

DEE VALLEY WATER PLC

Regulatory Accounts

Year Ended 31 March 2015

CONTENTS

	Page
Officers and professional advisers	1
Certificate report	2
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Historical cost profit and loss account	8
Statement of total recognised gains and losses - Historic cost	9
Historic cost balance sheet	10
Current cost profit and loss account	11
Current cost cash flow statement	12
Reconciliation between statutory and regulatory accounts	13
Notes to the regulatory accounts	14

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Bickerton (appointed 6 May 2014)
P B Holder
I J A Plenderleith (appointed 26 August 2014)
J H Schofield
K Starling (appointed 28 May 2015)
D T Weir

COMPANY SECRETARY

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 2015 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:

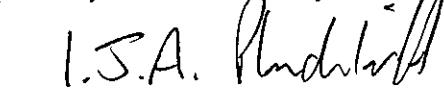
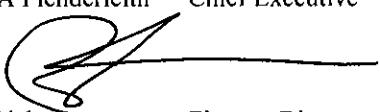
- that the Company's processes and systems of internal control had operated as expected;
- that the Appointee operated as if the appointed business were substantially the Appointee's sole business and that the Appointee were a separate public limited Company;
- that the Company's resources and facilities 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 2015 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 2015 and signed on its behalf on 15 July 2015 by:


I.J.A. Plenderleith
Chief Executive

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 2015.

The regulatory accounts are separate from the statutory accounts of the Company which were prepared, on a consolidated basis, to 31 March 2015. 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 £2,895,000 (2014: £2,928,000) was paid in the year. Of this £1,416,000 (2014: £1,567,000) related to the appointed business.

Dividends per share (appointed business)	£
Interim 2014/15 dividend paid per ordinary share	1.79
Final 2013/14 dividend paid per ordinary share	4.11
Total for 2014/15	5.90

DIRECTORS

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

A Bickerton	(appointed 6 May 2014)
P B Holder	
N C Holladay	(resigned 5 May 2014)
I J A Plenderleith	(appointed 26 August 2014)
J H Schofield	
G R Scott	(resigned 1 August 2014)
K Starling	(appointed 28 May 2015)
D E Strahan	(resigned 26 August 2014)
D T Weir	
K G Williams	(resigned 9 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 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.

During the year, a bonus scheme was introduced for the Company's Directors. The bonus award for the Directors reflects performance against the Company's key performance indicators, their own personal objectives and, in the current year, the outcome of the Periodic Review process. Bonus awards are capped at a maximum of 50% of base salary.

DIRECTORS' REPORT (Continued)

GOING CONCERN

The regulatory accounts have been prepared on the going concern basis. The Company has considerable financial resources together with a customer monopoly in its area of supply. Consequently, the Directors believe that the Company is well placed to manage its business risks successfully over the forthcoming twelve months.

The revolving credit facility in place at the year-end was committed until 31 March 2016. In order to secure future funding for the Company and to support the AMP6 investment plan (up to £50 million), the Company refinanced this facility post year-end, entering into a new five year revolving credit facility of £30.0 million on 15 May 2015. This new facility replaces the existing £9.0 million facility and includes an option for a two year extension beyond 2020, providing secured funding for the Company throughout AMP6.

The Directors therefore have a reasonable expectation that the Company 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.

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



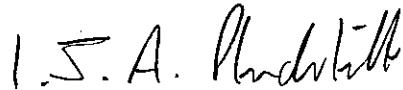
A Bickerton
Company Secretary

15 July 2015

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); and
- 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 2015

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 2015 on pages 8 to 25 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).

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 17 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 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 to 10 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

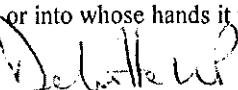
Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- 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
Chartered Accountants and Statutory Auditors
15 July 2015

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

	Appointed 2015	Non appointed 2015	Total 2015	Appointed 2014	Non appointed 2014	Total 2014
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	24,469	54	24,523	23,720	23	23,743
Operating costs	(14,545)	(27)	(14,572)	(12,627)	(18)	(12,645)
Infrastructure renewals charge	(1,138)	-	(1,138)	(1,194)	-	(1,194)
Historical cost depreciation	(2,986)	-	(2,986)	(3,003)	-	(3,003)
Operating profit	5,800	27	5,827	6,896	5	6,901
Other income	52	2,086	2,138	-	2,023	2,023
Net interest	(2,557)	-	(2,557)	(4,127)	-	(4,127)
Profit on ordinary activities before taxation	3,295	2,113	5,408	2,769	2,028	4,797
Taxation - current - deferred	(280) (361)	(444) -	(724) (361)	(211) 187	(460) -	(671) 187
Historic cost profit after taxation	2,654	1,669	4,323	2,745	1,568	4,313
Dividends	(1,416)	(1,479)	(2,895)	(1,567)	(1,361)	(2,928)
Retained profit for the year	1,238	190	1,428	1,178	207	1,385

The appointed business comprises those activities which are necessary for the company to fulfil its function and duties as a water undertaker. For the year to 31 March 2015 UK corporation tax has been calculated for the non-appointed business at 21 per cent of profit before tax (31 March 2014: 23 per cent).

HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES - HISTORIC COST
For the year ended 31 March 2015

	Appointed 2015	Appointed 2014
	£'000	£'000
Profit for the year (before dividends)	2,654	2,745
Actuarial loss (net of deferred tax) on post-employment plans	(339)	(2,620)
Total recognised gains and losses relating to the year	2,315	125

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES - HISTORIC COST
For the year ended 31 March 2015

	Non Appointed 2015	Non Appointed 2014
	£'000	£'000
Profit for the year (before dividends)	1,669	1,568
Actuarial loss (net of deferred tax) on post-employment plans	-	-
Total recognised gains and losses relating to the year	1,669	1,568

HISTORIC COST BALANCE SHEET
As at 31 March 2015

	Appointed 2015	Non appointed 2015	Total 2015	Appointed 2014	Non appointed 2014	Total 2014
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets						
Tangible assets	72,436	-	72,436	71,276	-	71,276
Investments	12,467	-	12,467	12,386	-	12,386
	<u>84,903</u>	-	<u>84,903</u>	83,662	-	83,662
Infrastructure renewals accrual	(1,964)	-	(1,964)	(2,251)	-	(2,251)
Other current assets	5,273	9,186	14,459	4,909	8,695	13,604
Creditors: amounts falling due within one year						
Borrowings	(6,000)	-	(6,000)	(6,215)	-	(6,215)
Other creditors	(4,545)	(7,405)	(11,950)	(4,134)	(7,107)	(11,241)
Total creditors due within one year	<u>(10,545)</u>	<u>(7,405)</u>	<u>(17,950)</u>	<u>(10,349)</u>	<u>(7,107)</u>	<u>(17,456)</u>
Net current (liabilities)/assets	<u>(7,236)</u>	<u>1,781</u>	<u>(5,455)</u>	<u>(7,691)</u>	<u>1,588</u>	<u>(6,103)</u>
Total assets less current liabilities	<u>77,667</u>	<u>1,781</u>	<u>79,448</u>	<u>75,971</u>	<u>1,588</u>	<u>77,559</u>
Creditors: amounts falling due after more than one year						
Borrowings	(51,673)	-	(51,673)	(50,401)	-	(50,401)
Other creditors	(2,995)	-	(2,995)	(2,995)	-	(2,995)
Total creditors due after more than one year	<u>(54,668)</u>	-	<u>(54,668)</u>	<u>(53,396)</u>	-	<u>(53,396)</u>
Provisions for liabilities and charges	(2,753)	-	(2,753)	(3,187)	-	(3,187)
Preference share capital	(114)	-	(114)	(114)	-	(114)
Net assets employed	<u>20,132</u>	<u>1,781</u>	<u>21,913</u>	<u>19,274</u>	<u>1,588</u>	<u>20,862</u>
Capital and reserves	<u>20,132</u>	<u>1,781</u>	<u>21,913</u>	<u>19,274</u>	<u>1,588</u>	<u>20,862</u>

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 2015 and signed on its behalf by:



I J A Plenderleith
 Chief Executive

CURRENT COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

		2015 £'000	2014 £'000
TURNOVER			
Unmeasured	- household	8,634	8,849
	- non household	111	113
Measured	- household	8,106	7,625
	- non household	7,518	7,010
Bulk supplies		4	4
Other third party services (including non potable water)		96	119
Total turnover		<u>24,469</u>	<u>23,720</u>
Current cost operating costs			
	- wholesale	(16,430)	(15,184)
	- retail	(4,069)	(2,994)
Working capital adjustment		15	61
Operating profit		<u>3,985</u>	<u>5,603</u>
Other income		54	-
Net interest		(2,557)	(4,127)
Financing adjustment		(29)	(90)
Profit on ordinary activities before taxation		<u>1,453</u>	<u>1,386</u>
Taxation	- current	(280)	(211)
	- deferred	(361)	187
Profit on ordinary activities after taxation		<u>812</u>	<u>1,362</u>
Dividends		(1,416)	(1,567)
Retained loss for year		<u>(604)</u>	<u>(205)</u>
Net revenue movement out of tariff basket		-	-
Back billing amount identified		-	-
		<u>—</u>	<u>—</u>

CURRENT COST CASH FLOW STATEMENT
As at 31 March 2015

	As restated ¹	
	2015 £'000	2014 £'000
Current cost operating profit	3,985	5,603
Pension curtailment gain	-	(1,257)
Working capital adjustment	(15)	(61)
Movement in working capital	(2)	(717)
Receipts from other income	-	-
Current cost depreciation	4,813	4,456
Current cost (profit)/loss on sale of fixed assets	(17)	9
Infrastructure renewals charge	1,138	1,194
Movement in provisions	(490)	(486)
Net cash flow from operating activities	9,412	8,741
Return on investments and servicing of finance	(1,930)	(1,903)
Taxation paid	(281)	(208)
Capital expenditure and financial investment		
Gross cost of purchases of fixed assets	(5,301)	(4,998)
Receipt of grants and contributions	1,163	775
Infrastructure renewals expenditure	(1,425)	(1,052)
Receipts from sales of tangible assets	54	34
Movements on long term loans to group companies	(81)	(172)
Net cash outflow from investing activities	(5,590)	(5,413)
Equity dividends paid	(1,416)	(1,567)
Net cash flow before financing	195	(350)
Net cash flow from financing¹	-	-
Decrease in cash	195	(350)

1: The current cost cash flow statement has been restated to remove the non-cash loan indexation charge of £1.5m in 2014 (2015: £1.3m) to more accurately represent the movements in cash rather than total net debt.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS – 2014/15

Profit and loss account	Statutory (UK GAAP) £'000	Regulatory £'000	Difference £'000	Explanation
Turnover	24,599	24,523	(76)	Income treated as deduction from operating costs in regulatory accounts
Operating profit	7,965	5,827	(2,138)	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)	67,158	72,436	5,278	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 £2.0m, 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	-	12,467	12,467	
Other current assets	26,926	14,459	(12,467)	In the statutory accounts an inter-company balance is disclosed within debtors. Ofwat accounting guidelines state that it should be classified as an investment.
Provision for liabilities and charges	(5,419)	(2,753)	2,666	Defined benefit pension scheme assets are shown as an asset in the statutory accounts, but included in provisions in the regulatory accounts.
Pension asset	2,666	-	(2,666)	
Preference share capital	-	(114)	(114)	Preference share capital is included in creditors falling due after one year in the statutory accounts.
Creditors due after more than one year	(54,783)	(54,668)	114	

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 ACCOUNTS (continued)
For the year ended 31 March 2015**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.

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.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

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.

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 financing 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 no 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.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

2. TURNOVER

Revenue recognition

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

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

Unoccupied properties

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

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

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

New accounts

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

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

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

2. TURNOVER (continued)

Bad debt policy

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

Previous Occupier - No Forwarding Address

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

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

If the debt is greater than £50.00 the account is passed to a third party trace collection agency. Provided this service is on a 'no trace no fee' basis more than one agency may be used to trace 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.

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 a 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

Following a review of the existing doubtful debt provisioning policy in the year, management have taken the decision to provide fully against all debts that are greater than two years old and also to specifically provide for customers' debts based on historic default and non-payment. This amendment to the provisioning policy lead to an increase in the total bad debt charge of £0.5 million at 31 March 2015 to a total of £1.0 million. There have been no other changes to the bad debt provisioning policy in the year.

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

3. ACTIVITY COSTING ANALYSIS FOR THE YEAR ENDED 31 MARCH 2015 – WATER SERVICES

	Water resources	Raw water distribution	Water treatment	Treated water distribution	Water service total
	£000	£000	£000	£000	£000
Direct costs					
Power	536	61	272	846	1,715
Income treated as negative revenue	-	-	-	-	-
Service charges	839	-	46	-	885
Bulk supply imports	-	-	36	-	36
Other operating expenditure	919	134	2,397	3,531	6,981
Local authority rates	101	25	125	824	1,075
Total operating expenditure excluding third party services	2,395	220	2,876	5,201	10,692
Capital maintenance					
Infrastructure renewals charge (excluding third party services)	118	12	-	1,008	1,138
Current cost depreciation	284	123	2,342	1,841	4,590
Amortisation of deferred credits	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-
Business activities current cost depreciation	-	-	-	-	-
Capital maintenance (excluding third party services)	402	135	2,342	2,849	5,728
Third party services					
Operating expenditure	10	-	-	-	10
Third party services current cost depreciation	-	-	-	-	-
Third party services infrastructure renewals charge	-	-	-	-	-
Total third party services	10	-	-	-	10
Total operating costs	2,807	355	5,218	8,050	16,430
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NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

4. ACTIVITY COSTING ANALYSIS FOR THE YEAR ENDED 31 MARCH 2015 - RETAIL SERVICES

	Retail household £'000	Retail non-household £'000	Total retail £'000
Direct costs			
Customer services	929	66	995
Debt management	278	57	335
Doubtful debts	924	38	962
Meter reading	178	12	190
Services to developers	-	115	115
Other operating expenditure	1,063	177	1,240
Local authority rates	8	1	9
 Total opex less third party services	 3,380	 466	 3,846
Third party series - opex	-	-	-
 Total operating expenditure	 3,380	 466	 3,846
 Capital maintenance			
Infrastructure renewals charge (excluding third party services)	-	-	-
Current cost depreciation	194	29	223
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
 Total capital maintenance	 194	 29	 223
 Total operating costs	 3,574	 495	 4,069
 Bad debt written off	 130	 123	 253

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

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

Non-Infrastructure Assets	Water	Raw water	Water	Treated	Total £'000
	resources £'000	distribution £'000	treatment £'000	water distribution £'000	
Gross replacement cost					
At 1 April 2014	9,858	9,436	70,081	74,731	164,106
AMP adjustment	-	-	-	-	-
Reclassification	-	-	-	-	-
RPI adjustment	89	85	632	675	1,481
Disposals	(3)	(2)	(10)	(248)	(263)
Additions	1,678	1	1,030	1,484	4,193
Cost at 31 March 2015	11,622	9,520	71,733	76,642	169,517
Depreciation					
At 1 April 2014	5,769	2,125	36,575	43,059	87,528
AMP adjustment	-	-	-	-	-
Reclassification adjustment	-	-	-	-	-
RPI adjustment	52	19	330	389	790
Disposals	(3)	(2)	(9)	(210)	(224)
Charge for year	284	123	2,342	1,841	4,590
Depreciation at 31 March 2015	6,102	2,265	39,238	45,079	92,684
Net book value at 31 March 2015	5,520	7,255	32,495	31,563	76,833
Net book value at 31 March 2014	4,089	7,311	33,506	31,672	76,578
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	45,216	4,588	7	385,938	435,749
AMP adjustment	-	-	-	-	-
Reclassification	-	-	-	-	-
RPI adjustment	408	41	-	3,484	3,933
Disposals	-	-	-	-	-
Additions	-	-	-	791	791
Cost at 31 March 2015	45,624	4,629	7	390,213	440,473

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

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

	Household £'000	Non- household £'000	Total retail £'000
Gross replacement cost			
At 1 April 2014	4,095	565	4,660
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	37	5	42
Disposals	(35)	(9)	(44)
Additions	307	48	355
Gross replacement cost at 31 March 2015	4,404	609	5,013
Depreciation			
At 1 April 2014	2,462	318	2,780
AMP adjustment	-	-	-
Reclassification adjustment	-	-	-
RPI adjustment	22	3	25
Disposals	(30)	(7)	(37)
Charge for year	194	29	223
Depreciation at 31 March 2015	2,648	343	2,991
Net book value at 31 March 2015	1,756	266	2,022
Net book value at 31 March 2014	1,633	247	1,880

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

**7. ANALYSIS OF CAPITAL EXPENDITURE, GRANTS AND LAND SALES FOR THE YEAR
 ENDED 31 MARCH 2015**

	2015			2014		
	Gross £'000	Grants and contributions £'000	Net £'000	Gross £'000	Grants and contributions £'000	Net £'000
Capital expenditure base						
Infrastructure renewals expenditure (IRE)	1,425	(159)	1,266	1,052	(44)	1,008
Maintenance non infrastructuring (MNI)	2,920	-	2,920	3,534	-	3,534
Enhancements						
Infrastructure	1,004	(1,004)	-	731	(731)	-
Non infrastructure	1,415	-	1,415	733	-	733
Total capital expenditure	6,764	(1,163)	5,601	6,050	(775)	5,275
Grants and contributions						
Developer contributions		(735)			(437)	
Infrastructure charge receipts		(386)			(273)	
Other contributions		(42)			(65)	
Total grants and contributions		(1,163)			(775)	
Land sales - proceeds from disposals of protected land			<u>—</u>			<u>—</u>

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

8. ANALYSIS OF WORKING CAPITAL

	2015 £'000	2014 £'000
Stocks	341	354
Trade debtors - Measured household	1,288	1,057
- Unmeasured household	748	905
- Measured non household	720	684
- Unmeasured non household	95	101
- Other	138	102
Measured income accrual	1,601	1,498
Prepayments and other debtors	155	79
Trade creditors	(1,147)	(1,058)
Deferred income - customer advance receipts	(480)	(456)
Accruals and other creditors	(2,750)	(2,559)
Total working capital	709	707
Total revenue outstanding - household	3,878	3,432
- non household	820	780

9. FINANCING ADJUSTMENT

	2015 £'000	2014 £'000
Using prior year closing balances		
Overdraft	(6,215)	(6,042)
Borrowings	(8,223)	(7,715)
Group loan	(2,996)	(2,996)
Short term investments	8,223	8,152
Loans to group companies	12,386	12,214
Other debtors	63	88
Other creditors	(6)	(16)
Net Financing	3,232	3,685
RPI	0.9027%	2.4528%
Adjustment: 3,232 x 0.9027% x (-1)	(29)	(90)

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

	2015 £'000	2014 £'000
Using prior year balances		
Opening working capital	(1,672)	(2,475)
RPI	0.9027%	2.4528%
Adjustment: (1,672) x 0.9027% x (-1)	15	61

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 2015

11. ANALYSIS OF NET DEBT, GEARING AND INTEREST COSTS

	Interest rate risk profile			
	Fixed rate £'000	Floating rate £'000	Index linked £'000	Total 2015 £'000
Net debt analysis (appointed business only)				
Borrowings (excluding irredeemable debentures)	6,000	-	51,673	57,673
Irredeemable debentures	114	-	-	114
Total borrowings	<u>6,114</u>	<u>-</u>	<u>51,673</u>	<u>57,787</u>
Cash	-	-	-	-
Net debt	<u>6,114</u>	<u>-</u>	<u>51,673</u>	<u>57,787</u>
Regulatory capital value				£71.2m
Gearing				68.8%
Full year equivalent nominal interest cost	73	-	1,878	1,951
Full year equivalent cash interest payment	73	-	1,865	1,938
Indicative interest rates				
Indicative weighted average nominal interest rate	1.212%	-	3.635%	3.376%
Indicative weighted average cash interest rate	1.212%	-	3.609%	3.354%
Weighted average years to maturity	-	-	17	17

12. NON FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2015

	2015 £'000	2014 £'000
Number of properties		
Households billed	113,406	112,726
Non households billed	8,161	8,141
Household voids	2,065	2,003
Non household voids	1,696	1,690
Per capita consumption (excluding supply pipe leakage) l/h/d		
Unmeasured household	147.38	153.33
Measured household	113.22	113.22
Volume (Ml/d)		
Bulk supply export	0.03	0.03
Bulk supply import	0.08	0.08
Distribution input	62.44	62.64

NOTES TO THE REGULATORY ACCOUNTS (continued)
For the year ended 31 March 2015

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. With the exception of inter-group dividends, there have not been any material inter-company transactions during the 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 2015 there is inter-group indebtedness due to Dee Valley Water plc of £12,467,000 (2014: £12,386,000) and Dee Valley Water plc is indebted to Wrexham Water plc for £2,995,600 (2013: £2,995,600).