Company Registration No. 03527628

DEE VALLEY WATER PLC

Annual Report and Financial Statements

For the year ended 31 March 2017

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

CONTENTS

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J B Coghlan
E FitzGerald
P J Remnant
A R E Strank
D J N Reiniche
A J Duff
K S Beeston
J Bowling
O R Garfield

COMPANY NUMBER

03527628

REGISTERED OFFICE

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Clwyd LL14 4EH

AUDITOR

Deloitte LLP
Statutory Auditor
2 Hardman Street
Manchester
United Kingdom

STRATEGIC REPORT
For the year ended 31 March 2017

The Directors of Dee Valley Water plc are pleased to present their strategic report on the affairs of the Company, along with the Directors' report, the audited financial statements and the auditor's report for the year ended 31 March 2017.

BUSINESS OVERVIEW

In February 2017 Severn Trent Water Limited acquired the voting and non-voting ordinary share capital of the Company's former parent company, Dee Valley Group plc (now Dee Valley Group Limited). Severn Trent is one of the leading water companies and intends to enhance the current service offering for Dee Valley Water's customers. The enlarged Severn Trent and Dee Valley group will benefit from the application of an innovative totex approach, economies of scale, a lower cost of financing and procurement expertise in order to leverage further value from Dee Valley Water's business.

Financial performance

Our financial performance continues to be satisfactory with revenue of £24.4 million (2016: £23.1 million) and operating profit of £3.6 million (2016: £6.6 million).

Revenue increased due to an increase in tariff prices that corrected the reduction in prices made in the previous year. However, operating profit has reduced due to incurring transaction costs of £2.4 million.

Strong progress has been made against the Company's operational key performance indicators this year and this, alongside the financial certainty provided by the backing of Severn Trent Plc, ensures that the Company can progress confidently into the third year of AMP6.

Customer care

Our own independent surveys say 77% of the domestic customers who interacted with us are satisfied with the service they received.

We have continued to focus on the root causes of customer dissatisfaction, leading to the identification of training needs and process improvements. Our real time feedback system, Rant & Rave, also continues to help us identify and resolve customer service issues, primarily complaints and unwanted contacts.

Further improvements in text messaging and other communication channels, alongside continuous improvement in both the skills of the customer service team and existing processes have ensured the SIM score has improved during the year.

The Consumer Council for Water have recently recognised Dee Valley Water's customers as amongst the most satisfied with the value for money of their water supply.

In addition to high-quality customer service, we recognise that our customers also want low bills and a wide range of payment options. While we have the fifth lowest water bills in England and Wales, the difficulties faced by our many vulnerable customers is a key concern and we remain committed to maintaining low bills.

Our social tariff, Here2Help, launched in April 2016, is for those with low household incomes. Eligible customers get 30% off their bill and complements our existing Help2Pay flexible payment options. To reach as many customers as possible we have set up monthly drop-in centres at local foodbanks, DWP offices and other local welfare charities/organisations. This is in addition to our customer liaison team who visit vulnerable and elderly customers in their homes to give advice, support and help with their bills.

Customer service and care for our most vulnerable customers continues to be of paramount importance for everyone at Dee Valley Water. Ofwat Customer satisfaction surveys show our approval ratings have improved again with the company being rated 4th in the industry with billing customer service overall rated 1st.

Improved performance

We have embraced Ofwat's shift in focus from capital expenditure (capex) based solutions to total expenditure (totex) and customer outcomes. This has enabled us to move away from primarily delivering high cost capital schemes. Instead, we continue to concentrate on how best to provide a resilient and high-quality supply of drinking water for our customers as efficiently as possible.

We have delivered strong year-on-year improvement in discoloured water contacts. The improvement has been driven by our strategy of upgrading treatment works to stop discolouration potential entering the network and then systematically cleaning the water mains. We have maintained our enhanced level of mains cleaning and achieved

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

307km of mains flushing in 2016 (around one seventh of our network). As a result of this programme of work our water quality, mains replacement programme and burst mains record, have all improved.

We have continued with our strong environmental performance, working to reduce gross operational greenhouse gas emissions this year, which fell to 8,385 tCO_2e (2015/16: 9,219 tCO_2e). This can be attributed partly to a change in the grid electricity conversion factor (calculated emissions from electricity fell by 4.4%) and partly to the improvements we made at Boughton treatment works for power resilience, significantly reducing the amount of fuel burned by reducing our reliance on a stand-by generator.

Leakage has increased this year, but remained within expected levels for this performance commitment. The deterioration is due to an increase in mains bursts and a major interruption on a strategic main in Wrexham affecting over 8,000 customers. Total leakage as measured in million litres per day is higher than assumed in our Water Resource Management Plan (11.31 Ml/d compared to 10.17 Ml/d). We will investigate the reasons for this during 2017/18.

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On supply interruptions, our performance this year of 0.35 hours per property (2015/16: 0.09 hours per property) was significantly impacted by a severe interruption on a strategic main during August 2016, which impacted over 8,000 customers in the Wrexham supply area. As a result, our overall performance has fallen this year and will marginally breach the penalty threshold. We remain committed to minimise interruptions, and wherever possible return supply within the 3 hour deadline and so return to our previous excellent performance in this area.

The number of mains bursts increased this year to 209 (2015/16: 169 bursts), but remain within expected levels of performance. The increase is attributable to bursts within the Chester area. To better understand our network, we are deploying loggers in the areas, which experienced the largest increases. This work will enable us to better target our mains replacement programme to replace problem or failing mains.

Our Mean Zonal Compliance now stands at 99.99% (2015/16: 99.95%), with this achievement attributable to the benefits from our new treatment works at Llwyn Onn and a significant increase in network cleaning. The 0.04% year-on-year decline is due to a single odour failure in the Rhos zone in September 2016.

During 2016, we also delivered an ultraviolet disinfection plant and a phosphate dosing scheme to control lead levels in our distribution system to further reduce water quality risk. We are planning to invest around £25m in the 2015-20 period to improve water quality, with measures such as rebuilding of reservoirs to working with landowners to reduce catchment risks.

The Company intends to decommission the Legacy treatment works, implementing an alternative solution through which water treated at the Llwyn Onn treatment works will be pumped across to the Legacy distribution zone. There are a number of key components required to successfully deliver the outcome, including the construction of additional pumping stations, laying 8.5km of pipeline and improving connectivity both within our own network and with neighbouring water companies. Construction work is on-going at various sites and we are on track to meet its commitment to deliver the required customer outcomes by 31 March 2018.

We have also provided regular updates about progress to our stakeholders, including our Customer Challenge Group (CCG) and the Consumer Council for Water (CCWater) throughout the year and will continue to do so as the scheme progresses. Future updates will be published on our website.

We remain on track to complete all planned service reservoir schemes by 31 March 2020, as agreed with the Drinking Water Inspectorate (DWI). We have provided regular updates about progress to our stakeholders, including our Customer Challenge Group and CCWater throughout the year and will continue to do so as the scheme progresses.

Our reservoir inspection programme aims to ensure that all 42 service reservoirs are inspected by 2020. As part of the programme, all remedial works will be identified and addressed prior to the reservoir being returned to service. We continue to work closely with the DWI to demonstrate that we are addressing risks associated with service reservoir membranes and joints.

We continue to promote the efficient use of water through a number of different initiatives throughout the year including:

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

- our school education programme managed by our third party supplier, Core Assets, who conduct learning sessions at local schools;
- the distribution of water efficiency devices both at local events and online; and
- water efficiency presentations to vulnerable customer organisations to help customers not only save water but also save money.

Our performance this year represents an increase in per capita consumption in comparison to the prior year and is outside the target performance. Driving a reduction in per capita consumption throughout the remainder of the AMP is a key area of focus and we aim to achieve progress towards this objective during the coming year.

Culture change

This continued improvement in performance would not have been possible without the efforts of our people and teams. During the year the company was acquired by Severn Trent Water Limited, and the Company is adopting Severn Trent's vision, purpose, strategy and values.

Future progress

Customer service and totex outperformance remain a key focus to ensure we can deliver effectively and efficiently for our customers and other stakeholders. We are well placed to achieve this and we are enjoying learning new skills from Severn Trent Water as we look to collectively improve customer experience. Dee Valley Water's and Severn Trent Water's customers will benefit from sharing best practice from both businesses. The combined Severn Trent group will also benefit from the Company's separate Welsh water licence and a stronger voice for our Welsh customers.

While the Board is pleased with the progress we have made and continue to make at the start of this new five-year business plan period, we are not complacent. There is still much to do, but the acquisition of the Company by Severn Trent Water Limited will help us grow our business and bring in new skills and expertise to the wider company. We look forward to continuing to integrate the two businesses over the coming months.

Ofwat KPI Performance

The key performance indicators set by Ofwat for the Company are summarised in two high-level areas which provide a broad overview of performance.

	2016/17	2016/17	Measurement
	Performance	Target	
Customer Experience			
Household Service Incentive Mechanism (SIM)	85.94	>80	Score out of 100
Water supply Interruptions	0.35	<0.29	Hours lost per property for three hours or longer
Discoloured water contacts*	1.07	<2.8	Complaints per 1,000 population
Number of bursts	209	<247	Mains bursts
Non-household Service Incentive Mechanism	90.43	>80	Score out of 100
Reliability and stability			
Leakage	89.0	<90.8	Litres per property per day
Security of supply index	100%	100%	Index score
Per capita consumption and water efficiency	135.21	131.44	Litres per person per day
Mean zonal compliance percentage*	99.99%	100%	

(*) Calendar year measure

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

All of the Company's risks are identified and managed through a continuous corporate risk management process. Risks are recorded on a risk register which details the nature of the risk, an assessment of the probability of it materialising and the potential impact using standardised procedures. Mitigation is assessed as part of this process.

During the year the Directors kept the risk register under continuous review and this register was also reviewed by the Audit Committee of Dee Valley Group plc as part of a wider review of the effectiveness of the Company's system of internal control. The Board also monitors key risk and performance indicators at each Board meeting.

Following the acquisition of the Dee Valley Group by Severn Trent Water Limited, an additional control was introduced, which included an internal self-assessment designed to identify any potential risks and issues that would have prevented compliance with the Company's statutory and regulatory obligations. Going forward, the Severn Trent Plc Enterprise Risk Management system is being implemented by the Company, and will further strengthen the Company's processes to manage and mitigate risks.

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

- Regulation and compliance;
- Customer Service;
- Operational;
- Health and safety; and
- Financial.

Where appropriate, the table below contains a summary of the principal risks and uncertainties of the Company:

Risk	What Does It Mean	Mitigation
Regulation and compliance		
Ongoing regulatory reform and the potential increase in policy divergence between the English and Welsh governments	Our operational environment is highly regulated. Our policies and procedures ensure compliance with the regulatory framework. But market reform and the potential for differences in policy between the two governments creates risks. Regulatory changes may increase costs of administration, reduce income and margin and lead to greater variability of returns.	We have developed strong relationships within the Welsh Government and take part in relevant consultations – particularly those which may impact policy and Regulation. We maintain close links with the supply area's Members of Parliament and Assembly Members and the business community. All are aware of Dee Valley's unique position as a cross-border water only supplier. We are active within our trade body and other forums and contribute to the debate about our industry's future. We liaise and engage with Government, our regulators and other stakeholders to ensure we understand and can contribute to the future direction of policy.
Implementation of the recommendations outlined by the Silk Commission with respect to alignment of political and regulatory boundaries	As our water supply area is mainly in Wales, we are currently Governed by Welsh Government policy across our entire water supply area, some of which is in England. The Silk Commission recommended an alignment of political and regulatory boundaries, creating a risk that we could be forced to adopt Welsh Government policy for our Welsh	As a Welsh company we are committed to working proactively with the Welsh Government to develop its water strategy for its people. We participate actively in the Wales Water Forum and have opened dialogue with local and national Welsh Assembly Members to develop this discussion to benefit customers. We believe that changes in regulatory practice should bring proven benefits to customers and

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

Risk	What Does It Mean	Mitigation
	customers and English Government policy for our English customers if these recommendations are adopted. This would effectively split the business. The cost of compliance with two policy regimes could be significant, increasing customer bills and leading to a customer loss of confidence and reputational damage.	the wider environment. We are engaging with the Welsh Government, Natural Resources Wales, the Drinking Water Inspectorate, the Environment Agency and Ofwat to ensure that the focus remains on benefit to customers as they consider possible implementation.
Failure to meet regulatory performance targets	Ofwat has set the company some challenging operational performance targets for PR14. Delivery of the Legacy alternative scheme within the permitted timeframe is a significant example of this. Failure to complete the scheme in the agreed timeframe would lead to potentially significant financial penalties and a loss of credibility with key regulators.	Our review of processes, systems and equipment is ongoing and investments are being made to deliver significant improvements in the quality of product and service. We have a series of internal measures that enable us to proactively monitor performance and take prompt corrective action when and where necessary.
Customer Service		
Failure to meet the customer service standards expected by our customers	Ofwat's regulatory processes place customers at the heart of the business. Failure to meet these higher standards will lead to customer dissatisfaction and SIM penalties imposed by Ofwat, all of which will damage the company's reputation.	We have re-shaped our customer service to ensure the customer is at our heart. We have also invested in training and new technology to enable us to better understand the needs of our customers and to overhaul all of our customer facing services. Our performance – as measured by Ofwat's SIM and independent surveys – has improved significantly in the year. We are committed to continuing this and achieving upper quartile performance in this AMP period.
Operational		
Failure to maintain a constant supply of water to part of the supply area	Failure of certain important assets could cause widespread loss of supply to customers with the risk of regulatory sanction, loss of reputation and higher operating costs. Failure of assets could be through structural or equipment failure or extreme events, particularly flooding. There is no operational back-up for some assets.	Assets are managed through condition monitoring and maintenance. When appropriate, risk-based asset investment planning identifies assets for replacement, which is a continuing process. Contingency plans provide for major failures. These include bringing in water from other parts of the supply area; providing emergency supplies and mutual aid agreements with other water companies.

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

Recurrent discoloured water incidents resulting in a failure to comply with the wholesomeness of water requirement in the Drinking Water Standards	Water quality failures caused by an historical issue could result in regulatory sanctions, adversely affect our reputation and cause an increase in our costs.	The Drinking Water Safety Plan addresses the management of risks throughout the supply system from catchment to customer. This ensures there are adequate mitigations in place for all risks, including discolouration in the form of operational procedures, processes, maintenance, monitoring and appropriately trained staff. Risk-based investment planning plays an important part by ensuring equipment performs effectively and emerging risks are addressed. There is a strategy in place to deal with the discoloured water problem specifically which includes ice pigging, flushing, raw water selection and manganese removal installed at Llwyn Onn Water Treatment Works. Improvements have been seen in the current year and the decommissioning of the Legacy site due to be delivered by December 2017.
Business interruption and/or data loss resulting from cyber threats	Loss or corruption of computer systems or data is a real and growing threat and potentially, could have far reaching effects, particularly within our administrative and equipment operations.	The cyber threat is constantly evolving – as are our efforts to counter it. As a vital utility we take the threat very seriously and receive support and guidance at Government level and from other support structures. Our review of our existing systems and controls is underway and our people are being trained to be more security aware. As a precaution, we have robust incident response, business continuity and disaster recovery procedures in place and regularly test our ability to recover from systems failure. We also maintain insurance cover for loss and liability.
Health & Safety		
The nature of the activities we undertake creates a potential to cause harm to our employees, contractors and the general public	Our work requires our employees and contractors to use equipment and carry out tasks which have the potential to cause serious harm. In addition, we undertake a lot of work in dynamic public places such as busy streets. We take every precaution to prevent injury, however the failure of a procedure or the breakdown of an asset could lead to injury.	We continually review our H&S strategies and working practices to look for improvements. Our assets are subject to regular monitoring and maintenance though proactive and reactive programmes of work. Our reservoirs are independently inspected and then maintained by our staff to ensure that they remain safe. We recognise that the key to a safer organisation is the behaviour of staff. As such, we encourage near miss reporting across the organisation as we believe this ensures we review incidents to address the root causes of incidents. The proposed new management system to improve behavioural safety across all business areas was not successfully rolled out. However, Severn Trent Water do have a behavioural package which will be rolled out to all Dee Valley Water staff via the integration process.

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

Financial		
There is a risk that, due to the economic environment and the demographic of the Company's customer base, customers will not pay debts as they fall due	In line with the licence arrangements for other UK regulated water companies, the Company is obliged to supply water to customers regardless of their credit worthiness which could result in a bad debt recovery risk. Non-recovery of bad and doubtful debts or an inappropriate provisioning policy will result in reduced operating cash flow and income statement volatility.	An annual review of bad and doubtful debt provisioning is conducted by the Board and an assessment of appropriateness of the current provisioning is made. Following a review, the bad debt provision was increased last year to £2.9 million. This provides fully for all debts in excess of two years old and to provide for customers' debts based on historic non-payment. Furthermore the Company operates extensive debt management and payment plans for customers to allow for greater recovery.
There is a risk that the costs associated with managing the Defined Benefit Pension Scheme affect the Company's operating cash flow	The pension scheme is in deficit on a funding basis, with a repair plan of 7 years at 31 March 2014. The pension scheme is also subject to a triennial valuation which, depending on economic conditions, can result in increased funding costs. Deficit repair costs are forecast to be £0.5m per annum for AMP6 and ongoing contributions are around £0.6m. Ofwat has allowed in the FD an annual contribution of £0.2m for deficit repair but only until 31 March 2020 when this allowance will cease. Such significant values, plus potential future volatility, means that the pension scheme poses significant risk to operational cash flows.	The annual business planning process provides a platform for the Board to review finance ability and affordability. Pension strategy and evaluation remains a key focus area for the Board.

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

FINANCIAL REVIEW

Overview

Strong progress has been made against the Company's operational key performance indicators this year and this, alongside the financial certainty provided by the backing of Severn Trent Plc, ensures that the Company can progress confidently into the third year of AMP6.

Capital investment in the year ended 31 March 2017 was £9.0 million and is forecast to exceed £13 million as work on the Legacy alternative scheme and service reservoir membrane replacement scheme progress.

Following the takeover by Severn Trent Water Limited, the revolving credit facility was cancelled. Short term funding will be provided by Severn Trent. The index linked long term loan has been transferred to Severn Trent Water Limited. With this backing, the Company is well placed to deliver the investment plan agreed with Ofwat for the period to 2020.

Financial Results

Profit from Operations

Our financial performance continues to be satisfactory with revenue of £24.4 million (2016: £23.1 million) and operating profit of £3.6 million (2016: £6.6 million).

Revenue increased by 5.5% due to three main factors:

- an increase in tariff prices of 4.5% that corrected the price reduction from the previous year;
- some major non-household customers consuming more water in the year;
- one off gain due to a move away from estimating bills to raising bills based on actual meter readings.

Operating profit has reduced mainly due to incurring transaction costs of £2.4 million as part of the takeover by Severn Trent Plc. There was also a planned increase in staff costs as the Company geared up to deliver the largest capital programme in its history.

Taxation

The tax charge on profit for the financial period was £0.3 million (2016: £0.4 million credit), resulting in a higher effective tax rate than the UK corporation tax rate primarily due to prior year adjustments, non-deductible expenditure and the impact of future corporation tax rates.

In September 2016 the Government enacted legislation to reduce the rate of corporation tax to 17% from 2020. As a result we recorded a deferred tax credit of £0.7 million as the provision was reassessed at the lower tax rate. In 2016, there was a deferred tax credit of £1.3 million arising from a reduction in the corporation tax rate, enacted in that year, from 20% to 18% with effect from 1 April 2020.

Profit after Taxation

Profit after taxation of £0.3 million is £4.4 million lower than the prior year (2016: £4.7 million). Whilst operating profit fell by £3.0 million, net finance costs were £0.7 million higher mainly due to the higher rate of RPI inflation during the year, and taxation charge was £0.7 million higher as set out above.

STRATEGIC REPORT (continued)
For the year ended 31 March 2017

FINANCIAL REVIEW (continued)

Balance Sheet

Company net assets decreased by £2.0 million to £35.9 million during the year. The decrease was due to the retained profit for the year of £0.3 million less dividends paid of £1.9 million and net actuarial losses of £0.4 million.

The net book value of Property, Plant and Equipment increased by £4.0 million to £101.5 million, with capital expenditure of £9.0 million offset by the depreciation charge for the period (£5.0 million). Contributions received in the year of £0.8 million (2016: £1.1 million) are recorded as deferred income and credited to the Income Statement over the life of the relevant asset. Whilst preparation for the commencement of the Legacy alternative project has continued, current year capex has focused on other projects including investment at Oerog Springs, Boughton WTP and the mains renewal programme.

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

A valuation of the Company's defined benefit surplus as at 31 March 2016 was performed by the Company's actuarial advisors in accordance with IAS 19 Employee Benefits. The assumptions underlying the calculation of liabilities of the defined benefit scheme represent the current central estimates recommended by the actuaries. The defined benefit surplus increased to £9.8 million (2016: £9.7 million).

Liquidity and Financing

Short-term liquidity requirements are met from the Company's normal operating cash flow and short-term borrowings. The objective is to ensure continuity of funding whilst also arranging funding in advance of being required to ensure that sufficient undrawn committed bank facilities are maintained.

The revolving credit facility that provided funding up to £30 million has been cancelled and Severn Trent Water will now act as a source of funding for the Company.

Likewise, the RPI linked long-term borrowing has now been legally transferred to Severn Trent Water.

At 31 March 2017, the intercompany borrowing from Severn Trent was £55.2 million.

James Bowling
Director
13 July 2017

DIRECTORS REPORT
For the year ended 31 March 2017

The Directors present their annual report and the audited financial statements for the year ended 31 March 2017. Under section 414C (11) of the Companies Act 2006 the directors have opted to disclose information regarding principal risks and uncertainties and future developments in the Strategic Report.

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.

DIRECTORS AND DIRECTORS' INTERESTS

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

A A Bickerton	(resigned 25 April 2016)
P B Holder	(resigned 17 February 2017)
I J A Plenderleith	(resigned 17 February 2017)
J H Schofield	(resigned 17 February 2017)
K Starling	(resigned 17 February 2017)
J B Coghlan	(appointed 17 February 2017)
E FitzGerald	(appointed 17 February 2017)
P J Remnant	(appointed 17 February 2017)
A R E Strank	(appointed 17 February 2017)
D J N Reiniche	(appointed 17 February 2017)
A J Duff	(appointed 17 February 2017)
K S Beeston	(appointed 17 February 2017)
J Bowling	(appointed 17 February 2017)
O R Garfield	(appointed 17 February 2017)

None of the Directors have any beneficial interest in the share capital of the Company. The beneficial interests of the Directors in the share capital of the Company's ultimate holding Company, Severn Trent Plc, are disclosed within the accounts for Severn Trent Plc.

No Director has any rights to subscribe for shares in, or debentures of the Company.

Directors' remuneration is disclosed within the accounts for the ultimate parent Severn Trent Plc.

DIVIDENDS

Dividends of £1,945,511 (2016: £2,895,000) were paid in the year.

Dividends per share paid during the year	**£**
2015/16 Final paid per ordinary share	8.09
Total for 2016/17	**8.09**

No interim dividend has been paid in the year. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2017.

DIRECTORS REPORT (continued)
For the year ended 31 March 2017

CORPORATE GOVERNANCE

Dee Valley Water plc was acquired by Severn Trent Water Limited in February 2017. As Dee Valley Water plc is not a listed company, it is not required to comply with the UK Corporate Governance Code (the "Code"). However, the Boards of Dee Valley Water plc and Severn Trent Plc have the same Directors. This structure was implemented at the time of the acquisition to ensure that the highest standards of corporate governance will be applied at the regulated subsidiary level and to promulgate greater visibility and supervision of Dee Valley Water plc by the Severn Trent Plc Board. In future financial reporting years Dee Valley Water plc will therefore, where appropriate and reasonably practicable, voluntarily comply with the Code to ensure these high standards also apply to it.

The Directors expect that the Company will be compliant with the Code, with the following exceptions:

The Board committees operate at the Severn Trent Plc level rather than the Company level. Whilst the Board committees are not duplicated at the Company level, in practice their remit includes work in respect of the Company. In particular the Audit Committee reviews Dee Valley Water's:

Processes for producing regulatory submissions;

Statutory and regulatory accounts prior to their approval by the Dee Valley Water Board; and

Processes for ensuring compliance with the requirements of the Scheme of Charges submitted to Ofwat and compliance with licence Condition E.

The Board committees are all led by Independent Non-Executive Directors who comprise the majority of membership of each Committee. Details of the committees are reported publicly in the Severn Trent Plc Annual Report and Accounts each year.

The Company does not comply with the provisions relating to Relations with Shareholders which covers Dialogue with Shareholders and Constructive use of the AGM, as it would not be appropriate to do so. However, Severn Trent Plc does fully comply with these requirements.

The two companies operate as distinct legal entities. The Boards comply with the Severn Trent Plc Board governance framework and the respective Matters Reserved to the Board. They are assisted through the management of separate agendas, meetings and minutes by Company Secretariat and advised in their meetings by the Company Secretary, where appropriate. Subsidiary Company Boards are managed through designated governance processes. In particular, the relationships between the Company and our other businesses such as Severn Trent Water Limited and Severn Trent Business Services are monitored and controlled to ensure that regulatory requirements and obligations under competition law are complied with in respect of all transactions between them, or with third parties.

CHARITABLE CONTRIBUTIONS

During the year the Company contributed £6,126 (2016: £1,950) to charitable causes.

GOING CONCERN

The Financial Statements 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 external funding has now been restructured such that it is held by the parent company, Severn Trent Water Limited. The former RCF facility has been closed and this has been replaced by an intercompany loan with Severn Trent Water Limited.

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.

DIRECTORS REPORT (continued)
For the year ended 31 March 2017

VIABILITY STATEMENT

The directors' assessment of the Company's current financial position is set out in the Financial review on pages 9 to 10 and their assessment of the company's principal risks is set out in the Principal risks section on pages 5 to 8.

The Company's is a regulated long-term business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to secure that water companies are able to finance their appointed activities. Ofwat meets this obligation by setting price controls for five year Asset Management Periods (AMPs). This mechanism reduces the potential for variability in revenues from the regulated business. The current AMP runs until March 2020.

The Severn Trent Group has an established process to assess its prospects. The Board of Severn Trent Plc undertakes a detailed assessment of the Group's strategy on an annual basis and the output from this assessment sets the framework for the Group's medium term plan which is updated annually. The Company was included in that process for the first time this year and the Company's input to that process was used to assess its prospects.

The assessment of the Company's prospects considered the potential impacts of the principal risks and uncertainties. Stress tests were performed to assess the potential impacts of combinations of those risks and uncertainties. The assessment also considered the mitigating actions that might be taken to reduce the impact of such risks and uncertainties and their likely effectiveness.

The Company is funded through loans and facilities provided by the Severn Trent Group. The Company has sufficient loans and facilities in place to cover its cash flow requirements throughout the period under review.

Bearing in mind the long term nature of the Company's business; the enduring demand for its services; the nature of the Group's established planning process and the changing nature of the regulation of the water industry in England and Wales, the directors have determined that three years is an appropriate period over which to assess the Group's prospects and make its viability statement.

The directors have assessed the viability of the Company over a three year period to March 2020, taking into account:

- the Company's current position and future prospects;
- the loans and facilities available to the Company; and
- its principal risks.

Based on that assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2020.

SUPPLIER STATEMENT POLICY

The Company's policy is to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms, providing that the relevant goods and services have been supplied in accordance with contracts.

RELATED PARTY TRANSACTIONS

The Directors believe that all transactional activity undertaken by the Company is carried out on an arm's length basis and that transactions which are of a related party nature are adequately disclosed within the Financial Statements.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

DIRECTORS REPORT (continued)
For the year ended 31 March 2017

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

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

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

Approved by the Board and signed on its behalf by:

James Bowling
Director

13 July 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the financial statements of Dee Valley Water Plc for the year ended 31 March 2017 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements 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 material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Carl Acton BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
13 July 2017

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
TURNOVER	2	**24,433**	23,149
Operating expenses		**(7,808)**	(7,233)
Administrative expenses		**(15,508)**	(11,641)
Other operating income		**2,477**	2,300
OPERATING PROFIT	3	**3,594**	6,575
Interest receivable and similar income	6	**347**	275
Interest payable and similar charges	7	**(3,369)**	(2,555)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**572**	4,295
Tax on profit on ordinary activities	8	**(299)**	411
PROFIT FOR THE FINANCIAL YEAR		**273**	4,706

All turnover and operating results are derived from continuing operations.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Actuarial (loss)/gain (net of deferred tax) on defined benefit pension scheme	16	**(403)**	1,036
Effect of change in corporation tax rate on accumulated actuarial gains		**97**	75
Net (loss)/gain recognised directly in equity		**(306)**	1,111
Profit for the financial year		**273**	4,706
Total other comprehensive (loss)/income for the year		**(33)**	5,817

The accompanying notes form an integral part of the financial statements

BALANCE SHEET
As at 31 March 2017

	Note	2017	2017	2016	2016
		£'000	**£'000**	£'000	£'000
NON CURRENT ASSETS					
Tangible assets	10	**101,530**		97,521	
Retirement benefit surplus	16	**9,845**		9,689	
			111,375		107,210
CURRENT ASSETS					
Stocks		**372**		373	
Debtors	11	**18,455**		18,323	
Cash at bank and in hand		**50**		3,096	
		18,877		21,792	
CREDITORS: amounts falling due within one year	12	**(15,089)**		(12,628)	
NET CURRENT ASSETS			**3,788**		9,164
TOTAL ASSETS LESS CURRENT LIABILITIES			**115,163**		116,374
CREDITORS: amounts falling due after more than one year	13		**(65,737)**		(65,188)
PROVISIONS FOR LIABILITIES AND CHARGES	14		**(13,561)**		(13,342)
NET ASSETS			**35,865**		37,844
CAPITAL AND RESERVES					
Called up share capital	17		**240**		240
Other reserves			**614**		614
Fair value reserve			**11,685**		11,685
Profit and loss account			**23,326**		25,305
SHAREHOLDERS' FUNDS			**35,865**		37,844

These financial statements of Dee Valley Water plc, registered number 3527628, were approved by the Board of Directors on 13 July 2017.

Signed on behalf of the Board of Directors

James Bowling Andrew Duff

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Called-up share capital £'000	Other reserve £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2015	240	614	11,685	22,383	**34,922**
Profit for year	-	-	-	4,706	**4,706**
Dividends paid on equity shares	-	-	-	(2,895)	**(2,895)**
Actuarial gain (net of deferred tax)	-	-	-	1,036	**1,036**
Effect of change in corporation tax rate on accumulated actuarial gains	-	-	-	75	**75**
Total comprehensive income	-	-	-	2,922	**2,922**
At 31 March 2016	240	614	11,685	25,305	**37,844**
Profit for year	-	-	-	273	**273**
Dividends paid on equity shares	-	-	-	(1,946)	**(1,946)**
Actuarial loss (net of deferred tax)	-	-	-	(403)	**(403)**
Effect of change in corporation tax rate on accumulated actuarial gains	-	-	-	97	**97**
Total comprehensive loss	-	-	-	(1,979)	**(1,979)**
At 31 March 2017	**240**	**614**	**11,685**	**23,326**	**35,865**

The accompanying notes form an integral part of the financial statements.

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

The fair value reserve arose on the revaluation of infrastructure assets to fair value on transition to FRS 101.

No interim dividend has been paid in the year. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the current year and prior year following transition to IFRS.

General information

Dee Valley Water plc (the Company) is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, the Company has applied FRS 101 'Reduced Disclosure Framework'.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The company has taken advantage of the exemption not to prepare Group financial statements on the basis that it is a wholly owned subsidiary of Severn Trent Plc and is included together with its subsidiaries in the Group financial statements of that company. These financial statements present information about the company as an individual undertaking and not about its Group.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, interpretations of standards not yet effective, impairment of assets and related party transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgements

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

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

Critical accounting judgements relevant to the Financial Statements include the calculation of the provision for bad and doubtful debts and the carrying value of goodwill and fixed assets. The accounting policy relating to the impairment of goodwill and fixed assets is included in this note, and further information on the bad and doubtful debt provision is provided in note 11.

Going Concern

As discussed in the Directors report, the Financial Statements 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 external funding has now been restructured such that it is held by the parent company, Severn Trent Water Limited. The former RCF facility has been closed and this has been replaced by an intercompany loan with Severn Trent Water Limited.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

1. **ACCOUNTING POLICIES (continued)**

Fixed assets and depreciation

On first time adoption of FRS 101, the directors elected to measure infrastructure assets at fair value and use that fair value as its deemed cost at that date. Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided on a straight line basis at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixed asset category	Type of asset	Estimated useful life
Freehold land, buildings and fixed plant	Buildings and service reservoirs	50 – 80 years
	Fixed plant	10 – 40 years
Infrastructure assets	Impounding reservoirs	150 – 300 years
	Raw water aqueducts	50 – 70 years
	Water mains	50 – 60 years
Mobile plant, vehicles and equipment	Equipment	5 – 20 years
	Water meters	15 years
	Mobile plant and vehicles	5 – 7 years
	Software	3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Employee costs of own work capitalised

Employee costs arising directly from the construction of property, plant and equipment are identified by internal procedures and are deducted from the employee benefits shown in note 5 and included in the additions shown in note 10.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and debtors

Trade debtors, loans, and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and debtors'. Loans and debtors are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term debtors when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Stock

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

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Non-current liabilities: Index linked intercompany loan

The index linked loan has been restructured and is now stated as an intercompany loan with Severn Trent Water Limited. The principal amount is £35 million plus indexation based on the relevant movement in the Retail Price Index since the loan was raised. Loan interest paid on the indexed principal amount is taken to the profit and loss account as finance costs. Indexation added to the loan during the financial period is also taken to the profit and loss account as finance costs.

Pension costs

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

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

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of other comprehensive income, actuarial gains and losses.

Third party contributions

Third party contributions to capital expenditure are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 2006.

Other operating income

Other operating income relates to commission receivable for billing and collection of sewerage charges on behalf of sewerage providers operating in the Company’s license area. Income is recognised upon collection of the debt.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

2. TURNOVER

Turnover comprises amounts due in respect of water supplied to measured and unmeasured customers during the year in the normal course of business. Other operating income includes billing commission received for billing and collection of payments for sewerage providers operating in the Company's licence area, recognised on collection of the debt. Turnover from the supply of other goods and services is not material.

Turnover from measured water charges comprises amounts billed plus an estimate of amounts unbilled at 31 March and is stated net of VAT, where applicable.

3. OPERATING PROFIT

	2017	2016
	£'000	£'000
Operating profit is after charging/(crediting):		
Depreciation – infrastructure assets	**1,340**	1,578
Depreciation – non-infrastructure assets	**3,611**	3,212
Profit on disposal of tangible assets	**(44)**	(1)
Staff costs (see note 5)	**7,548**	7,050
Doubtful debt charge (see note 11)	**364**	497
Auditor's remuneration		
Audit of these financial statements	**33**	34
Amounts payable to the auditor and associates in respect of		
Other services pursuant to legislation	**9**	13
Other	**-**	7

4. REMUNERATION OF DIRECTORS

	2017	2016
	£'000	£'000
Directors' emoluments		
Emoluments for qualifying services	**660**	427

At 31 March 2017, none of the Directors are accruing retirement benefits under defined benefit schemes (2016: none). The Company made contributions of £21,000 into a defined contribution scheme in respect of the Directors (2016: £35,000).

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

	2017	2016
	£'000	£'000
Emoluments for qualifying services	**313**	217

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	2017	2016
	No.	No.
Administration	**97**	96
Operations	**75**	75
	172	171

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	**6,291**	5,840
Social security costs	**665**	558
Pension costs defined benefit plans (note 16)	**365**	433
Pension costs defined contribution plans (note 16)	**227**	217
Other post-retirement benefits	**-**	2
	7,548	7,050

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2017	2016
	£'000	£'000
Bank interest	**2**	8
Net pension interest (note 16)	**345**	267
	347	275

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£'000	£'000
Loan interest	**1,956**	1,972
Loan indexation	**971**	525
Amortisation of deferred financing costs	**442**	58
	3,369	2,555

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

8. TAXATION

Current tax	2017 £'000	2016 £'000
UK corporation tax	**610**	570
Adjustment for prior years	**(710)**	(87)
Total current tax	**(100)**	483
Deferred tax		
Deferred tax charge	**(96)**	313
Adjustment for prior years	**1,191**	126
Movement in respect of rate change	**(696)**	(1,333)
Total deferred tax	**399**	(894)
Tax on profit on ordinary activities	**299**	(411)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is higher (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Profit on ordinary activities before taxation	**572**	4,295
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 20% (2016: 20%)	**114**	859
Effects of:		
Non-deductible expenses	**497**	24
Adjustments for prior years:		
Current tax	**(710)**	(87)
Deferred tax	**1,191**	126
Effect of substantive enactment of change in rate of corporation tax	**(696)**	(1,333)
Other tax adjustments – utilisation of unprovided tax losses	**(97)**	-
	184	(1,270)
Total tax charge/(credit) for the year	**299**	(411)

In September 2016 the Government enacted legislation to reduce the rate of corporation tax to 17% from 2020, which resulted in a deferred tax credit of £696,000 as the provision was recalculated at the new lower tax rate. In 2016 there was a deferred tax credit of £1,333,000 arising from a reduction in the corporation tax rate, enacted in that year, from 20% to 18% with effect from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

9. DIVIDEND ON EQUITY SHARES

Amounts recognised as distributions to equity holders in the period:

	2017	2016
	£'000	£'000
Final dividend for the year ended 31 March 2017 of 809p (2016: 809p) per ordinary share	**1,946**	1,946
Interim dividend for the year ended 31 March 2017 of nil (2016: 395p) per ordinary share	**-**	949
	1,946	2,895
Proposed final dividend for the year ended 31 March 2017 of nil (2016: 809p) per ordinary share	**-**	1,946

10. TANGIBLE FIXED ASSETS

	Freehold land, buildings and fixed plant	**Infrastructure assets**	**Mobile plant, vehicles and equipment**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At beginning of year	69,899	64,406	19,960	154,265
Additions	2,990	3,483	444	6,917
Own work capitalised	1,188	855	-	2,043
Disposals	-	-	(500)	(500)
At end of year	**74,077**	**68,744**	**19,904**	**162,725**
Depreciation				
At beginning of year	25,148	18,058	13,538	56,744
Charge for year	2,202	1,340	1,409	4,951
On disposals	-	-	(500)	(500)
At end of year	**27,350**	**19,398**	**14,447**	**61,195**
Net book value				
At 31 March 2017	**46,727**	**49,346**	**5,457**	**101,530**
At 1 April 2016	44,751	46,348	6,422	97,521

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

11. DEBTORS

	2017	2016
	£'000	£'000
Gross trade debtors	**5,334**	6,135
Less: provision for impairment of debtors	**(2,875)**	(2,658)
Net trade debtors	**2,459**	3,477
Amounts owed by group undertakings	**9,746**	12,793
Other debtors	**2,781**	500
Prepayments and accrued income	**3,469**	1,553
	18,455	18,323

The Company estimates the recoverability of trade debtors on a regular basis during the year and at the balance sheet date. The provision for impairment is based on the relative age of debtors and customer segmentation. The actual level of debtors recovered may differ from the estimated net recoverable value of debtors at the balance sheet date.

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment. Concentrations of credit risk with respect to trade debtors are limited due to the company's customer base being large and unrelated. Due to this, the directors believe there is no further credit risk provision required in excess of normal doubtful debtors.

Movement in the allowance for doubtful debtors

	2017	2016
	£'000	£'000
Balance at beginning of year	**2,658**	2,351
Provided during the year	**364**	497
Written off during the year	**(147)**	(190)
Balance at end of year	**2,875**	2,658

In determining the recoverability of the trade debtors, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

	2017 Gross £000	**2017 Impairment £000**	**2017 Net £000**	2016 Gross £000	2016 Impairment £000	2016 Net £000
Up to 1 year	**2,342**	**(481)**	**1,861**	3,673	(460)	3,213
Up to 2 years	**1,111**	**(741)**	**370**	1,161	(897)	264
Up to 3 years	**864**	**(717)**	**147**	614	(614)	-
Over 3 years	**1,017**	**(936)**	**81**	687	(687)	-
Trade debtors	**5,334**	**(2,875)**	**2,459**	6,135	(2,658)	3,477

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£'000	£'000
Trade creditors	**13,103**	10,836
Corporation tax	**12**	223
Other taxes and social security costs	**241**	182
Other creditors	**144**	81
Deferred income	**204**	204
Accruals and deferred income	**1,385**	1,102
	15,089	12,628

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£'000	£'000
3 ½ % undated irredeemable debentures	**114**	114
Index-linked bank loan	**-**	52,198
Amounts owed to parent and fellow subsidiary undertakings	**55,193**	2,996
Deferred income	**10,430**	9,880
	65,737	65,188
Analysis of loans		
Not repayable within five years other than by instalments:		
3 ½ % undated irredeemable debentures	**114**	114
Index-linked bank loan	**-**	52,198
Amounts owed to parent and fellow subsidiary undertakings	**55,193**	2,996
	55,307	55,308

During the year the Company restructured its external funding. The index-linked loan is now held by the parent company, Severn Trent Water Limited. The former RCF facility has been closed and this has been replaced by an intercompany loan with Severn Trent Water Limited.

The capital value of the index-linked loan is adjusted by the change in the Retail Prices Index from year to year. Loan interest is calculated by adjusting the value of the loan by such change and charging interest on this indexed amount at 3.635% per annum. The loan is due to be repaid on 29 September 2032. The amount due to parent and fellow subsidiary undertakings of £55,192,640 includes a £2,000,000 RCF loan from Severn Trent Water Limited. The loan is unsecured, with interest payable at LIBOR + 1.5%. The loan is repayable on 8 March 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

14. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts provided in the accounts and the amounts not provided in respect of deferred tax are as follows:

	At 1 April 2016 £'000	**Recognised in profit and loss £'000**	**Recognised in OCI £'000**	**At 31 March 2017 £'000**
Accelerated capital allowances	11,598	315	-	**11,913**
Pension asset	1,744	109	(179)	**1,674**
Other timing differences	-	(26)	-	**(26)**
	13,342	398	(179)	**13,561**

15. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policy note.

	2017 £'000	**2016 £'000**
Financial assets		
Debt instruments measured at amortised cost		
• Amounts owed by Group undertakings (see note 11)	**9,746**	12,793
Measured at undiscounted amount receivable		
• Trade and other debtors (see note 11)	**8,709**	5,530
	18,455	18,323
Financial liabilities		
Measured at amortised cost		
• Index-linked bank loan (see note 13)	**-**	52,198
• Amounts owed to parent and fellow subsidiary undertakings (see note 13)	**55,193**	2,996
• Debentures (see note 13)	**114**	114
Measured at undiscounted amount payable		
• Trade and other creditors (see note 12)	**15,077**	12,405
	70,384	67,713

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

16. PENSION COSTS

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounts to £227,000 (2016: £217,000).

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

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

The weighted average duration of the expected benefit payments from the Section is around 17 years.

The funding target is for the Section to hold assets equal to the value of the accrued benefits allowing for future increases in those benefits. If there is a shortfall against this target, the Company and trustees will agree on deficit contributions to meet this deficit over a period. There is a risk that adverse experience could lead to a requirement for the Company to make additional contributions to recover any deficit that arises.

Contributions are based on funding valuations typically carried out every three years; the next formal actuarial valuation is due to be carried out as at 31 March 2017. Over the year to 31 March 2017, employer contributions of £799,000 (2016: £848,000) were paid to the Section. The estimated amount of total employer contributions expected to be paid to the Section during the year ended 31 March 2017 is £800,000.

The results of the latest formal actuarial valuation as at 31 March 2014 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19. Re-measurements are recognised immediately through other comprehensive income.

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

	2017	2016
	£'000	£'000
Fair value of section assets	**70,854**	60,168
Present value of defined benefit obligation	**(61,009)**	(50,479)
Net asset recognised in the balance sheet	**9,845**	9,689

The Company has concluded that it can recognise the full amount of this surplus on the grounds that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the Section.

The amounts recognised in profit and loss are as follows:

	2017	2016
	£'000	£'000
Employer's part of current service cost	**365**	433
Section expenses	**138**	123
Net interest credit	**(345)**	(267)
Total profit and loss charge	**158**	289

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

16. PENSION COSTS (CONTINUED)

The amounts recognised immediately in other comprehensive income are as follows:

	2017	2016
	£'000	£'000
Net actuarial losses/(gains) in the year due to:		
- Changes in financial assumptions	**10,593**	(2,124)
- Changes in demographic assumptions	**-**	-
- Experience adjustments on benefit obligations	**(334)**	(1,008)
Actuarial (gain)/loss on assets relative to interest on assets	**(9,774)**	1,868
Loss/(gain) to recognise in other comprehensive income	**485**	(1,264)

The movement in the present value of the defined benefit obligation is as follows:

	2017	2016
	£'000	£'000
Opening defined benefit obligation	**50,479**	53,375
Employer's part of current service cost	**365**	433
Interest cost	**1,684**	1,676
Contributions from scheme members	**125**	122
Actuarial loss/(gain)	**10,259**	(3,132)
Benefits paid	**(1,903)**	(1,995)
Closing defined benefit obligation	**61,009**	50,479

The movement in the fair value of the Section assets is as follows:

	2017	2016
	£'000	£'000
Opening fair value of assets	**60,168**	61,241
Expected return on Section assets	**2,029**	1,943
Actuarial gain/(loss)	**9,774**	(1,868)
Contributions by the employer	**799**	848
Contributions by Section members	**125**	122
Benefits paid	**(1,903)**	(1,995)
Expenses paid	**(138)**	(123)
Closing fair value of assets	**70,854**	60,168

The current allocation of the Section's assets were as follows:

	2017	2016
	£'000	£'000
Equity instruments	**23%**	25%
Diversified growth funds	**7%**	8%
Liability driven investment funds	**60%**	57%
High yield bonds	**5%**	5%
Emerging markets multi asset funds	**5%**	5%
	100%	100%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

16. PENSION COSTS (continued)

The majority of the Section assets are held within instruments with quoted market prices in an active market.

The Section does not invest directly in property occupied by the Company or in financial securities issued by the Company. The investment strategy is set by the Trustee of the Section. The current strategy is to invest in a combination of lower risk assets (e.g. liability driven investments, which respond to factors such as changes in interest rates) and return-seeking assets (e.g. equities and other diversified assets) with the allocation to lower risk assets gradually increased so that by March 2035, 100% of the Section's assets are invested in lower risk assets. The following table sets out the key IAS 19 assumptions used in the Section:

Assumptions (per annum)	**2017**	2016
Retail Price Index	**3.4%**	3.1%
Consumer Prices Index inflation	**2.4%**	2.1%
Discount rate	**2.5%**	3.4%
Pension increases in payment – uncapped CPI	**2.5%**	2.2%
Pension increases in payment – CPI capped at 5% per annum	**2.4%**	2.2%
Pensionable salary increases (capped at 2% per annum)	**1.9%**	1.8%
Life expectancy of a male aged 60 at balance sheet date	**27.9 years**	27.8 years
Life expectancy of a female aged 60 at balance sheet date	**29.8 years**	29.7 years
Life expectancy of a male aged 60, 25 years after balance sheet date	**30.9 years**	30.8 years
Life expectancy of a female aged 60, 25 years after balance sheet date	**32.3 years**	32.2 years

Mortality tables used to calculate these assumptions: SAPS S2NA CMI2014 (1.5% for men, 1.25% for women).

Sensitivity analysis for the principal assumptions used to measure the Section's liabilities is set out below as at 31 March 2017:

Key financial assumptions	**Assumption adopted**	**Sensitivity**	**Indicative change in liabilities (£'000)**	
Discount rate	2.5%	+/-0.5%	-8%/+9%	(4,900)/5,600
Pension increases and deferred revaluation	2.4%	+/-0.5%	+8%/-7%	4,700/(4,100)
Life expectancy (years)				
Male aged 60 at balance sheet date	27.9 years			
Female aged 60 at balance sheet date	29.8 years			
Future male pensioner aged 60 in 2041	30.9 years			
Future female pensioned aged 60 in 2041	32.3 years			
Sensitivity		+1 year	+4%	2,300

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting dates. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Section.

17. CALLED UP SHARE CAPITAL

	2017	2016
	£'000	£'000
Authorised, allotted, called up and fully paid		
240,404 Ordinary shares of £1 each	**240**	240

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2017

18. CAPITAL COMMITMENTS

At 31 March 2017 the Company had capital commitments as follows:

	2017	2016
	£'000	£'000
Contracted for but not provided in the financial statements	**-**	1,810

19. RELATED PARTY TRANSACTIONS

The company has taken advantage of the reduced disclosure exemption available in FRS 101 to not disclose transactions entered into between the Company and other fully owned subsidiaries of Severn Trent Plc.

There were no other related party transactions.

20. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

The immediate parent Company is Dee Valley Water (Holdings) Ltd, a Company registered in England and Wales.

Severn Trent Water Limited is the parent undertaking of the smallest group to consolidate these financial statements.

The Directors regard Severn Trent Plc, a Company registered in England and Wales, as being the Company's ultimate holding Company and controlling party. Severn Trent Plc is the largest group for which group accounts are drawn up and of which the company is a member.

Financial statements for Severn Trent Plc can be obtained from Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.