Company Registration No. 03527628

DEE VALLEY WATER PLC

Regulatory Accounts

Year Ended 31 March 2014

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G R Scott
D T Weir
J H Schofield
D E Strahan
A A Bickerton (appointed 6 May 2014)
P B Holder (appointed 21 January 2014)

COMPANY SECRETARY

A A Bickerton (appointed 6 May 2014)

REGISTERED OFFICE

Packsaddle
Wrexham Road
Rhostyllen
Wrexham
Clwyd
LL14 4EH

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

CERTIFICATE REPORT

CERTIFICATE OF COMPLIANCE WITH LICENCE CONDITION F6A

In arriving at the certificate provided below, the Directors met on 15 July 2014 to consider the Appointee's financial and management requirements over the next 12 months and the available resources. The main factors the Directors took into account in considering compliance with the Directors Certificate were:

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

The Directors were satisfied that sufficient resources existed and recommended that the Board could provide the necessary assurance. The Board duly considered the recommendations from the Directors on 15 July 2014 and resolved that the certificate would be signed on behalf of the Board.

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

- will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil its obligations under the Appointment);
- will for at least the next 12 months, have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out those functions;
- is in compliance with paragraph 3.1 of condition K of the Licence; and
- all contracts entered into with any associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

Approved by the Board on 15 July 2014 and signed on its behalf on 15 July 2014 by:

D E Strahan Chief Executive

A A Bickerton Finance Director

DIRECTORS' REPORT

The Directors present the annual report and the regulatory accounts of Dee Valley Water plc for the year ended 31 March 2014.

The regulatory accounts are separate from the statutory regulatory accounts of the Company which were prepared, on a consolidated basis, to 31 March 2014. These regulatory accounts are prepared to comply with Condition F of the Company's Licence granted under the Water Industry Act 1991.

PRINCIPAL ACTIVITY

The principal activity of the Company 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.

DIVIDENDS

A total dividend of £2,928,000 (2013: £2,836,000) was paid in the year. Of this £1,567,000 (2013: £1,584,000) related to the appointed business.

Dividends per share (appointed business)	**£**
Interim 2013/14 dividend paid per ordinary share	1.96
Final 2012/13 dividend paid per ordinary share	4.56
Total for 2013/14	**6.52**

DIRECTORS

The Directors' who held office during the year and to the date of signing were as follows:

G R Scott
D T Weir
J H Schofield
N C Holladay (Resigned 5 May 2014)
K G Williams (Resigned 9 May 2014)
D E Strahan
P B Holder (Appointed 21 January 2014)
A A Bickerton (Appointed 6 May 2014)

The Company Secretaries who held office during the year and to the date of signing were as follows:

D E Strahan (Resigned 6 May 2014)
A A Bickerton (Appointed 6 May 2014)

STATEMENT OF DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE (AS REQUIRED UNDER S35A OF THE WATER INDUSTRY ACT 1991)

REMUNERATION COMMITTEE

Details of directors' remuneration are disclosed within the Financial Statements of Dee Valley Water plc and those of the ultimate parent Dee Valley Group plc.

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

DIRECTORS' REPORT (Continued)

GOING CONCERN

The regulatory accounts have been prepared on the going concern basis. The Group has considerable financial resources together with a customer monopoly in its area of supply. While there is uncertainty in respect of the outcome of the current price review process, the Directors believe that the Group is well placed to manage its business risks successfully over the forthcoming twelve months.

DISCLOSURE OF INFORMATION TO AUDITOR

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General meeting.

By order of the board

A A Bickerton 15 July 2014

Company Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible under Condition F of the Instrument of Appointment issued under the Water Industry Act 1991 for:

- ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Water Services Regulation Authority ("OFWAT") to the appointee from time to time;

- preparing regulatory accounts on a consistent basis for each financial year in accordance with Condition F, having regard also to the terms of guidelines notified by OFWAT from time to time, which, so far as is reasonably practicable, have the same content as the annual financial statements of the appointee prepared under the Companies Act 2006 and which are prepared in accordance with the formats, accounting policies and principles which apply to those financial statements;

- preparing regulatory accounts on a current cost basis in respect of the same accounting period in accordance with guidelines issued by OFWAT from time to time;

- preparing such other financial and related information as is required by Condition F having regard also to the terms of guidelines issued by OFWAT from time to time;

- Ensuring that the Company maintain an investment grade credit rating (license condition F6A.6)

- Ensuring that the Company has adequate resources to continue as a going concern for the foreseeable future.

Signed on behalf of the Board
on 15 July 2014

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

To the Water Services Regulation Authority ("WSRA") and Members of Dee Valley Water PLC

We have audited the Regulatory Accounts of Dee Valley Water Plc for the year ended 31 March 2014 on pages 8 to 28 which comprise:

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

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

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

Respective responsibilities of the WSRA, the Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 5 the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

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

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

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in the notes to the accounts and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2014, (the "Methodology Statement").We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

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

Basis for qualified opinion on Regulatory Accounts

The audit evidence was limited with respect to an historic adjustment of £3.3 million in relation to Tangible Fixed Assets in the Historic Cost Balance Sheet. We were unable to obtain sufficient appropriate audit evidence from the Company regarding this historical Tangible Fixed Asset adjustment.

Qualified opinion on Regulatory Accounts

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 14 to 18 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2014 on an historical cost and current cost basis, and its historical cost and current cost profit for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 8 and 9 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 13.

Qualified opinion on other matters prescribed by Condition F

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

- except for as noted above in relation to the historical adjustment in relation to Tangible Fixed Assets for £3.3 million, proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2014 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditors
15 July 2014

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Appointed 2014 £'000	Non appointed 2014 £'000	Total 2014 £'000	Appointed 2013 As restated (see note 1) £'000	Non appointed 2013 £'000	Total 2013 As restated (see note 1) £'000
Turnover	23,720	23	23,743	22,673	80	22,753
Operating costs	(12,627)	(18)	(12,645)	(12,488)	(14)	(12,502)
Infrastructure renewals charge	(1,194)	-	(1,194)	(1,450)	-	(1,450)
Historical cost depreciation	(3,003)	-	(3,003)	(3,188)	-	(3,188)
Operating profit	6,896	5	6,901	5,547	66	5,613
Other income	-	2,023	2,023	18	1,796	1,814
Net interest	(4,127)	-	(4,127)	(3,033)	-	(3,033)
Profit on ordinary activities before taxation	2,769	2,028	4,797	2,532	1,862	4,394
Taxation - current	(211)	(460)	(671)	(212)	(447)	(659)
- deferred	187	-	187	596	-	596
Historic cost profit after taxation	2,745	1,568	4,313	2,916	1,415	4,331
Dividends	(1,567)	(1,361)	(2,928)	(1,584)	(1,252)	(2,836)
Retained profit for the year	1,178	207	1,385	1,332	163	1,495

The appointed business comprises those activities which as necessary for the company to fulfil its function and duties as a water undertaker. For the year to 31 March 2014 UK corporation tax has been calculated for the non-appointed business at 23 per cent of profit before tax (31 March 2013: 24 per cent).

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES - HISTORIC COST
For the year ended 31 March 2014

	Appointed	Appointed
	2014	2013 As restated (see note 1)
	£'000	£'000
Profit for the year	**1,178**	1,332
Actuarial loss (net of deferred tax) on post employment plans	**(2,620)**	(442)
Total recognised gains and losses relating to the year	**(1,442)**	890
Prior year adjustment (as explained in note 1)	636	
Total gains and losses recognised since last annual report and regulatory accounts	**(806)**	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES - HISTORIC COST
For the year ended 31 March 2014

	Non Appointed	Non Appointed
	2014	2013
	£'000	£'000
Profit for the year	**207**	163
Actuarial loss (net of deferred tax) on post employment plans	-	-
Total recognised gains and losses relating to the year	**207**	163

HISTORIC COST BALANCE SHEET
As at 31 March 2014

	Appointed 2014	Non appointed 2014	Total 2014	Appointed 2013 As restated (see note 1)	Non appointed 2013	Total 2013 As restated (see note 1)
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets						
Tangible assets	71,276	-	71,276	70,079	-	70,079
Investments	12,386	-	12,386	12,214	-	12,214
	83,662	-	83,662	82,293	-	82,293
Infrastructure renewals accrual	(2,251)	-	(2,251)	(2,109)	-	(2,109)
Other current assets	4,909	8,695	13,604	4,200	8,129	12,329
Creditors: amounts falling due within one year						
Borrowings	(6,215)	-	(6,215)	(6,042)	-	(6,042)
Other creditors	(4,134)	(7,107)	(11,241)	(3,913)	(6,718)	(10,631)
Total creditors due within one year	(10,349)	(7,107)	(17,456)	(9,955)	(6,718)	(16,673)
Net current (liabilities)/assets	(7,691)	1,588	(6,103)	(7,864)	1,411	(6,453)
Total asset less current liabilities	75,971	1,588	77,559	74,429	1,411	75,840
Creditors: amounts falling due after more than one year						
Borrowings	(50,401)	-	(50,401)	(48,867)	-	(48,867)
Other creditors	(2,995)	-	(2,995)	(2,995)	-	(2,995)
Total creditors due after more than one year	(53,396)	-	(53,396)	(51,862)	-	(51,862)
Provisions for liabilities and charges	(3,187)	-	(3,187)	(1,807)	-	(1,807)
Preference share capital	(114)	-	(114)	(114)	-	(114)
Net assets employed	19,274	1,588	20,862	20,646	1,411	22,057
Capital and reserves	19,274	1,588	20,862	20,646	1,411	22,057

The regulatory accounts of Dee Valley Water plc (registered number 03527628) were approved by the board of Directors and approved for issue on 15 July 2014

and signed on its behalf by:

David Strahan

Chief Executive

CURRENT COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

		2014 £'000	2013 As restated (see note 1) £'000
TURNOVER			
Unmeasured	- household	**8,849**	8,722
	- non household	**113**	115
Measured	- household	**7,625**	7,032
	- non household	**7,010**	6,696
Bulk supplies		**4**	4
Other third party services (including non potable water)		**119**	104
Total turnover		**23,720**	22,673
Current cost operating costs			
	- wholesale	**(15,184)**	(15,139)
	- retail	**(2,994)**	(3,191)
Operating result		-	-
Working capital adjustment		**61**	145
Operating profit		**5,603**	4,488
Other income		-	18
Net interest		**(4,127)**	(3,033)
Financing adjustment		**(90)**	(375)
Profit on ordinary activities before taxation		**1,386**	1,098
Taxation	- current	**(211)**	(212)
	- deferred	**187**	596
Profit on ordinary activities after taxation		**1,362**	1,482
Dividends		**(1,567)**	(1,584)
Retained loss for year		**(205)**	(102)
Net revenue movement out of tariff basket		-	-
Back billing amount identified		-	-

CURRENT COST CASH FLOW STATEMENT
As at 31 March 2014

	2014	2013 As restated (see note 1)
	£'000	£'000
Current cost operating profit	5,603	4,488
Pension curtailment gain	(1,257)	-
Working capital adjustment	(61)	(145)
Movement in working capital	(717)	1,650
Receipts from other income	-	18
Current cost depreciation	4,456	4,391
Current cost profit/(loss) on sale of fixed assets	9	(2)
Infrastructure renewals charge	1,194	1,450
Movement in provisions	(486)	(556)
Net cash flow from operating activities	8,741	11,294
Return on investments and servicing of finance	(1,903)	(1,894)
Taxation paid	(208)	(216)
Capital expenditure and financial investment		
Gross cost of purchases of fixed assets	(4,998)	(12,195)
Receipt of grants and contributions	775	1,112
Infrastructure renewals expenditure	(1,052)	(1,840)
Receipts from sales of tangible assets	34	41
Movements on long term loans to group companies	(172)	(161)
Net cash outflow from investing activities	(5,413)	(13,043)
Equity dividends paid	(1,567)	(1,585)
Net cash flow before financing	(350)	(5,444)
Net cash flow from financing	1,534	7,494
Decrease in cash	1,184	2,050

NOTES TO THE REGULATORY ACCOUNT
For the year ended 31 March 2014

RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS – 2013/14

Profit and loss account	Statutory (UK GAAP) £'000	Regulatory £'000	Difference £'000	Explanation
Turnover	23,787	23,743	44	Income treated as deduction from operating costs in regulatory accounts
Operating profit	8,924	6,901	(2,023)	Commission income included in operating profit in the statutory accounts but shown in Other Income in the regulatory accounts
Balance sheet				
Tangible fixed assets (net book value)	65,711	71,276	5,565	In the statutory accounts the Company adopts infrastructure accounting as set out in FRS 15. Ofwat requests that, for regulatory accounting purposes, FRS 15 is not applied for infrastructure renewals accounting. The infrastructure renewals accrual, amounting to £2.3m, is therefore excluded from the fixed asset net book value in the statutory accounts. There is also a brought forward historic adjustment of £3.3m.
Investments	-	12,386	12,386	In the statutory accounts an Inter-Company is disclosed within debtors. Ofwat accounting guidelines state that it should be classified as an investment.
Provision for liabilities and charges (restated)	(5,285)	(3,187)	2,098	Defined benefit pension scheme assets are shown as asset in the statutory accounts, but included in provisions in the regulatory accounts.
Preference share capital	-	(114)	(114)	Preference share capital is included in creditors falling due after one year in the statutory accounts.

None of the above accounting policy adjustments have had an impact on tax. As a result there are no differences between the Corporation tax balances in the Statutory and Regulatory Accounts.

NOTES TO THE REGULATORY ACCOUNT
For the year ended 31 March 2014

1. ACCOUNTING POLICIES

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

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

These accounts have been prepared in accordance with guidance issued by the Water Services Regulatory Authority, OFWAT. Further to the prior year adjustments as noted below, the accounting policies used are the same as those adopted in the statutory financial statements except for the application of infrastructure renewals accounting and accounting treatment for infrastructure charges which has been described below.

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

Prior year adjustments

The Directors have restated the prior period regulatory accounts to better align the Dee Valley Water plc regulatory financial statements to the Regulatory Accounting Guidelines.

The adjustments relate to the following:

i. Dee Valley Water plc applies discounting to its deferred tax liabilities in its statutory accounts as an accounting policy choice under UK GAAP. At 31 March 2013 and in previous periods, the impact of discounting on deferred taxation was removed when preparing the regulatory accounts. On the basis that the regulatory accounts should be based on the UK GAAP statutory accounts, as adjusted only for matters required by the Regulatory Accounting Guidelines, the Directors have corrected this as a prior year adjustment in these accounts.

ii. The Group's intercompany financing arrangements do not provide for interest to be charged and accordingly no such interest is recognised in the Dee Valley Water plc statutory accounts. At 31 March 2013 and in previous periods, an imputed interest charge had been levied on intercompany balances when preparing the regulatory accounts. The prior year adjustment therefore removes this adjustment at 31 March 2013 for consistency with the Dee Valley Water plc Financial Statements and to reflect properly the nature of the underlying transactions.

The directors consider that the new policy provides a fairer presentation of the results and financial position of the Company and aligns accounting policy to both the Dee Valley Water plc Financial Statements and the Regulatory Accounting Guidelines. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The effects of the above changes on the 2013 accounts as previously reported in the historical and current cost accounts are summarised below:

	2013 £'000
Profit and loss account	
Net interest	(46)
Taxation - deferred	388
Increase in profit for the financial year	342
Balance sheet	
Other current assets	(9,808)
Other creditors	8,067
Provisions for liabilities and charges	2,377
Increase in net assets	636

NOTES TO THE REGULATORY ACCOUNT
For the year ended 31 March 2014

1. **ACCOUNTING POLICIES (continued)**

Prior year adjustments (continued)

In addition to the impacts as noted above the financing adjustment reported in the current cost profit and loss decreased by £53,000 from £428,000 to £375,000.

In addition to the two adjustments highlighted above, in preparing these regulatory accounts the directors identified that in the regulatory accounts for the year ended 31 March 2013:

- the reported amounts for Other current assets and Other creditors of the appointed business were each inflated by £8,150,000. The overstatement represented amounts received for sewerage collections which were recorded in the regulatory accounts in both the appointed and non-appointed businesses in error. The balances have been re-presented in the comparative figures in these regulatory accounts to reflect the correct position.
- certain amounts reported in the cash flow and analysis of working capital (note 8) were presented erroneously. Accordingly the comparative figures in these regulatory accounts have been re-presented to reflect the correct position. The differences are noted below:

	(As restated) 2013 £'000	(As previously reported) 2013 £'000	Difference £'000
Current cost operating profit	4,488	4,488	-
Working capital adjustment	(145)	(145)	-
Movement in working capital	1,650	-	1,650
Receipts from other income	18	18	-
Current cost depreciation	4,391	4,391	-
Current cost profit on sale of fixed assets	(2)	-	(2)
Infrastructure renewals charge	1,450	1,450	-
Movement in provisions	(556)	664	(1,200)
Net cash flow from operating activities	11,294	10,846	428
Return on investments and servicing of finance	(1,894)	(1,754)	(140)
Taxation received/(paid)	(216)	479	695
Capital expenditure and financial investment			
Gross cost of purchases of fixed assets	(12,195)	(12,195)	-
Receipt of grants and contributions	1,112	1,112	-
Infrastructure renewals expenditure	(1,840)	(1,840)	-
Receipts from sales of tangible assets	41	41	-
Movements on long term loans to group companies	(161)	-	(161)
Net cash outflow from investing activities	(13,043)	(12,882)	(161)
Equity dividends paid	(1,585)	(1,585)	-
Net cash flow before financing	(5,444)	(6,307)	863
Net cash flow from financing	7,494	5,981	1,513
Increase/(decrease) in cash	2,050	(326)	2,376

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Prior year adjustments (continued)

Analysis of working capital

	(As Restated) 2013 £'000	(As previously reported) 2013 £'000	Difference £'000
Stocks	208	208	-
Trade debtors - Measured household	844	844	-
- Unmeasured household	772	750	22
- Measured non household	634	634	-
- Unmeasured non household	106	107	(1)
- Other	101	102	(1)
Measured income accrual	1,459	1,459	-
Prepayments and other debtors	5	5	-
Trade creditors	(917)	(917)	-
Deferred income - customer advance receipts	(417)	(417)	-
Capital creditors	(743)	(743)	-
Accruals and other creditors	(2,170)	(2,228)	58
Total working capital	(118)	(196)	(78)

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Capitalisation policy

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

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

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

Tangible fixed assets

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

Land and buildings

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

Infrastructure assets

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

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

There have been no changes to the IRC policy within the year.

Other fixed assets

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

Grants and other third party contributions

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

Real financial capital maintenance adjustments

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

Working capital adjustment

This is calculated by applying the change in the Retail Price Index ('RPI') over the year to the opening total of trade debtors and stock less trade creditors in line with the guidance set out in RAG 3.07.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Depreciation adjustment

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

Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital in line with the guidance set out in RAG 3.07.

Accounting separation policy

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

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

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

Where this is not possible methods of allocation have been adopted following the previously published Ofwat guidance. There have been not changes to the basis of allocation of operating costs in the year.

In accordance with Ofwat IN13/01 general and support assets continue to be allocated between business units. All other assets are either used wholly by the wholesale or the retail business.

2. **TURNOVER**

Revenue recognition

Turnover comprises amounts due in respect of water supplied to measured and unmeasured customers during the year in the normal course of business. Turnover from the supply of other goods and services is immaterial. Turnover from measured water charges includes amounts billed plus an estimate of amounts unbilled at 31 March. Revenue is stated net of VAT, where applicable.

There are no material differences between the statutory and regulatory revenue recognition policies.

Unoccupied properties

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

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

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

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

2. TURNOVER (continued)

New accounts

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

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

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

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

New properties

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

Charges on income

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

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

Bad debt policy

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

Previous Occupier - No Forwarding Address

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

If debt is under £50.00 (over 1 month old) and there has been no response from issuing of the final bill the debt is written off.

If the debt is greater than £50.00 the account is passed to a third party trace collection agency. Provided this service is on a 'no trace no fee' basis more than one agency may be used to trace the same debtor. If third parties cannot trace the debt it will be written off.

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

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

2. **TURNOVER (continued)**

Previous Occupier with Forwarding Address

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

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

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

Bankruptcy/Debt Relief Orders

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

Bad debt provision

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

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

3. ACTIVITY COSTING ANALYSIS FOR THE YEAR ENDED 31 MARCH 2014 – WATER SERVICES

	Water resources	Raw water distribution	Water treatment	Treated water distribution	Water service total
	£000	£000	£000	£000	£000
Direct costs					
Power	530	70	269	823	1,692
Income treated as negative revenue	-	-	-	-	-
Service charges	853	-	46	-	899
Bulk supply imports	-	-	20	-	20
Other operating expenditure	788	128	2,009	3,094	6,019
Local authority rates	97	25	123	809	1,054
Exceptional items	-	-	-	-	-
Total operating expenditure excluding third party services	2,268	223	2,467	4,726	9,684
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	124	12	1	1,057	1,194
Current cost depreciation	273	131	2,129	1,756	4,289
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Capital maintenance (excluding third party services)	397	143	2,130	2,813	5,483
Third party services					
Operating expenditure	17	-	-	-	17
Third party services current cost depreciation	-	-	-	-	-
Third party services infrastructure renewals charge	-	-	-	-	-
Total third party services	17	-	-	-	17
Total operating costs	2,682	366	4,597	7,539	15,184

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

4. ACTIVITY COSTING ANALYSIS FOR THE YEAR ENDED 31 MARCH 2014 - RETAIL SERVICES

	Retail household £'000	Retail non-household £'000	Total retail £'000
Direct costs			
Customer services	813	57	**870**
Debt management	208	74	**282**
Doubtful debts	390	72	**462**
Meter reading	134	5	**139**
Services to developers	-	81	**81**
Other operating expenditure	846	139	**985**
Local authority rates	7	1	**8**
Exceptional items	-	-	**-**
Total opex less third party services	2,398	429	**2,827**
Third party series - opex	-	-	**-**
Total operating expenditure	2,398	429	**2,827**
Capital maintenance			
Infrastructure renewals charge (excluding third party services)	-	-	**-**
Current cost depreciation	145	22	**167**
Amortisation of deferred credits	-	-	**-**
Amortisation of intangible assets	-	-	**-**
Total capital maintenance	145	22	**167**
Total operating costs	2,543	451	**2,994**
Bad debt written off	138	146	**284**

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

5. CURRENT COST ANALYSIS OF FIXED ASSETS (WHOLESALE BUSINESS ONLY)

Non-Infrastructure Assets	Resources £'000	Raw distribution £'000	Treatment £'000	Treated distribution £'000	Total £'000
Gross replacement cost					
At 1 April 2013	9,436	9,208	66,173	71,613	156,430
AMP adjustment	-	-	-	-	-
Reclassification	-	-	-	-	-
RPI adjustment	231	226	1,623	1,757	3,837
Disposals	(4)	(1)	(11)	(12)	(28)
Additions	195	3	2,296	1,476	3,970
Cost at 31 March 2014	9,858	9,436	70,081	74,834	164,209
Depreciation					
At 1 April 2013	5,369	1,947	33,632	40,417	81,365
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	131	47	825	991	1,994
Disposals	(4)	(1)	(10)	(105)	(120)
Charge for year	273	132	2,128	1,756	4,289
Depreciation at 31 March 2014	5,769	2,125	36,575	43,059	87,528
Net book value at 31 March 2014	4,089	7,311	33,506	31,775	76,681
Net book value at 31 March 2013	4,068	7,260	32,541	31,197	75,066

Infrastructure assets					
Gross replacement cost					
At 1 April 2013	44,134	4,478	7	375,976	424,595
AMP adjustment	-	-	-	-	-
Reclassification	-	-	-	-	-
RPI adjustment	1,082	110	-	9,222	10,414
Disposals	-	-	-	-	-
Additions	-	-	-	740	740
Cost at 31 March 2014	45,216	4,588	7	385,938	435,749

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

6. CURRENT COST ANALYSIS OF FIXED ASSETS (RETAIL BUSINESS ONLY)

	Household £'000	Non-household £'000	Total retail £'000
Gross replacement cost			
At 1 April 2013	3,777	515	4,292
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	93	12	105
Disposals	(22)	(5)	(27)
Additions	247	43	290
Gross replacement cost at 31 March 2014	4,095	565	4,660
Depreciation			
At 1 April 2013	2,277	294	2,571
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	56	7	63
Disposals	(16)	(5)	(21)
Charge for year	145	22	167
Depreciation at 31 March 2014	2,462	318	2,780
Net book value at 31 March 2014	1,633	247	1,880
Net book value at 31 March 2013	1,500	221	1,722

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

7. ANALYSIS OF CAPITAL EXPENDITURE, GRANTS AND LAND SALES FOR THE YEAR ENDED 31 MARCH 2014

	2014			2013		
	Gross £'000	Grants and contributions £'000	Net £'000	Gross £'000	Grants and contributions £'000	Net £'000
Capital expenditure base						
Infrastructure renewals expenditure (IRE)	1,052	(44)	1,008	1,840	(440)	1,400
Maintenance non infrastructuring (MNI)	3,534	-	3,534	10,880	-	10,880
Enhancements						
Infrastructure	731	(731)	-	643	(672)	(29)
Non infrastructure	733	-	733	674	-	674
Total capital expenditure	6,050	(775)	5,275	14,037	(1,112)	12,925
Grants and contributions						
Developer contributions		(437)			(678)	
Infrastructure charge receipts		(273)			(214)	
Other contributions		(65)			(220)	
Total grants and contributions		(775)			(1,112)	
Land sales - proceeds from disposals of protected land			-			-

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

8. ANALYSIS OF WORKING CAPITAL

	2014 £'000	2013 £'000
Stocks	354	208
Trade debtors - Measured household	1,057	844
- Unmeasured household	905	772
- Measured non household	684	634
- Unmeasured non household	101	106
- Other	102	101
Measured income accrual	1,498	1,459
Prepayments and other debtors	79	5
Trade creditors	(1,058)	(917)
Deferred income - customer advance receipts	(456)	(417)
Capital creditors	(107)	(743)
Accruals and other creditors	(2,559)	(2,169)
Total working capital	600	(117)
Total revenue outstanding - household	3,432	3,070
- non household	780	737

9. FINANCING ADJUSTMENT

Using prior year closing balances	2014 £'000	2013 As restated see note 1 £'000
Overdraft	(6,042)	(61)
Borrowings	(7,715)	(7,389)
Group loan	(2,996)	(2,996)
Short term investments	8,152	9,563
Loans to group companies	12,214	12,053
Other debtors	88	279
Other creditors	(16)	(16)
Net Financing	3,685	11,433
RPI	2.4528%	3.2807%
Adjustment: 3,685 x 2.4528% x (-1)	(90)	(375)

The financing adjustment shows the real gain or loss arising for shareholders from the impact of general inflation on monetary assets and liabilities.

10. WORKING CAPITAL ADJUSTMENT

Using prior year balances	2014 £'000	2013 £'000
Opening working capital	(2,475)	(4,428)
RPI	2.4528%	3.2807%
Adjustment: (2,475) x 2.4528% x (-1)	61	145

The working capital adjustment shows the impact of general inflation on the real value of working capital to the business.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

11. ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS

	Interest rate risk profile			
Net debt analysis (appointed business only)	**Fixed rate £'000**	**Floating rate £'000**	**Index linked £'000**	**Total 2014 £'000**
Borrowings (excluding irredeemable debentures)	6,215	8,261	50,401	64,877
Irredeemable debentures	114	-	-	114
Total borrowings	6,329	8,261	50,401	64,991
Cash	-	-	-	-
Short term deposits	-	(8,223)	-	(8,223)
Net debt	6,329	38	50,401	56,768
Regulatory capital value				£73.6m
Gearing				77.2%
Full year equivalent nominal interest cost	94	62	1,776	1,932
Full year equivalent cash interest payment	94	62	1,818	1,974
Indicative interest rates				
Indicative weighted average nominal interest rate	1.488%	0.5%	3.635%	3.500%
Indicative weighted average cash interest rate	1.488%	0.5%	3.604%	3.468%
Weighted average years to maturity	-	-	18	18

12. NON FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2014

Number of properties	**2014 £'000**	**2013 £'000**
Households billed	112.726	111.995
Non households billed	8.141	8.169
Household voids	2.003	2.021
Non household voids	1.690	1.651
Per capita consumption (excluding supply pipe leakage) l/h/d		
Unmeasured household	153.33	148.21
Measured household	113.22	121.17
Volume (Ml/d)		
Bulk supply export	1.03	0.03
Bulk supply import	0.08	0.08
Distribution input	62.64	61.25

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2014

13. REPORT ON RAG5 TRANSFER PRICING

Summary

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

The Energy business ceased to trade during 2002/3.

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

Split between Appointed and Non-Appointed activities

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

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

Conclusion

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

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

14. TRANSACTIONS WITH ASSOCIATED COMPANIES

There were no transactions with associated companies during the year other than intergroup dividends.

At 31 March 2014 there is inter-group indebtedness due to Dee Valley Water plc of £12,386,000 (2013: £12,214,000) and Dee Valley Water plc is indebted to Wrexham Water plc for £2,995,600 (2013: £2,995,600).