who, having served on the Board for more than nine years and being required to retire by rotation, offers himself for re-election.

7. To re-elect as a Director David Strahan, who has been appointed since the last Annual General Meeting.

8. To reappoint KPMG Audit Plc as auditor to the Company, to hold office until the end of the next Annual General Meeting, and to authorise the Directors to determine its remuneration.

SPECIAL BUSINESS

9. To pass as an Ordinary Resolution:

That the Directors be generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the 2006 Act) to exercise all the powers of the Company to allot ordinary shares in the Company, and to grant rights to subscribe for or to convert any security into ordinary shares in the Company:-

(a) up to an aggregate nominal amount of £77,202 (such amount to be reduced by the aggregate nominal amount allotted or granted under paragraph (b) below in excess of such sum); and

(b) comprising equity securities (as defined in Section 560(1) of the 2006 Act) up to an aggregate nominal amount of £154,405 (such amount to be reduced by any allotments or grants made under paragraph (a) above) in connection with an offer by way of a rights issue:-

  (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary;

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of any territory or any other matter;

such authorities to apply until the end of the Annual General Meeting of the Company to be held in 2014, save that the Company may before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for the authority conferred on the Directors pursuant to Section 551 of the Companies Act 2006 on 26 July 2012.

10. To pass as a Special Resolution:

That pursuant to and in accordance with Sections 570 and 573 of the 2006 Act the Directors be empowered to allot equity securities (as defined in the 2006 Act) for cash pursuant to the general authority conferred by Resolution 9 above as if Section 561 of the Act did not apply to any such allotment and so that:

(a) reference to allotment in this Resolution shall be construed in accordance with Section 560(2) of the 2006 Act; and

(b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding the expiry of such power, provided however that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2014 or, if earlier, fifteen months after the passing of this Resolution except to the extent that the same is renewed or extended on or before such date and shall be limited:

(i) to the allotment of equity securities in connection with any rights issue; and

(ii) to the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) of this Resolution) up to an aggregate nominal value of £11,580.

11. To pass as a Special Resolution:

That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 701 of the 2006 Act) of Ordinary Shares of 5 pence each and Non-Voting Ordinary Shares of 5 pence each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine, provided that:

11.1 the maximum number of Ordinary Shares to be purchased is 413,890;

11.2 the maximum number of Non-Voting Ordinary Shares to be purchased is 49,326;

11.3 the minimum price that may be paid (exclusive of expenses payable by the Company) is:

11.3.1 5 pence per Ordinary Share; and

11.3.2 5 pence per Non-Voting Ordinary Share;

11.4 the maximum price which may be paid for an Ordinary Share or Non-Voting Ordinary Share is an amount equal to 105% of the average of the middle market prices shown in the quotation for such Ordinary Share or such Non-Voting Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share or Non-Voting Ordinary Share is purchased (exclusive of expenses payable by the Company);

11.5 the authority hereby conferred shall expire on 31 July 2014 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2014 unless previously renewed, varied or revoked by the Company in general meeting; and

11.6 the Company may make a contract to purchase its Ordinary Shares or Non-Voting Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase its Ordinary Shares or Non-Voting Ordinary Shares in pursuance of any such contract.

12. To pass as a Special Resolution:

That the Articles of Association of the Company be changed upon the passing of this Resolution as follows:-

(a) the definition of "Business Day" shall be amended to refer to a "week" day on which commercial banks are generally open for business in London;

(b) Article 18 shall be amended so that the following words are inserted in the second sentence after "Seal":-

"or a reproduction of the image of the Seal printed by any mechanical or electronic means approved by the Board";

(c) there shall be added to the end of Article 62 the following:-

"If:

(a) the Company sends two consecutive notices to a member over a period of at least 12 months; and

(b) each of those notices is returned undelivered, or the Company receives notification that it has not been delivered,

that member ceases to be entitled to receive documents including notices from the Company.

A member, who has ceased to be entitled to receive notices from the Company becomes entitled to receive such notices again by sending the Company:-

(a) either a new address to be recorded in the register of members; or

(b) if the member has agreed with the Company that it should use a means of communication other than delivery to such an address by post, the information which the Company needs to use that means of communication effectively."

(c) The first sentence of Article 90.3 shall be replaced as follows:-

"90.3 The Board shall allow proxies to be appointed by means of electronic communication, and it may make such appointments subject to such stipulations, conditions or restrictions (whether as to appointment, revocation or otherwise), and require such evidence of valid execution, as the Board thinks fit."

(d) there shall be added after Article 91.1.3 the following and the former Article 91.1.3 shall be renumbered:-

"91.2 In calculating the periods mentioned in this Article no account shall be taken of any part of a day which is not a Business Day.

91.3 The proceedings at a general meeting shall not be invalidated where an appointment of a proxy in respect of that meeting is sent in electronic form as provided in these Articles but because of a technical problem it cannot be read by the recipient."

By order of the Board

David Strahan
Secretary
11 June 2013

Packsaddle
Wrexham Road
Rhostyllen
Wrexham
LL14 4EH

NOTES

1. The holders of the Ordinary Shares of 5 pence each are entitled to attend and vote at this meeting. This notice is sent to the holders of Non-Voting Ordinary Shares in accordance with the Articles of Association of the Company for information only.

2. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 23 July 2013, (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

3. As at 10 June 2013 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 4,138,902 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 10 June 2013 are 4,138,902.

4. Members are entitled to appoint one or more persons as proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. Members may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the registrars or you may photocopy the proxy card. Please indicate in the box next to the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. Failure to specify the number of shares each proxy appointment relates to or specifying a number of shares in excess of those held by the member on the record date will result in the proxy appointment being invalid. The right of a member under section 324 of the 2006 Act to appoint a proxy does not apply to a person nominated to enjoy information rights under section 146 of the 2006 Act.

5. To be valid, the form of proxy must be completed, signed and returned so as to reach the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the Meeting. A form of proxy is enclosed. Completion of the form does not preclude a member from subsequently attending and voting at the meeting.

6. A proxy need not be a shareholder of the Company but must attend the Meeting to represent you. A Form of Proxy is enclosed and instructions for use are shown on the form. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The fact that shareholders may have completed forms of proxy will not prevent them from attending and voting in person should they afterwards decide to do so. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

7. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out in the notes to the Form of Proxy. Note that the cut-off time for receipt of proxy appointments set out in the Form of Proxy also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the registrars. In the case of a member which is a Company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold your vote.

11. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

12. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual.

    The message must be transmitted so as to be received by the issuer's agent (CREST ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

13. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

14. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

15. Any person to whom this notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instruction to the shareholder as to the exercise of voting rights.

    The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 4 and 7 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

16. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the 2006 Act, the Company may be required to publish on a web site a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company may not require the shareholders requesting any such web site publication to pay its expenses in complying with section 527 of the 2006 Act. Where the Company is required to

place a statement on a web site under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the web site. The business that may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a web site.

17. Capita Registrars maintain the Company's share register. They also provide a telephone helpline service on 0871 664 0300 (calls cost 10 pence per minute plus network extras. Lines are open 9.00 a.m. to 5.30 p.m., Monday to Friday). If you are calling from overseas, the helpline number is +44 208 639 3399. If you have any queries about voting or about your shareholding, please contact Capita Registrars.

18. Members have the right to ask questions at the meeting in accordance with section 319A of the 2006 Act.

19. The following documents are available for inspection by members at the registered office of the Company during normal business hours (except Bank Holidays) and at the place of the meeting not less than 15 minutes prior to and during the meeting:

(a) the register of Directors' interests required to be kept under Section 809 of the 2006 Act;

(b) copies of Directors' service contracts and letters of appointment;

(c) the existing articles of association of the Company and the proposed new articles of association (if resolution 12 is passed).

ANNUAL GENERAL MEETING EXPLANATORY NOTES

Four of the resolutions at this year's Annual General Meeting are to be taken as special business. By way of explanation of these and certain other resolutions:

ORDINARY BUSINESS

RESOLUTION 3

FINAL DIVIDEND

A final dividend of 42.7 pence per Ordinary Share and Non-Voting Ordinary Share is recommended by the Directors for payment to shareholders on the register of members of the Company at the close of business on 5 July 2013. Subject to approval by the Ordinary shareholders at the Annual General Meeting, the final dividend will be paid on 1 August 2013. An interim dividend of 19.8 pence per Ordinary Share and Non-Voting Share was paid on 4 January 2013. This gives a total dividend of 62.5 pence per Ordinary Share and Non-Voting Share for the year ended 31 March 2013.

RESOLUTIONS 4, 5, 6 AND 7

RE-ELECTION OF DIRECTORS

Norman Holladay is the Director retiring by rotation this year and he offers himself for re-election. David Weir and Graham Scott, who have each served for more than nine years and are subject to annual re-election, also each offer himself for re-election. David Strahan was appointed since the last Annual General Meeting, he also offers himself for re-election. All members of the Board of Directors submit themselves for re-election at least every three years, with the exception of David Weir and Graham Scott who, because of their length of service, will retire and offer themselves for re-election annually. Brief biographical details about the Directors standing for re-election appear on pages 14 and 15 of this Annual Report.

RESOLUTION 8

AUDITOR

The Company is required to appoint the auditor at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. Resolution 8 proposes the re-appointment of the Company's existing auditor, KPMG Audit plc.

SPECIAL BUSINESS

RESOLUTION 9

AUTHORITY TO ISSUE SHARES

The purpose of resolution 9 is to renew the Directors' power to allot shares.

Paragraph (a) of resolution 9 would give the Directors the authority to allot shares or grant rights to subscribe for or convert any securities into ordinary shares up to an aggregate nominal amount equal to £77,202. This amounts represents approximately one third of the issued ordinary share capital of the Company as at 10 June 2013, the latest practicable date prior to publication of this Notice.

In line with guidance issued by the Association of British Insurers, paragraph (b) of this resolution would give the Directors authority to allot ordinary shares or grant rights to subscribe for or convert any securities into ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £154,406, as reduced by the nominal amount of any shares issued under paragraph (a) of this resolution. This amount (before any reduction) represents approximately two thirds of the issued ordinary share capital of the Company as at 10 June 2013, the latest practicable date prior to publication of this Notice.

The authorities sought under paragraphs (a) and (b) of resolution 9 will expire at the conclusion of the Annual General Meeting of the Company held in 2014.

The Directors have no present intention to exercise the authorities sought under this resolution. As at the date of this Notice, no ordinary shares are held by the Company in treasury.

RESOLUTION 10

DISAPPLICATION OF STATUTORY RIGHTS OF PRE-EMPTION

This proposed resolution seeks to obtain power under Section 570 of the 2006 Act to enable the Directors to allot, for cash, shares with an aggregate nominal value of £11,580 equal to approximately 5% of the Company's current issued share capital without being required first to offer such securities to existing shareholders. The Company will thereby be given greater flexibility when considering future opportunities but the interests of existing shareholders will be protected as, except in the case of a rights issue, the Directors have no present intention to allot any part of the unissued share capital of the Company or, without the prior approval of the Company in general meeting, to make any issue which would effectively alter the control of the Company or the nature of its business. This authority will expire immediately following the next Annual General Meeting following the resolution or, if earlier, 15 months following the resolution being passed.

RESOLUTION 11

AUTHORITY TO PURCHASE ORDINARY SHARES

At the Annual General Meeting, Ordinary shareholders are being invited to grant authority to the Company to make market purchases of its Ordinary Shares and Non-Voting Ordinary Shares. It is proposed such authority shall expire on the conclusion of the Annual General Meeting to be held in 2014 or on 31 July 2014, if earlier.

This authority will be limited to the purchase of not more than 10% of the Ordinary Shares currently in issue. This represents the maximum amount of Ordinary Share and Non-Voting Ordinary Share capital in issue which is permitted before tender or partial offer to all shareholders is required to be made to perform any share buy-back. The maximum price payable under this authority will be 105% of the average of the middle market quotations of an Ordinary Share or Non-Voting Ordinary Share for the five business days before the relevant purchase and the minimum price will be 5 pence per Ordinary Share or Non-Voting Ordinary Share.

In considering whether or not to purchase Ordinary Shares and Non-Voting Ordinary Shares under the market purchase authority, the Directors will take into account cash resources, the effect on gearing and other investment opportunities before exercising the authority. In addition, the Company will only exercise the authority to make such a purchase in the market when the Directors consider it is in the best interests of the shareholders generally to do so and it should result in an increase in Earnings per Ordinary Share and Non-Voting Ordinary Share.

RESOLUTION 12

ARTICLES

The Company is proposing to change its Articles of Association (Articles) to deal with various recommendations made by the Institute of Chartered Secretaries and Administrators (ICSA). If this resolution is passed, the Articles will be changed to:-

(a) allow Share Certificates to be issued without the need for them to be sealed and to be issued by any mechanical or electronic means approved by the Directors;

(b) terminate the entitlement of a shareholder to receive notices from the Company where two consecutive notices have been sent to a member over a period of at least twelve months and those notices have been returned undelivered to the Company or the Company has been notified that the notices have not been delivered; and

(c) clarify that:-

  (i) in calculating the period of 48 hours before the time for holding a general meeting by which a Proxy Notice is to be served, no account is to be taken of days which are not Business Days; and

  (ii) the proceedings at a general meeting shall not be invalidated where an appointment of a proxy in respect of a meeting is sent in electronic form as provided by the Articles but because of a technical problem cannot be read by the recipient.

Dee Valley Group plc
Packsaddle
Wrexham Road
Rhostyllen
Wrexham
LL14 4EH

Registered in England and Wales
Registered number 4316684

LSE Stock Code: DVW

To visit the investor section of our website scan the QR code on your smartphone.