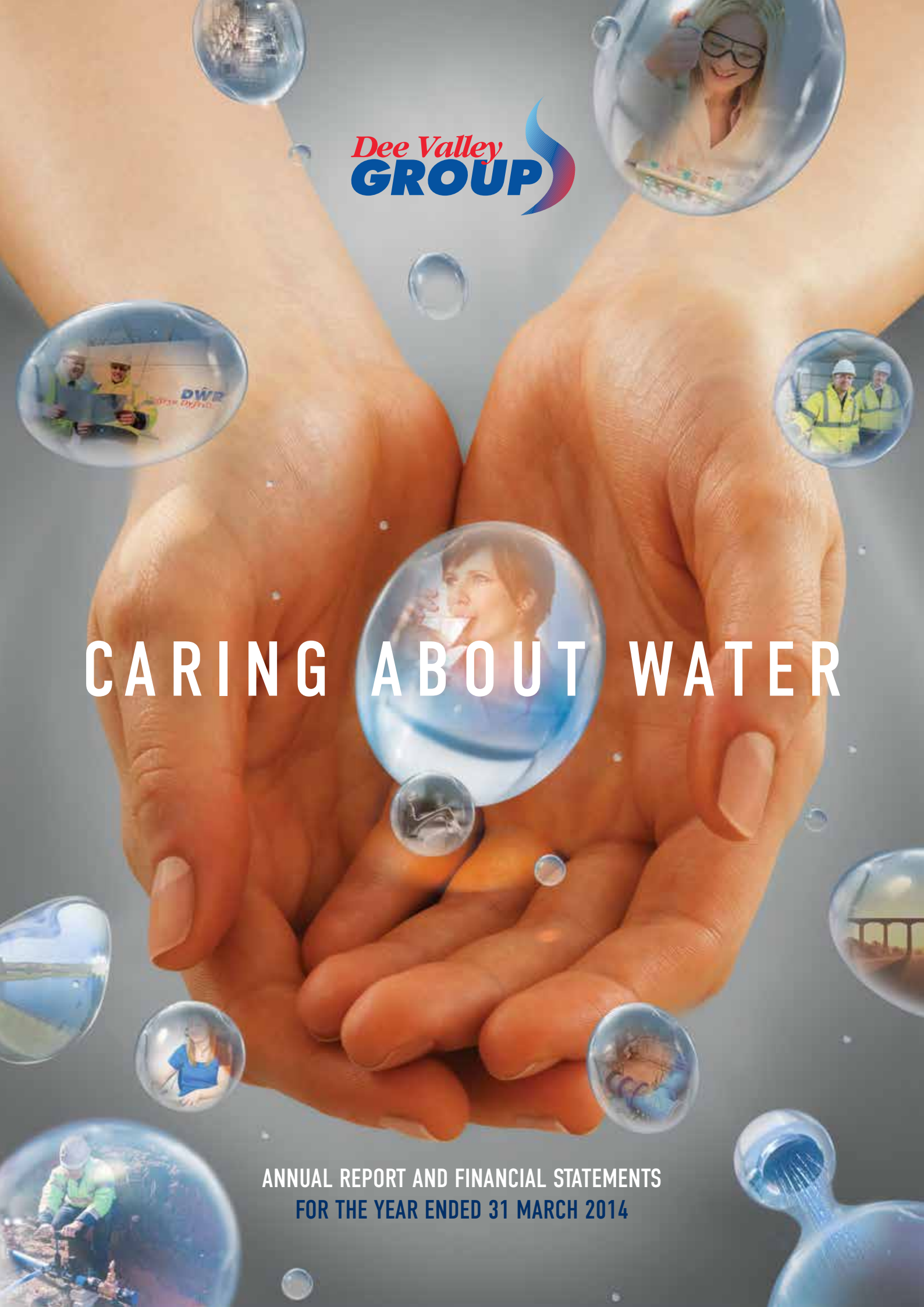

Dee Valley
GROUP
CARING ABOUT WATER
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

DEE VALLEY GROUP AT A GLANCE

Dee Valley Group plc, through its trading subsidiary Dee Valley Water plc, supplies drinking water to 266,000 domestic and business customers in north east Wales and the north west of England.

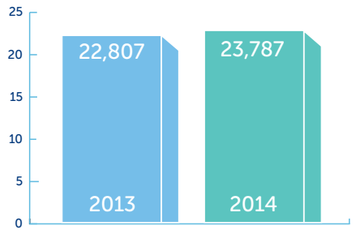
Our objective is to maintain a consistent supply of wholesome water that gives customers good value for money.

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

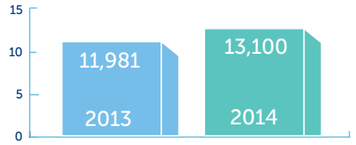
OPERATIONAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

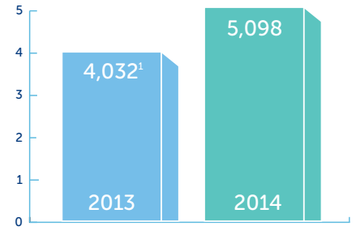
Revenue (£000)



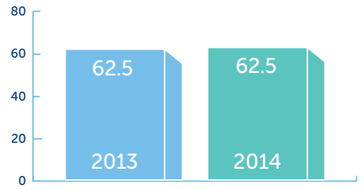
Profit from operations (£000)



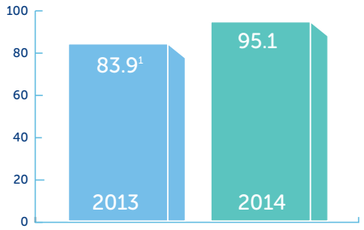
Profit before tax (£000)



Total dividend (pence per ordinary share)



Adjusted earnings per share[3] (pence per ordinary share)



[1] Restated - see note 1 to the Financial Statements for further details
[2] On a calendar year basis
[3] Excludes Pension Scheme Curtailment Gain

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CHAIRMAN'S STATEMENT

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

Retained profit for the year was £5.7 million (2013: £3.9 million) resulting in adjusted earnings of 95.1 pence per ordinary share[1] (2013: 83.9 pence per ordinary share). Underlying financial performance was broadly consistent with expectations, however, a pension scheme curtailment gain of £1.3 million arising from changes to the Group's defined benefit pension scheme increased overall profit. The pension scheme curtailment gain is a non-cash accounting adjustment.

Despite the increase in retained profit for the year, financial performance has been challenging. Operating expenses, excluding the impact of the pension scheme curtailment gain, were £1.2 million higher than the previous year due to higher electricity costs and costs associated with cleaning the Wrexham ring main.

As a result of the underlying challenging conditions and the uncertainty in respect of the outcome of the current price review process, discussed later in this report, the Board recommends a final dividend of 42.0 pence which, together with the interim dividend paid during the year, makes a total dividend for the year of 62.5 pence (2013: 62.5 pence). Future dividends will be considered in the context of the results for the period and the outcome of the current price review process.

Operational performance has remained consistent with the previous year with an overall drinking water quality index for the 2013 calendar year of 99.93% (2012: 99.93%).

[1] Excludes pension scheme curtailment gain.

INVESTMENT

In March 2014 we were delighted that the Welsh Minister for Natural Resources and Food, Alun Davies, officially opened our new Llwyn Onn water treatment works. This £17.1 million capital investment is the largest capital project ever undertaken by the Group and represents an investment, not only for current customers, but also for future generations. The rebuilding of this water treatment works is the flagship project in the current business plan period and represents around half of the total capital expenditure in the 2010 – 2015 price review period.

REGULATORY DEVELOPMENTS

The Board is committed to providing strong leadership and transparency and to ensuring good corporate governance in respect of the activities of the Group. Dee Valley Group has a simple, transparent structure and seeks to adhere to the highest standards of corporate governance. In this respect, we have taken steps during the year to ensure full compliance with the UK Corporate Governance Code and I am pleased to report significant progress in this regard, further details of which can be found in the Corporate Governance Report in this Annual Report.

On 2 December 2013 we submitted our business plan for the five year period commencing 1 April 2015 to Ofwat. In broad terms the business plan proposed capital investment of £51 million which is an increase

of around 50% from the level of capital expenditure in the current price control period. The increase in capital expenditure is primarily aimed at ensuring the current level of service to customers is maintained and will renew key assets.

Ofwat have completed their initial risk based review of the business plan and identified a number of areas where they have requested further information prior to issuing a draft determination at the end of August 2014. We will submit this further information by 27 June 2014, as required, and we look forward to constructive dialogue with Ofwat to ensure the continuation of necessary investment. Ofwat are expected to issue their final determination in December 2014.

We welcomed the publication of the Water Strategy for Wales in April 2014 and are pleased that many of its key themes align with our own strategy. The Group looks forward to further positive engagement with the Welsh Government in the best interests of all our stakeholders.

OUR CUSTOMERS

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

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

BOARD CHANGES

This is my last report as Chairman of Dee Valley Group plc since I retire from the Board on 31 July 2014. I would like to express my gratitude to shareholders, Board colleagues, all our employees and wider stakeholders for their support during my time as Chairman. I am confident that Jon Schofield, who will take over as Chairman on 1 August 2014, has the skills and experience to make a valuable leadership contribution to the Group.

This year we welcomed Philip Holder to the Board as a non-executive director. Philip has a wealth of water sector experience having spent much of his career in the water industry which, together with his broad commercial experience, is an important complement to the skills and experience of the Board.

Norman Holladay retired as Managing Director on 5 May 2014 having worked for the Group in various roles since 1992. He has made a major contribution to the success of the Group and we wish him well for the future and thank him for his dedicated service. David Strahan became Chief Executive with effect from 6 May 2014 and on the same date Andrew Bickerton joined the Board as Finance Director and Company Secretary. We welcome both David and Andrew to their new roles and wish them every success.

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

OUTLOOK

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

The year ahead will be a challenging one with the outcome of the price control process for the 2015 – 2020 period being crucial to future investment on behalf of our customers. However, we remain determined to build on the success our people have delivered over the past year.

Graham Scott
Chairman

BUSINESS REVIEW

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

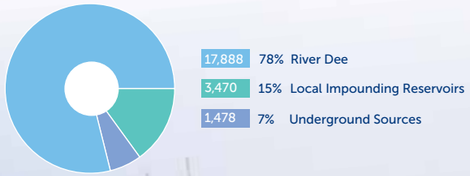
BUSINESS MODEL

Dee Valley Water supplies potable water to 113,000 household properties and 8,000 non-household properties. It also supplies non-potable water to some large industrial customers, however, this represents just under 2 per cent of total water supplied.

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

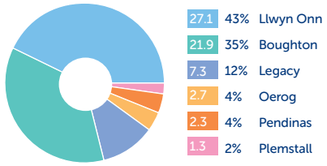
The main source of raw water is the River Dee which flows through the licence area with the remainder coming from eight local impounding reservoirs and two underground sources. The chart shows the quantities abstracted from these various sources during the year.

Abstracted (million litres)



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

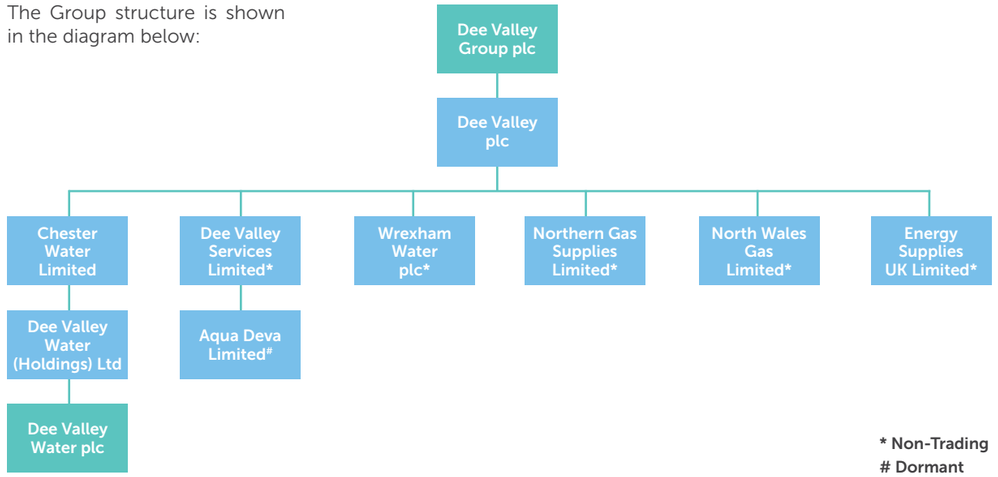
Treated (million litres/day)



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

Our business model is underpinned by a Regulatory Capital Value (RCV), published by the industry regulator, Ofwat, and the Group earns a return on this RCV. At 31 March 2014 the RCV was £73.6 million (2013: £73.6 million).

The Group structure is shown in the diagram below:



* Non-Trading
\# Dormant

BUSINESS STRATEGY

Given the nature of the business model outlined above, the Group has a clear strategy of delivering high quality water to our customers and providing a reasonable return for our shareholders. Whilst we strive to deliver this strategy we will continue to seek to ensure adequate investment in our assets to ensure ageing assets are renewed as appropriate.

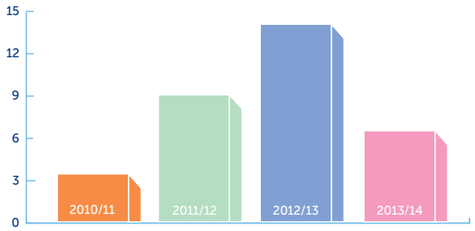
Crucial to the achievement of this strategy is the outcome of the current price review process which is discussed later in this report.

CAPITAL INVESTMENT

The year ended 31 March 2014 was the fourth year of the current five-year capital investment programme and saw capital investment of £6.1 million. This capital investment programme saw completion of the Llwyn Onn water treatment works which commenced supplying water on 12 August 2013.

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

Capital Expenditure (£ million)

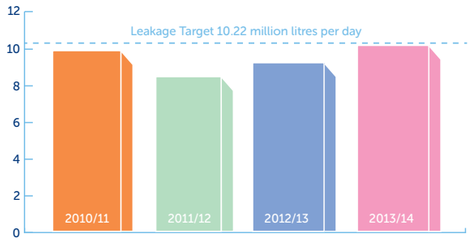


LEAKAGE

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

The volume of water lost as a result of leakage during the year ended 31 March 2014 was 10.15 million litres per day which was an increase of 0.87 million litres per day reported for the year ended 31 March 2013. However, while leakage was higher than the previous year it remained below the Ofwat target of 10.22 million litres per day and is one of the lowest leakage levels in the industry. The local knowledge of our employees, advances in leakage detection technology and operational measures such as reducing water pressure in areas where it is higher than necessary are all contributory factors in outperforming the leakage target.

Leakage (million litres per day)



Dee Valley Water continues to promote water efficient products such as the Save-a-Flush cistern displacement device and, through our website, customers can complete a water audit to assess how their water consumption compares to an average customer.

BUSINESS REVIEW continued

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

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

REGULATORY FRAMEWORK

As a monopoly water supplier in its area, Dee Valley Water is subject to strict regulation covering financial, water quality and environmental aspects of the business. Ofwat is the regulator responsible for economic regulation.

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

Dee Valley Water operates mainly in Wales and is therefore accountable to the Welsh Government which has devolved powers and provides the strategic direction for water policy in Wales. During the year the Welsh Government published its Water Strategy for Wales and we were pleased that the policy direction broadly mirrors that of our own business.

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

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

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

On 2 December 2013 we submitted our business plan for the 2015 – 2020 price review period to Ofwat. We were pleased that the Customer Challenge Panel's report on our business plan submission was broadly supportive. The business plan proposes an increase in capital investment of around 50% in order to renew ageing assets and a modest increase in customer bills as a consequence.

Ofwat have now completed their initial risk based review of the Group's business plan and have requested additional information which will be submitted to Ofwat by 27 June 2014, as requested. Ofwat are expected to issue their draft determination in August 2014 followed by a final determination in December 2014. The outcome of this price review process will be crucial in determining the rate of renewal of ageing infrastructure and consequently the quality of water and service provided to customers.

CUSTOMERS

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

Last year we reported on our continued efforts to reduce the number of complaints received by the Group, particularly written complaints. The initial improvement achieved has been continued and in the year ended 31 March 2014 the Group achieved a further 18% reduction in written complaints on the level reported in the previous year. This demonstrates our commitment to understanding the cause of each complaint and seeking to proactively address their cause.

The experience of customers is also monitored through Ofwat's quarterly Customer Experience Survey and while the Group's ranking compared to other companies fell from 9th to 10th out of a total of 19 companies the overall score achieved of 4.52 was ahead of the industry average of 4.48 over the course of the year. This highlights the customer service improvements across the sector and stresses the importance of Dee Valley Water continuing to focus on delivering real service improvements that customers value.

Ofwat's Service Incentive Mechanism score, the metric used to measure overall customer service, increased from 76 to 80 out of a total of 100 during the year reflecting the continued focus on improving the service provided to our customers.

KEY PERFORMANCE INDICATORS

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

	2014		2013		
	Performance	**Status**	**Performance**	**Status**	**Measurement**
Customer Experience					
Service Incentive Mechanism (SIM)	**80**		76		Score (out of 100)
Water supply interruptions	**0.2**		0.3		Hours per total properties supplied
Reliability and Stability					
Serviceability water non-infrastructure	**Stable**		Stable		
Serviceability water infrastructure	**Marginal**		Marginal		
Leakage	**10.15**		9.28		Million litres per day
Security of Supply Index (SoSI)	**100**		100		Index score
Environmental Impact					
Greenhouse Gas (GHG) emissions	**8.9**		9.5		$ktCO_2e$
Financial					
Gearing	**68%**		66%		
Interest cover	**3.8**		3.8		

For a definition of terms refer to the Glossary on page 70. Ofwat's definition of status as noted above is as follows:

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

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

BUSINESS REVIEW continued

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

Risk	What does it mean?	Mitigation
Failure to meet the wholesomeness of water obligation.	In addition to the breach of statutory standards and consequent regulatory sanction, water quality failures could adversely affect the Group's reputation and have an impact on costs. Recurrent discoloured water incidents is a particular problem at present that the Group is seeking to address.	A Drinking Water Safety Plan addresses the management of risks throughout the supply system from catchment to customer. This ensures there are adequate mitigations in place for all risks in the form of operational procedures, processes, maintenance, monitoring and appropriately trained staff. Risk-based investment planning plays an important part by ensuring equipment performs effectively and emerging risks are addressed. There is a strategy in place to deal with the discoloured water problem in the short-term whilst an asset investment solution is completed to resolve the problem permanently. Contingency plans provide for major failures.
Failure to maintain a constant supply of water.	Failure of certain important assets could cause widespread loss of supply to customers with the risk of regulatory sanction, loss of reputation and higher operating costs. Failure of assets could be through structural or equipment failure or extreme events, particularly flooding. There is not an operational back-up for some assets.	Assets are managed through condition monitoring and maintenance. When appropriate, risk-based asset investment planning identifies assets for replacement, which is a continuing process. Planning is progressing for a flood protection scheme for a vulnerable river intake. Contingency plans provide for major failures.
Difficulty financing activities due to an inadequate determination at the next periodic review of price limits.	The Group's business plan was submitted to Ofwat in December 2013. Price limits will be set by Ofwat in December 2014 for the price review period 2015 – 2020. The risk exists of a sub-optimal outcome from the periodic review process.	A dedicated regulatory function is maintained to ensure the Group keeps abreast of regulatory changes and ensure they are understood. The Group engages in consultation with Ofwat and others and seeks to influence outcomes, when appropriate. The Group will continue to engage fully with Ofwat during the remainder of the periodic review process to minimise the risk of a sub-optimal outcome.
Difficulty financing functions due to increased operating costs.	Particular financing risks are the volatility of electricity and pension costs.	Electricity cost risk is partly mitigated through adopting a portfolio approach to purchasing. The Group has hedged all its electricity requirements to 2016, except for cost pass-through components. The cost associated with funding the Group's defined benefit pension scheme, which was closed to new members in 2002, is subject to significant volatility. A pensions strategy exists to seek to minimise volatility.

DIVERSITY

We are committed to equal opportunities and an entirely non-discriminatory working environment. The aim of our policies is to ensure that no job applicant or employee receives less favourable treatment because of, amongst other matters, gender, marital status, race, age, sexual preference, religion, belief or disability. All decisions are based on the merits of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights, treats individuals with dignity and allows freedom of association.

At 31 March 2014 the number of employees was as follows:

Employees (FTE)	Male	Female
Directors	6	-
Senior Managers	9	5
Employees	122	46

We give full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by people with disabilities.

ENVIRONMENT

We recognise our responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. Our approach is to work through education, communication and direct action wherever possible.

We are constantly looking for new ways to improve our carbon footprint and have put various initiatives in place in order to achieve this objective, for example, through the installation of more efficient pumping equipment.

Further details in respect of our greenhouse gas emissions can be found in the Directors' Report on page 31 of this Annual Report.

FINANCIAL REVIEW

Financial performance for the year ended 31 March 2014 was consistent with expectations.

FINANCIAL RESULTS

For the year ended 31 March 2014 profit from operations was £13.1 million which was up from £12.0 million compared to the previous year primarily due to a change in defined benefit pension scheme provision during the year.

The Group has sought to adopt a more sustainable approach to the delivery of pension provision and during the year the Group engaged in a consultation process with members in respect of proposed changes to the Group's defined benefit pension scheme. The proposed changes were designed to reduce both the costs and risks presented by the scheme.

The changes were implemented with effect from 1 December 2013 and resulted in a pension scheme curtailment gain of £1.3 million which is separately disclosed in the Group Income Statement on page 40. The pension scheme curtailment gain is a non-cash accounting adjustment.

The assumptions underlying the calculation of liabilities of the defined benefit pension scheme represent the current central estimates as recommended by the Group's actuarial advisers. Further disclosures in respect of pensions are provided in note 22 to the Financial Statements.

Operating expenses, excluding the impact of the pension scheme curtailment gain, were £1.2 million higher than the previous year due to higher power related costs and the costs associated with cleaning the Wrexham ring main. These higher operating costs were offset by revenue which was £23.8 million for the year ended 31 March 2014, up from £22.8 million in the previous year. Revenue increased following a 4.0% price increase which was effective from 1 April 2013 and increased consumption across both household and non-household sectors.

Retained profit for the year of £5.7 million is £1.8 million higher than the previous year as a result of the pension scheme curtailment gain mentioned above and the impact of a tax credit recognised in the year. The tax credit in the current year arises due to taking into account the full impact of the reduction in corporation tax rate from 23% to 21% (effective from 1 April 2014) and the further reduction to 20% (effective from 1 April 2015). These reductions were announced in the March 2013 Budget and were substantively enacted on 2 July 2013, therefore, the full impact of these reductions have been reflected in the tax charge for the year ended 31 March 2014. The deferred tax liability at 31 March 2014 has been calculated based on the rate of 20%. A reconciliation of the tax charge for the year is contained in note 6 to the Financial Statements.

Recognising the increase in underlying operational expenditure during the year and the uncertainty surrounding the final outcome of the current price review process the Board has proposed a final dividend of 42.0 pence per ordinary share in respect of the year ended 31 March 2014. Taken together with the interim dividend of 20.5 pence per ordinary share paid in January 2014, this produces a total dividend of 62.5 pence per ordinary share for the year ended 31 March 2014. This is the same total dividend declared in respect of the year ended 31 March 2013.

The final dividend is expected to be paid on 1 August 2014 to shareholders on the register at close of business on 4 July 2014.

Future dividend decisions will be made in light of the financial performance for the period under review and also taking into account the outcome of the current price review process.

CASH FLOW

Net cash outflow for the year was £0.1 million which represents a net movement of £1.3 million when compared to the previous year's net cash outflow of £1.4 million. The improvement relates to the lower capital expenditure incurred during the year ended 31 March 2014.

In summary, net cash flow from operating activities of £9.6 million (2013: £10.7 million) was absorbed by capital expenditure of £6.7 million (2013: £15.2 million) and dividends of £2.9 million (2013: £2.8 million).

BALANCE SHEET

The balance sheet shows net assets of £27.4 million, an increase of £1.9 million over the reporting period. The increase was due to the profit for the year of £5.7 million less dividends paid of £2.9 million and less an actuarial loss, net of deferred taxation, on the defined benefit pension scheme of £0.8 million.

Current interest-bearing loans and borrowings at £7.6 million at the year end are the same as the previous year.

CAPITAL STRUCTURE

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

FINANCING

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

The majority of the Group's borrowings are at a fixed rate although there is exposure to the Retail Price Index as a consequence of the index-linked nature of the long-term borrowing, which is repayable in 2032. The original loan of £35 million was drawn down in 2002 and by 31 March 2014, the total outstanding had increased to £50.4 million.

LIQUIDITY

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

During the year, the Group utilised the revolving credit facility in order to fund capital expenditure and at 31 March 2014 £6.0 million was drawn on this facility.

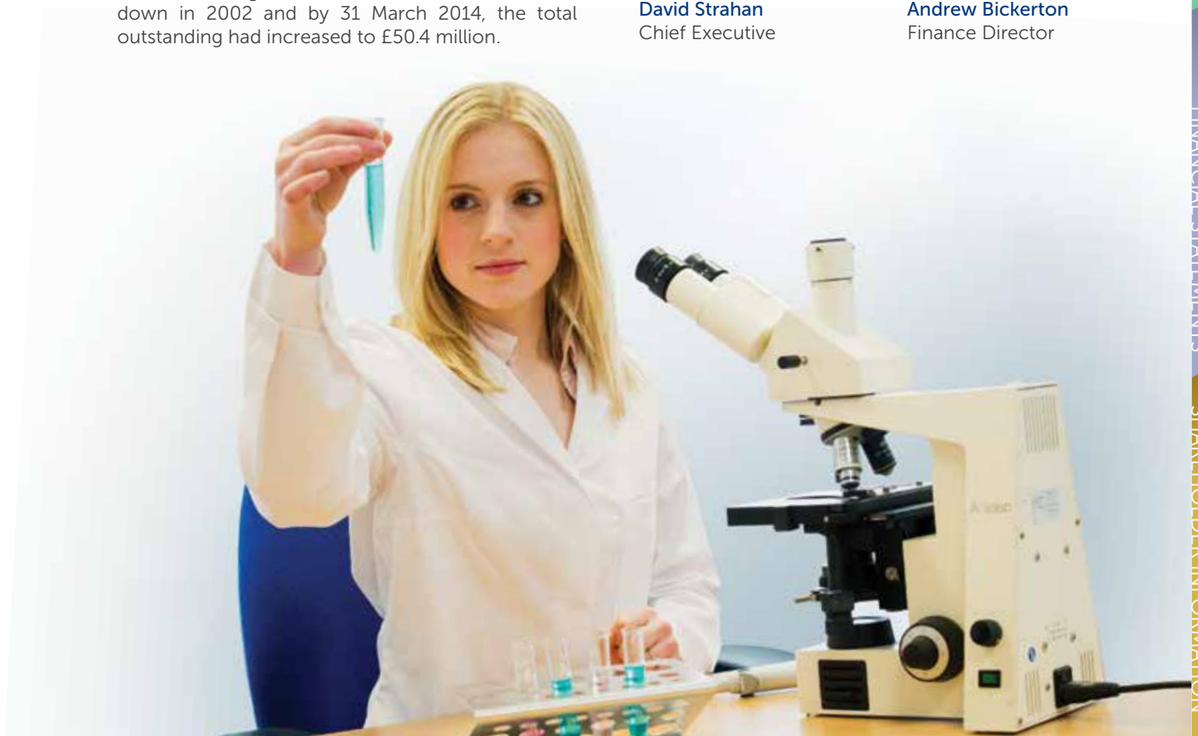
Further information on the going concern basis of preparation of the Financial Statements is included in the Corporate Governance Report on page 18.

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

This Strategic Report was approved by the Board of Directors on 10 June 2014 and signed on its behalf by:

David Strahan
Chief Executive

Andrew Bickerton
Finance Director



BOARD OF DIRECTORS

ANDREW BICKERTON (37) FCA

Finance Director and Company Secretary
Appointed to the Board on 6 May 2014

Andrew was previously Group Financial Controller with Electricity North West Limited which owns, operates and maintains the North West's electricity distribution network, delivering energy to 2.4 million customer premises. During his appointment at Electricity North West Limited from 2008 to 2014 Andrew was also responsible for leading a number of significant change programmes across the organisation. Prior to 2008 he was a Senior Manager with KPMG LLP.

External appointments: None

Committee membership: None

PHILIP HOLDER (65) FCA

Independent Non-executive Director
Appointed to the Board on 21 January 2014

Philip has spent much of his career in the water sector having served as Chief Executive of Sutton and East Surrey Water plc between 1997 and 2007 and as a non-executive director until 2010. He is currently non-executive Chairman of Fulcrum Utility Services Limited, a company listed on the AIM market, and is also non-executive Chairman of Forefront Group Limited. He is also an Operational Advisor to Trident Private Equity Fund III. Previously Philip was a non-executive director of the CLH Group (Compania Logistica de Hidrocarburos) and Operational Advisor to The Infrastructure Partnership.

External appointments: Non-executive Chairman of both Fulcrum Utility Services Limited and Forefront Group Limited

Committee membership: Member of Audit, Nomination and Remuneration Committees

JON SCHOFIELD (53) FCA

Independent Non-executive Director
Appointed to the Board on 19 November 2010

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

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

Committee membership: Chairman of Audit Committee, member of Remuneration and Nomination Committees

GRAHAM SCOTT (69) CEng, MIChemE

Independent Non-executive Chairman
Appointed to the Board on 1 August 2003

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

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

Committee membership: Chairman of Nomination Committee, member of Remuneration Committee

DAVID STRAHAN (36) FCA

Chief Executive
Appointed to the Board on 1 January 2013

David was appointed to the Board on 1 January 2013 as Finance Director and Company Secretary and subsequently was appointed Chief Executive on 5 May 2014. Prior to joining Dee Valley Group plc David was Managing Director of Phoenix Supply Ltd, the largest natural gas supplier in Northern Ireland. Under his leadership he was responsible for the strategic expansion of the Phoenix Group into the Republic of Ireland and Phoenix rapidly grew to become the second largest natural gas supplier on the island of Ireland. In September 2013 he was appointed by the Northern Ireland Finance Minister to the Board of the Northern Ireland Authority for Utility Regulation.

External appointments: Non-executive director of the Northern Ireland Authority for Utility Regulation

Committee membership: Member of Nomination Committee

DAVID WEIR (67) FCA

Senior Independent Non-executive Director
Appointed to the Board on 17 June 2002

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

External appointments: Non-executive director of Renewable Energy Holdings plc, Webb Capital plc and VSA Holdings

Committee membership: Chairman of Remuneration Committee, member of Audit and Nomination Committees

CORPORATE GOVERNANCE REPORT

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

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

RESPONSIBILITIES OF THE BOARD

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

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

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

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

BOARD MEMBERSHIP

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

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

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

INDUCTION

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

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

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

COMPANY SECRETARY

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

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

BOARD MEETINGS

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

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

Philip Holder[1]	1 (2)
Norman Holladay	9 (9)
Jon Schofield	9 (9)
Graham Scott	9 (9)
David Strahan	9 (9)
David Weir	9 (9)

[1]Philip Holder was appointed a Director on 21 January 2014

BOARD COMMITTEES

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

There are three permanent committees of the Board – the Audit, Nomination and Remuneration committees. A standing Nomination committee was formed during the year. Reports from the Chairmen of these committees are set out on pages 19 to 29 of this report.

PERFORMANCE EVALUATION

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

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

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

RELATIONS WITH SHAREHOLDERS

The Board values and attaches great importance to communicating with shareholders, and as such, its policy is to be available for meetings with institutional shareholders in order to explain the Group's strategy, results, policies and other areas of interest to shareholders. These meetings are normally attended by the Chief Executive and Finance Director who, in turn, report the views expressed by shareholders to the Board. During the year a non-executive Director met with the Company's largest shareholder.

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

The Board confirms that there is a continuing process for identifying, assessing and managing the significant risks faced by the Group. The executive team is responsible for the identification and evaluation of significant risks together with implementing mitigating actions to reduce either the impact or probability of risk materialising. Further information in respect of material risks is included in the Strategic Report on pages 6 to 13.

GOING CONCERN

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

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

REPORT OF THE AUDIT COMMITTEE

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

KEY OBJECTIVE

The key objective of the Committee is to ensure the provision of effective governance over the appropriateness of the Group's financial reporting including the adequacy of related disclosures, the performance of the external auditor and the management of the Group's systems of internal control, business risks and related compliance activities.

KEY RESPONSIBILITIES

The key responsibilities of the Committee are to:

- review the integrity of the financial statements and announcements relating to the financial performance of the Group and monitor compliance with relevant statutory and listing requirements;
- report to the Board on the appropriateness of accounting policies and practices including critical accounting policies and practices;
- advise the Board on whether the Committee believes that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- make recommendations to the Board in relation to the appointment and removal of the external auditor and to approve their remuneration and terms of engagement;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration, relevant UK professional and regulatory requirements together with an assessment of their appropriateness to carry out any non-audit work;
- review the effectiveness of the Group's internal controls and risk management systems and review the need for an internal audit function;
- consider management's response to any external audit recommendations; and
- report to the Board on how it has discharged its responsibilities.

Following the publication of the revised version of the UK Corporate Governance Code, which applies to accounting periods commencing on or after 1 October 2012, the Board requested that the Committee advise them on whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

During the year the Committee's terms of reference have been amended to reflect this and are available on the Group's website www.deevalleygroup.com

MEMBERSHIP

The Committee's membership comprises of three independent non-executive directors, Jon Schofield, David Weir and Philip Holder. Jon Schofield and David Weir were members of the Committee for the full year with Philip Holder joining the Committee with effect from 23 January 2014. Jon Schofield is Chairman of the Committee.

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

MEETINGS

There were five scheduled meetings of the Committee during the year with full attendance at each meeting, with the exception of Philip Holder who was unable to attend one of the two meetings he was entitled to attend since becoming a member of the Committee. A summary of the main activities of the Committee are provided in the remainder of this report.

Only Committee members are entitled to attend a Committee meeting. However, the Chairman of the Board, executive directors, external audit engagement partner and others are invited to attend meetings as considered appropriate and at the invitation of the Chairman.

FINANCIAL REPORTING

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the Annual Report and Financial Statements with particular emphasis on:

- the acceptability and appropriateness of the accounting policies and practices adopted;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or that have been the subject of discussion with the external auditor;
- whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in respect of our financial reporting.

In order to aid its review the Committee considers reports from management and also the report from the external auditor in respect of the outcome of their annual audit.

The primary areas of judgement considered by the Committee in relation to the Annual Report and Financial Statements for the year ended 31 March 2014, and how these were addressed, were:

- Pension Scheme – The Group's trading company, Dee Valley Water plc, participates in a defined benefit pension scheme, the Water Companies Pension Scheme, for qualifying employees. Judgements are required in respect of the actuarial assumptions for the pension disclosures (including the pension scheme curtailment gain) and on appropriate methods for valuing obligations and costs under IAS19. The Committee commissioned a report from actuarial advisors and also discussed the assumptions to be used with management and the external auditor;
- Provision for Doubtful Receivables – The Group estimates the recoverability of trade receivables on a regular basis during the year and at the balance sheet date. The Committee reviewed management's process and assumptions for assessing the provision for impairment which is based on the relative age of receivables and customer segmentation. The provision for impairment was also subject to audit by the external auditor and the Committee discussed the judgements in respect of the impairment provision with management and the external auditor;
- Revenue Recognition - The Committee reviewed the estimation of unbilled revenue at the year end and discussed the results with management and the external auditor;
- Carrying Value of Property, Plant and Equipment and Goodwill – The Committee reviewed the carrying value of property, plant and equipment and goodwill and the estimated useful lives used to calculate depreciation; and
- Going Concern – The Committee reviewed a report from management in respect of going concern and also discussed the assumption to prepare the financial statements on a going concern basis with management and the external auditor.

BUSINESS PLAN

During the year the Group submitted its business plan for the five year period commencing 1 April 2015 to Ofwat. The business plan sets out the investment proposals for this period together with a range of outcomes and performance incentives.

The Committee reviewed the business plan submission and received independent external reports from financial and technical auditors which addressed key risk areas. Management were also challenged on the range of financial, economic and operational assumptions used in preparing the business plan submission.

RISK MANAGEMENT

The Group's risk management process and the way in which significant risks are managed is a key area of focus for the Committee. The Committee's work was driven primarily by the Group's assessment of principal risks and uncertainties, a summary of which is set out on pages 10 and 11. The Committee reviewed two reports from management in respect of identified risks and the changes in those risks during the period under review.

The Committee regards these reviews as being critical to the role of the Committee as they allow independent challenge of management's assessment of risk and the actions being taken to further mitigate risk.

INTERNAL AUDIT

During the year, the Committee reviewed the need for an internal audit function. This review included consideration of the scope and nature of the work carried by the external auditor, reviews carried out by management and the scope and nature of work carried out by the Group's Technical Auditor. Following its annual review the Committee recommended to the Board not to establish an internal audit function due to the relatively small number of personnel employed within the Group, the nature of the business and the current control and review systems in place.

There were no significant control issues in the year.

EXTERNAL AUDITOR

The Committee is responsible for the appointment of the external auditor together with approving the level of their remuneration. It is also responsible for reviewing the independence and objectivity of the external auditor, and ensuring this is safeguarded notwithstanding the provision of any other non-audit services to the Group.

KPMG Audit plc (KPMG) had been the Company's auditor for seven years with their performance reviewed on an annual basis by the Committee. During the year the Committee considered the appropriateness of putting in place a tender process for the provision of external audit services including taking into account the requirements of the UK Corporate Governance Code. The review concluded that a tender process was appropriate. There are no contractual obligations restricting the Committees choice of external auditor and the external auditor is not indemnified by the Group.

The formal tender process was initiated in August 2013 and following written proposals and presentations from three firms, including KPMG, Deloitte LLP were appointed as external auditor for the Group. KPMG have resigned and, in accordance with section 519(3) of the Companies Act 2006, they have provided a statement of the circumstances connected with their resignation which is available on the Group's website www.deevalleygroup.com.

The Committee gives careful consideration before appointing the external auditor to provide other services. The Group regularly use other service providers in respect of such work to ensure that independence and value for money are achieved. Other services carried out by the external auditor are generally limited to work that is closely related to the annual audit or where the work is of such a nature that a detailed understanding of the business is necessary. Note 3 to the financial statements discloses the fees paid to the external auditor in respect of the statutory audit and also the fees paid in respect of non-audit services.

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the commencement of the audit cycle. Deloitte LLP presented to the Committee a detailed audit plan which identified their assessment of these key risks. The Committee assessed the effectiveness of the audit process in addressing these risks through the reporting received from Deloitte LLP at the year end and also through feedback from management on the effectiveness of the audit process. For the year ended 31 March 2014 the Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risks and assessed the quality of the audit process to be good.

The Committee held a private meeting with the external auditor to provide additional opportunity for open dialogue and feedback from the external auditor without management present.

During the year the Committee reviewed the policy in respect of the appointment of former employees of the external auditor to ensure its continued appropriateness. No material changes were made to this policy as a result of this review.

OTHER

During the year the Committee reviewed the offers of gifts and hospitality made to Group employees.

The Committee also reviewed the formal whistleblowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoing by any of the Group's employees or the Group in general without fear of reprisal.

JH Schofield

Jon Schofield
On behalf of the Audit Committee
10 June 2014

REPORT OF THE NOMINATION COMMITTEE

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

KEY OBJECTIVE

The key objective of the Committee is to ensure the Board comprises individuals who have the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities.

KEY RESPONSIBILITIES

The key responsibilities of the Committee are to:

- review the size, structure and composition of the Board including the diversity and balance of skills, knowledge and experience, and the independence of the non-executive directors;
- lead the process for identifying and nominating for the approval of the Board candidates to fill Board vacancies giving consideration to succession planning and the leadership needs of the Group;
- oversee the performance evaluation of the Board, its committees and individual directors;
- review the tenure of each of the non-executive directors; and
- make recommendations to the Board regarding the composition of the Board's committees.

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

MEMBERSHIP

All non-executive directors and the Chief Executive are members of the Committee which is chaired by the Chairman of the Group. Graham Scott, David Weir and Jon Schofield have been members of the Committee since inception and Philip Holder and David Strahan became members of the Committee on 23 January 2014. No one other than a member of the Committee is entitled to be present at its meetings, however, others may attend at the invitation of the Committee. In the event of matters arising concerning the Chairmanship of the Group, the Board's Senior Independent Director would take the chair.

MEETINGS

After completing a review of compliance with the UK Corporate Governance Code, the Board formed a standing Nomination Committee in July 2013. Since this date, the Committee has met on three occasions during the year with full attendance at each meeting, with the exception of Philip Holder who was unable to attend one of the two meetings he was entitled to attend since becoming a member of the Committee.

During 2013 the Committee kept the structure, size and composition of the Board under review as well as the diversity of skills and experience. Given that Norman Holladay indicated his intention to retire during 2014 after having served as the Group's Managing Director since 2009, the Committee considered the appointment of a successor. After due consideration of the requirements of the position and David Strahan's contribution to the success of the Group since his appointment as the Group's Finance Director, David Strahan was appointed as Chief Executive with effect from 5 May 2014.

David Strahan tendered his resignation to take up the position as Group Chief Executive of the Northern Ireland Transport Holding Company. His service contract provides for a notice period of 12 months which will expire on 28 April 2015. At the date of publication of this report a process is underway to identify and appoint a suitable replacement.

In order to seek suitable candidates for the position of Finance Director the Company Secretary developed a role profile which detailed the skills and attributes necessary for the role. The Committee engaged the services of an independent search and selection firm to compile a list of candidates with relevant skills and experience. This was to ensure that the Committee had access to a wide pool of potentially suitable candidates and resulted in the appointment of Andrew Bickerton who took up the position as Finance Director and Company Secretary with effect from 6 May 2014.

During the year the Chairman, Graham Scott, also indicated his intention to retire with effect from the expiry of his letter of appointment on 31 July 2014.

After considering the job specification, the expected time commitment required to be Chairman and Jon Schofield's contribution to the Board since his appointment as a non-executive director in 2010, the Board, on recommendation of the Committee, agreed to elect Jon Schofield as Chairman to be effective from 1 August 2014.

In view of Graham Scott's intention to retire in 2014 which would cause the number of the Company's non-executive directors to reduce by one the Committee, at the request of the Board, developed a shortlist of candidates for non-executive director using the services of an independent search and selection firm. After considering the future changes to Board composition, the Committee considered that a non-executive director with water sector experience would strengthen the skills and experience of the Board. Philip Holder was identified as a suitable candidate and subsequently recommended to the Board by the Committee on the basis that he has significant water sector experience gained in an organisation of broadly similar scale to the Group.

The same independent search and selection firm was utilised for the appointment of Andrew Bickerton as Finance Director and appointment of the non-executive director. The firm has no other connection with the Group.

In respect of all Board appointments, candidates are identified and selected on merit against objective criteria and with due regards to the benefits of diversity on the Board, including gender. The Board acknowledges that diversity extends beyond the boardroom and supports management in their efforts to build and maintain a diverse organisation. It endorses the Company's policy to attract and develop a highly qualified and diverse workforce; to ensure that all selection decisions are based on merit and that all recruitment practices are fair and non-discriminatory.

The Committee also reviewed the membership of the various Board committees during the year.

In the year ahead the Committee will focus on ensuring a smooth transition in the key leadership roles in the Group and will continue to keep the size, structure and composition of the Board and Board committees under review.

Graham Scott
On behalf of the Nomination Committee
10 June 2014

REPORT OF THE REMUNERATION COMMITTEE

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

KEY OBJECTIVE

The key objective of the Committee is to assess and make recommendations to the Board on the remuneration policy of the Group and determine the pay and benefits for executive and non-executive directors.

KEY RESPONSIBILITIES

The key responsibilities of the Committee are to:

- determine, on behalf of the Board, the remuneration policy of the Group;
- determine the total remuneration packages for executive and non-executive directors including any compensation on termination of office;
- monitor trends in remuneration and ensuring the remuneration policy is such that the Group can attract, retain and motivate executives of sufficient calibre to run the Group successfully;
- operate within recognised principles of good governance; and
- report to the Board and shareholders on how it has discharged its responsibilities.

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

MEMBERSHIP

All non-executive directors are members of the Committee which is chaired by the Senior Independent Director, David Weir. No one other than a member of the Committee is entitled to be present at its meetings, however, others may attend at the invitation of the Committee.

The Board considers that these directors have suitable experience to serve on the Committee.

MEETINGS

There were four scheduled meetings of the Committee during the year with full attendance at each meeting, with the exception of Philip Holder who was unable to attend one of the two meetings he was entitled to attend since becoming a member of the Committee. Only Committee members are entitled to attend a Committee meeting although executive directors and external advisors are invited to attend meetings as considered appropriate and at the invitation of the Chairman. However, no executive director is involved in determining his own remuneration nor is present when their own remuneration is discussed.

REMUNERATION POLICY

Executive remuneration packages are designed to attract, motivate and retain directors of sufficient calibre to lead to organisation and enhance shareholder value. In determining this remuneration policy the Committee considered executive remuneration benchmarking provided by our independent external advisors, Deloitte LLP. Deloitte LLP voluntarily operate under the Code of Conduct (Code) in relation to executive remuneration consulting in the UK. This is based on principles of transparency, integrity, objectivity, competence, due care and confidentiality by executive remuneration consultants. The Code is available at remunerationconsultantsgroup.com

The table opposite summarises the main elements of the Group's remuneration policy for executive directors.

Non-executive directors have specific terms of engagement and their remuneration is determined by the Board and based on independent surveys of fees paid to non-executive directors of similar organisations.

Remuneration on recruitment

When setting the remuneration package for an executive director who is new to a role, the Committee will apply the same principles and implement the policy as set out in the table opposite.

Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.

In relation to external appointments, the Committee may structure an appointment package that it considers appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous position, taking into account timing and valuation and such other specific matters as it considers relevant. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the Committee considers is required to provide reasonable compensation to the incoming director.

If the director will be required to relocate in order to take up the position, it is the Group's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.

Non-executive directors' base fees, including those of the Chairman, will be set at a competitive market level, reflecting experience, responsibility and time commitment. Fees will be reviewed annually. Non-executive directors are entitled to claim any reasonable expenses incurred in the course of carrying out their duties as a non-executive director. Non-executive directors are not entitled to participate in any Group pension scheme nor do they receive any performance-related remuneration.

	Purpose and link to strategy	Operation	Opportunity	Changes in year
Base salary	To provide a competitive level of non-variable remuneration aligned to market practice for similar sized organisations; to reflect the seniority of the post and expected contribution to the delivery of the Group's strategy.	Basic salaries are reviewed by the Committee annually with any increases usually effective from 1 April. Increases are determined by reference to the average salary increase of all staff; cost of living; external benchmarking and market rates; responsibilities and individual performance.	Annual increase in line with the market or as the Committee deem appropriate based on role and responsibilities and/or external benchmarks.	None.
Benefits	To aid the recruitment and retention of high quality executives.	Annual review of benefits by Committee.	Car/car allowance, private medical insurance, private fuel, life assurance.	None.
Pension	To aid the recruitment and retention of high quality executives.	The Group will make pension contributions for all executive directors. If appropriate, a salary sacrifice arrangement can apply.	Pension contributions are 15% of basic salary.	None.
Annual bonus	Incentivise performance on an annual basis against key performance indicators and personal objectives.	Objectives are set against strategic measures (financial and non-financial) and personal objectives.	Maximum bonus potential is capped at 50% of salary.	Introduced in 2014.

Payment for loss of office

If an executive director's employment is to be terminated, the Committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the director, is to agree a termination payment based on the value of base salary that would have accrued to the director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing director may work, or be placed on garden leave, for all or part of the notice period, or receive a payment in lieu of notice in accordance with the service agreement. The Committee will consider mitigation to reduce the termination payment to a leaving director when appropriate to do so, having regard to the circumstances.

In addition, where the director may be entitled to pursue a claim against the Group in respect of their statutory employment rights or any other claim arising from the employment or its termination, the Group will be entitled to negotiate settlement terms (financial or otherwise) with the director that the Committee considers to be reasonable in all the circumstances. The Committee, in the best interests of the Group, may also enter into a Settlement Agreement with the director to effect both the terms agreed under the service agreement and any additional statutory or other claims, including bonus payments and to record any agreement in relation to bonus in line with the policies described above.

The Committee will consider whether a departing director should receive an annual bonus in respect of the financial year in which the termination occurs or in respect of any period of the financial year following termination for which the director has been deprived of the opportunity to earn annual bonus. If the employment ends by reason of redundancy, retirement with the agreement of the Group, ill health or disability or death, the director may be considered for a bonus payment. If the termination is for any other reason, any bonus would only be at the discretion of the Committee. It is the Committee's policy to ensure that any such bonus payments reflects the departing director's performance and behaviour towards the Group.

Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and may be time pro-rated, where appropriate.

Non-executive directors have letters of appointment, rather than service contracts, which provide for six months termination notice by either party. In the event of early termination, non-executive directors are not entitled to receive compensation for loss of office.

Other directorships

During the year the Committee adopted a policy in respect of other directorships. This policy permits an executive director to hold one other directorship, with the prior approval of the Board. In considering whether to grant or withhold any such approval, the Board shall consider the nature of the other directorship, the expected time commitment and the relevant skills and experience which the other directorship may provide the executive director. Approval will only be granted where the Board considers that the other directorship will not adversely affect their executive responsibilities. An executive director may retain the fees in respect of another directorship.

During the year the Group's Chief Executive was appointed by the Northern Ireland Finance Minister to the Board of the Northern Ireland Authority for Utility Regulation. This appointment was approved by the Board.

ANNUAL REMUNERATION REPORT

PART A – UNAUDITED INFORMATION

Base Salary and Benefits

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

The non-salary benefits for executive Directors comprise:

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

In addition, Norman Holladay received a fuel benefit.

Pensions

Norman Holladay is a member of the Dee Valley Water section of the Water Companies Pension Scheme. Further details in respect of Mr Holladay's pension entitlements are included in Part B of the Annual Remuneration Report.

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

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

Director Service Contracts and Letters of Appointment

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

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

The service contracts in respect of Norman Holladay and David Strahan are dated 1 December 2009 and 26 October 2012, respectively.

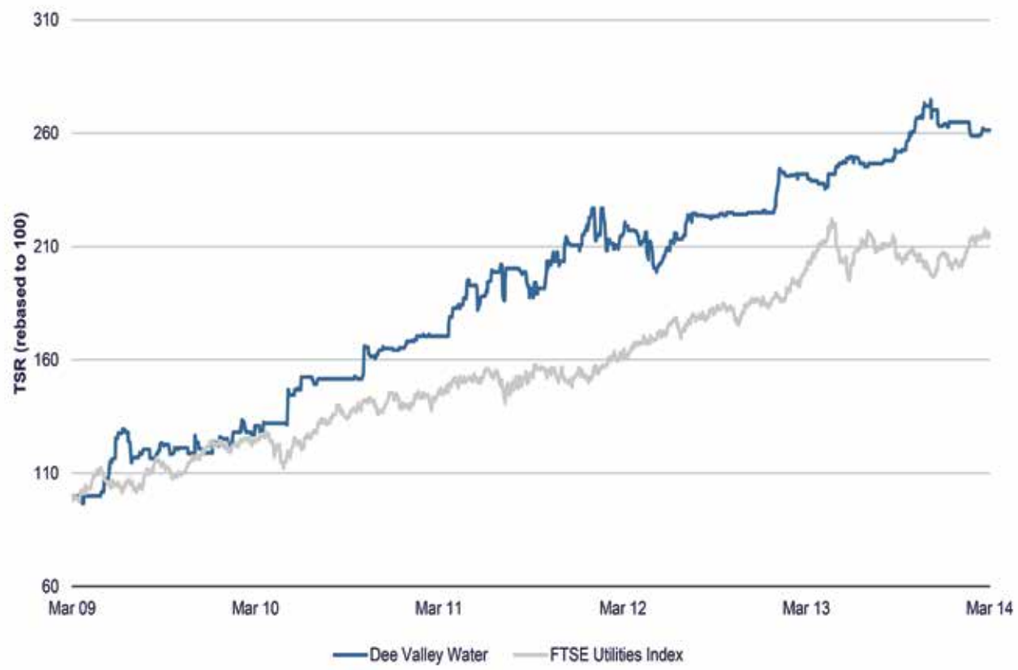
Non-executive Directors have letters of appointment, rather than service contracts, which provide for six months termination notice by either party. In the event of early termination, non-executive Directors are not entitled to receive compensation for loss of office. The letter of appointment of each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

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

Total Shareholder Return (TSR) Performance

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

The following graph shows the TSR performance of the Company since March 2009 compared to the FTSE Utilities Index. The FTSE Utilities Index has been selected as the most relevant benchmark for comparison purposes as it is an established comparator group of companies trading in the same sector.



PART B – AUDITED INFORMATION

This section of the Report of the Remuneration Committee provides details of the remuneration, pension and share interests of the Directors for the year ended 31 March 2014.

Directors' Remuneration

	Base salary and fees £000	Benefits in kind £000	Pensions	Total 2014 £000	Total 2013 £000
Philip Holder[1]	5	-	-	5	-
Norman Holladay	128	19	55	202	140[3]
Jon Schofield	23	-	-	23	22
Graham Scott	36	-	-	36	35
David Strahan[2]	129	-	18	147	32
David Weir	23	-	-	23	22
	344	**19**	**73**	**436**	**251**

[1] Philip Holder was appointed a Director on 21 January 2014.
[2] David Strahan was appointed a Director on 1 January 2013.
[3] Includes single figure of pension remuneration of £16,000.

The increase in remuneration (base salary and fees and benefits in kind) for Mr Norman Holladay who was the Chief Executive as at 31st March 2014 was 18.5% compared to the increase in average remuneration for all employees which was 6.1%.

Directors' Pension Entitlements

Mr Holladay is a member of the Dee Valley Water plc Section of the Water Companies Pension Scheme, a defined benefit pension scheme.

The Section provides the following benefits:

- In respect of pensionable service before 1 December 2013 – a pension of 1/80th of pre – 2013 Final Pensionable Remuneration and an additional lump sum benefit of 3/80ths of pre – 2013 Final Pensionable Remuneration for each year of service, together with a proportionate amount for each additional complete day. Whilst the Director remains in service these benefits are increased in line with pensions in payment; and

- In respect of pensionable service on or after 1 December 2013 – a pension of 1/90th of Final Pensionable Remuneration and an additional lump sum benefit of 3/90ths of Final Pensionable Remuneration for each year of service, together with a proportionate amount for each additional complete day. From 1 December 2013, future increases to Pensionable Remuneration are capped at 2.5% per annum.

The earliest age from which benefits are payable without reduction is age 60.

Pensions increase in payment each year in line with Consumer Prices Inflation.

On death, a spouse's pension is payable equal to one half of the Director's pension (before allowance for any options exercised by the Director at retirement).

Relative Importance of the Spend on Pay

The table below shows the relative importance of the spend on pay (for all employees) compared with the returns distributed to shareholders:

	2014 £000	2013 £000	% Change
Remuneration paid to or receivable by all employees	6,247	5,834	7.1%
Distributions to shareholders by way of dividends	2,927	2,836	3.2%

Directors' Share Interests

The Directors of the Company at 31 March 2014 and their beneficial interests in the shares of the Company were as follows:

	Ordinary Shares	
	2014 No.	2013 No.
Philip Holder	-	-
Norman Holladay	100	100
Jon Schofield	-	-
Graham Scott	666	666
David Strahan	-	-
David Weir	1,666	1,666

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

There were no changes in the beneficial interests of the directors in the Company's shares between 1 April 2014 and 10 June 2014.

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

David Weir
On behalf of the Remuneration Committee
10 June 2014

DIRECTORS' REPORT

This Directors' Report should be read in conjunction with the Corporate Governance Report and the Audit, Nomination and Remuneration Committee and the Strategic Report contained on pages 6 to 13.

PRINCIPAL ACTIVITIES

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

FUTURE DEVELOPMENT

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

DIVIDENDS PER SHARE

The dividends in respect of ordinary and non-voting ordinary shares are as follows:

	Interim Paid pence per share	Final Proposed pence per share	Total pence per share
2014	20.5	42.0	62.5
2013	19.8	42.7	62.5

The final dividend is payable on 1 August 2014.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment, including infrastructure renewals, amounted to £6.1 million (2013: £14.0 million).

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

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

CAPITAL STRUCTURE

Details of the Company's issued share capital, movements and rights attaching to shares are shown in note 19 to the Financial Statements.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all shares are fully paid.

The Company's Articles of Association may be amended by a special resolution at a general meeting of the shareholders.

DIRECTORS

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

Andrew Bickerton	Graham Scott
Philip Holder	David Strahan
Jon Schofield	David Weir

Norman Holladay retired as a Director on 5 May 2014.

Jon Schofield is to retire at the Annual General Meeting and offers himself for re-election. As provided by the UK Corporate Governance Code (the "Code"), Graham Scott and David Weir, who have served for more than nine years, are subject to annual re-election. Graham Scott's letter of appointment as a Director is due to expire on 31 July 2014 and David Weir's letter of appointment as a Director is due to expire on 23 March 2015. Although their lengths of service exceeds nine years, the Board regards both Graham Scott and David Weir as independent and considers their broad-based commercial experience and extensive business-specific knowledge to be extremely beneficial. However, the Board will continue to monitor the situation. There is an agreed succession plan for the orderly retirement of both executive and non-executive Directors.

The Chairman, Graham Scott, is due to retire with effect from the expiry of his letter of appointment on 31 July 2014. After considering the job specification, the expected time commitment required to be Chairman and Jon Schofield's contribution to the Board since his appointment as a non-executive director in 2010, the Board, on recommendation of the Nomination Committee, agreed to elect Jon Schofield as Chairman to be effective from 1 August 2014.

David Strahan tendered his resignation to take up the position as Group Chief Executive of the Northern Ireland Transport Holding Company. His service contract provides for a notice period of 12 months which will expire on 28 April 2015. At the date of publication of this report a process is underway to identify and appoint a suitable replacement.

Following an evaluation of their performance, the Board considers that Jon Schofield, Graham Scott and David Weir continue to perform effectively and to demonstrate commitment to their roles.

Andrew Bickerton was appointed Finance Director and Company Secretary on 6 May 2014 following the appointment of David Strahan as Chief Executive. Having been appointed since the date of the last Annual General Meeting he therefore offers himself for re-election.

Philip Holder was appointed as a non-executive Director on 21 January 2014 and having been appointed since the date of the last Annual General Meeting he therefore offers himself for re-election.

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

Further details of Directors' service contracts and Directors' interests are given in the Remuneration Committee report on pages 24 to 29.

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

GREENHOUSE GAS EMISSIONS

Total Greenhouse Gas Emissions for the year ended 31 March 2014 were as follows:

Greenhouse Gas Emission Source	Tonnes of CO2e
Combustion of fuel and operation of facilities	696
Electricity, heat, steam and cooling purchased for own use	7,506
Company's chosen intensity measurement: Emissions reported above normalised to Kilogrammes of CO2e per person supplied	30.81
Emissions reported above normalised to Kilogrammes of CO2e per 1 million litres of drinking water	358.01
Emissions reported above normalised to Kilogrammes of CO2e per 1 million litres of drinking water per meter head pumped	2.72

All emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 have been included. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

The "Workbook for estimating operational GHG emissions" version 8 which has been developed by UK Water Industry research has been utilised. The emissions factors used are Defra's Environmental Reporting Guidelines (published in July 2013 and updated in October 2013). Process emissions specific to the water industry have been calculated using industry - specific conversion factors.

SUBSTANTIAL INTERESTS

At 1 June 2014, the Company was aware of the following interests of 3% or more in its issued Ordinary Shares:

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

REDEMPTION OF B SHARES

During the financial year, the Company redeemed 51,933 B shares, representing 0.37% of the original issued capital. The nominal value and consideration amounted to £119,446. The B shares were issued in connection with a return of capital to shareholders in 2002. The rights attaching to the B shares are shown in note 15.

ANNUAL GENERAL MEETING

An explanatory note concerning the resolutions to be proposed at the Company's Annual General Meeting is set out after the Notice of Annual General Meeting on pages 77 and 78 of this Annual Report.

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

AUDITOR

Deloitte LLP was appointed as auditor to the Company following a competitive tender process which concluded after last year's Annual General Meeting. A resolution proposing the reappointment of Deloitte LLP as auditor to the Company and authorising the Directors to determine its remuneration will therefore be submitted at the forthcoming Annual General Meeting.

By order of the Board

Andrew Bickerton
Company Secretary
10 June 2014

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

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on pages 33 to 37 of this Annual Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the Financial Statements.

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

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

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

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

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

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

Each of the Directors, the names of whom are set out in the Directors' Report on page 30 of this Annual Report confirm that to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, which is set out on pages 6 to 13 of this Annual Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board and signed on its behalf by:

Graham Scott
Chairman

David Strahan
Chief Executive

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

OPINION ON FINANCIAL STATEMENTS OF DEE VALLEY GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

GOING CONCERN

As required by the Listing Rules we have reviewed the Directors' statement contained on page 18 that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Determination of the provision for impairment of trade receivables Consistent with other UK regulated water companies, under the license arrangement the Group is obliged to supply water to domestic customers regardless of credit worthiness. Therefore, particularly in the current economic environment, the principal risk associated with receivables relates to recoverability. The bad debt provision model includes judgement around the likelihood of a customer to pay its bills based on historical experience of levels of recovery from accounts in particular ageing categories.	We have: • reviewed the design and implementation of management's controls around this risk, particularly around capturing the key data inputs to the model; • reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in Dee Valley Group in the period using analytical procedures to understand the collection of previously aged debtors and to re-compute the ageing analysis; • benchmarked the bad debt charge against peer group businesses; and • tested the key controls relating to the data used in the bad debt model and agreed a sample of this data back to its source, being the billing system.
Revenue recognition risk in relation to the estimation of unbilled revenue For water customers with water meters, the amount recognised as revenue depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. The estimated usage is based upon historical data and assumptions around consumption patterns.	We have: • reviewed the design and implementation of management's controls around this risk, particularly in capturing the key data inputs to the unbilled revenue estimation model; • challenged the validity of management's estimate of the current year unbilled revenue by comparing actual amounts billed post year end to the estimate made at the year end to determine the accuracy of the estimation techniques; and • used analytical procedures to generate an independent expectation of the total level of unbilled revenue for the current year.
Potential impairment of goodwill and tangible assets The Group has a significant amount of goodwill and tangible assets on its balance sheet. The Group's assessment of impairment is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount and growth rates based on management's view of future business prospects.	We have: • reviewed the design and implementation of management's controls around this risk; • assessed whether the requirements of IAS 36 'Impairment of Assets' have been followed; • compared the Regulated Capital Value and Group's market capitalisation to the Group's assets net book value; and • performed sensitivity analysis on key assumptions.

Risk	How the scope of our audit responded to the risk
Determining the amount of the Group's pensions curtailment gain The process of calculating the curtailment gain arising in the year is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning member liabilities, average working life and future salary increases.	We have engaged our pension specialists within our audit team, to challenge the assumptions used in the calculation of the curtailment gain as detailed in note 22, specifically regarding the member liabilities, average working life and future salary increases with reference to comparable market and other data.

The Audit Committee's consideration of these risks is set out on page 20.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £192,000, which is 5% of pre-tax profit adjusted for the non-recurring curtailment gain in relation to the pension scheme.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £3,830, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including controls, and assessing the risks of material misstatement at the Group level. The Group has one key business, the supply of water, and a head office function in Wrexham. This location accounts for all of the Group's revenue, profit before tax and net assets and was subject to a full scope audit by the Group audit team led by the Senior statutory auditor.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

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 group's and the parent 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.

Jane Boardman BSc ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
10 June 2014

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GROUP INCOME STATEMENT

for the year ended 31 March 2014

	Notes	2014 £000	Restated[1] 2013 £000
Revenue		**23,787**	22,807
Other operating income	2	**2,187**	2,079
Operating expenses (net)	3	**(12,874)**	(12,905)
Profit from operations		**13,100**	**11,981**
Profit from operations before pension scheme curtailment gain		**11,843**	11,981
Pension scheme curtailment gain	22	**1,257**	-
Profit from operations		**13,100**	11,981
Depreciation	10	**(4,534)**	(4,722)
Finance income	5	**35**	161
Finance expenses	5	**(3,503)**	(3,388)
Profit before tax		**5,098**	**4,032**
Taxation	6	**566**	(146)
Profit for the year		**5,664**	**3,886**
Basic and diluted earnings per ordinary share	**8**	**122.3p**	**83.9p**
Adjusted earnings per ordinary share	**8**	**95.1p**	**83.9p**

All results arise from continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Notes	2014 £000	Restated[1] 2013 £000
Profit for the year		**5,664**	3,886
Items that will not be reclassified to profit or loss			
Actuarial loss on defined benefit pension scheme	22	**(1,310)**	(531)
Deferred tax credit on actuarial loss		**262**	155
Effect of change in corporation tax rate on accumulated actuarial gains		**228**	76
Other comprehensive expense for the year		**(820)**	**(300)**
Total comprehensive income for the year net of tax		**4,844**	**3,586**

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

GROUP AND PARENT COMPANY BALANCE SHEET

as at 31 March 2014

	Notes	Group 2014 £000	Restated[1] Group 2013 £000	Company 2014 £000	Company 2013 £000
Assets					
Non-current assets					
Goodwill	9	**5,381**	5,381	-	-
Property, plant and equipment	10	**94,081**	92,757	-	-
Retirement benefit surplus	22	**5,554**	5,109	-	-
Investments	11	**2**	2	**32,365**	32,365
		105,018	**103,249**	**32,365**	**32,365**
Current assets					
Inventories – raw materials and consumables		**355**	208	-	-
Trade receivables	12	**3,283**	2,880	-	-
Other receivables	13	**1,718**	1,559	**3,725**	3,725
Cash and cash equivalents	14	**8,226**	8,153	**-**	-
		13,582	**12,800**	**3,725**	**3,725**
Total assets		**118,600**	**116,049**	**36,090**	**36,090**
Liabilities					
Current liabilities					
Interest-bearing loans and borrowings	15	**7,639**	7,585	**1,424**	1,543
Trade and other payables	16	**11,171**	11,000	**2,469**	2,292
Current income tax liabilities		**397**	389	-	-
		19,207	**18,974**	**3,893**	**3,835**
Non-current liabilities					
Interest-bearing loans and borrowings	15	**50,500**	48,966	**-**	-
Deferred income	17	**8,021**	7,427	**-**	-
Deferred tax	18	**13,438**	15,165	**-**	-
		71,959	**71,558**	**-**	-
Total liabilities		**91,166**	**90,532**	**3,893**	**3,835**
Net assets		**27,434**	**25,517**	**32,197**	**32,255**
Issued share capital	19	**232**	232	**232**	232
Other reserves	26	**6,168**	6,049	**30,541**	30,422
Retained earnings		**21,034**	19,236	**1,424**	1,601
Total equity		**27,434**	**25,517**	**32,197**	**32,255**

Approved by the Board of Directors and authorised for issue on 10 June 2014 and signed on its behalf by:

Graham Scott
Chairman

David Strahan
Chief Executive

Company registered in England and Wales with Company Number 04316684.

GROUP STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Capital redemption reserve £000	Other reserves £000	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2012		232	30,337	(32,316)	7,943	18,571	24,767
Profit		-	-	-	-	3,886	3,886
Actuarial gain (net of deferred tax) on defined benefit pension scheme		-	-	-	-	(300)	(300)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**3,586**	**3,586**
Repayment of B shares		-	85	-	-	(85)	-
Dividends	20	-	-	-	-	(2,836)	(2,836)
Total contributions by, and distributions to, owners of the Company		**-**	**85**	**-**	**-**	**(2,921)**	**(2,836)**
Balance at 1 April 2013		232	30,422	(32,316)	7,943	19,236	25,517
Profit		-	-	-	-	5,664	5,664
Actuarial loss (net of deferred tax) on defined benefit pension scheme		-	-	-	-	(820)	(820)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**4,844**	**4,844**
Repayment of B shares	19	-	119	-	-	(119)	-
Dividends	20	-	-	-	-	(2,927)	(2,927)
Total contributions by, and distributions to, owners of the Company		**-**	**119**	**-**	**-**	**(3,046)**	**(2,927)**
Balance at 31 March 2014		**232**	**30,541**	**(32,316)**	**7,943**	**21,034**	**27,434**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £000	Capital redemption reserve £000	Other reserves £000	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2012		232	30,337	-	-	1,748	32,317
Profit		-	-	-	-	2,774	2,774
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**2,774**	**2,774**
Repayment of B shares		-	85	-	-	(85)	-
Dividends	20	-	-	-	-	(2,836)	(2,836)
Total contributions by, and distributions to, owners of the Company		**-**	**85**	**-**	**-**	**(2,921)**	**(2,836)**
Balance at 1 April 2013		232	30,422	-	-	1,601	32,255
Profit		-	-	-	-	2,869	2,869
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**4,470**	**35,124**
Repayment of B shares	19	-	119	-	-	(119)	-
Dividends	20	-	-	-	-	(2,927)	(2,927)
Total contributions by, and distributions to, owners of the Company		**-**	**119**	**-**	**-**	**(3,046)**	**(2,927)**
Balance at 31 March 2014		**232**	**30,541**	**-**	**-**	**1,424**	**32,197**

GROUP AND PARENT COMPANY CASH FLOW STATEMENT

for the year ended 31 March 2014

	Notes	Group 2014 £000	Restated[1] Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Profit before tax		**5,098**	4,032	**-**	-
Adjustments for:					
Depreciation	10	**4,534**	4,722	**-**	-
Loss on disposal of assets	3	**169**	222	**-**	-
Net finance costs	5	**3,468**	3,227	**-**	-
		13,269	**12,203**	**-**	**-**
Increase in inventories		**(146)**	(16)	**-**	-
Increase in trade and other receivables		**(1,337)**	(28)	**-**	-
Increase in trade and other payables		**906**	1,014	**177**	147
Increase in retirement benefit surplus		**(471)**	(556)	**-**	-
Cash generated from operating activities		**12,221**	**12,617**	**177**	**147**
Interest paid	5	**(1,969)**	(1,894)	**(58)**	(62)
Tax paid		**(661)**	(27)	-	-
Net cash from operating activities		**9,591**	**10,696**	**119**	**85**
Cash flows from investing activities					
Purchase of property, plant and equipment		**(6,687)**	(15,249)	**-**	-
Proceeds from sale of plant and equipment		**34**	41	**-**	-
Equity dividends received		**-**	-	**2,927**	2,836
Interest received	5	**8**	42	**-**	-
Net cash used in investing activities		**(6,645)**	**(15,166)**	**2,927**	**2,836**
Cash flows from financing activities					
Drawing on revolving credit facility		-	6,000	-	-
Repayment of B shares	19	**(119)**	(85)	**(119)**	(85)
Equity dividends paid	20	**(2,927)**	(2,836)	**(2,927)**	(2,836)
Net cash used in financing activities		**(3,046)**	**3,079**	**(3,046)**	**(2,921)**
Net decrease in cash and cash equivalents		**(100)**	(1,391)	**-**	-
Cash and cash equivalents at beginning of year	14	**8,111**	9,502	**-**	-
Cash and cash equivalents at end of year	**14**	**8,011**	**8,111**	**-**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

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

AMENDED IAS 1 'PRESENTATION OF FINANCIAL STATEMENTS'

The main change arising from these amendments is the requirement to group items presented in the Group Statement of Comprehensive Income on the basis of whether they would be reclassified to profit or loss at a later date, when specified conditions are met, or not.

IFRS 13 'FAIR VALUE MEASUREMENT'

This standard establishes a single source of guidance for fair value measurement under International Financial Reporting Standards. The standard provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. It does not include requirements on when fair value is measured, but rather how it should be measured if required by another standard. Due to the nature of the Group's financial instruments the adoption of IFRS 13 has not led to a change in their fair value.

IAS 19(R) 'EMPLOYEE BENEFITS'

In the current year, the Group has applied the revised version of IAS 19 (as revised in June 2011) 'Employee Benefits' and the related consequential amendments. The Group has applied the revised version of IAS 19 (as revised in June 2011) retrospectively and in accordance with the transitional provisions as set out in IAS19.173. These transitional provisions do not have an impact on future periods. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. All actuarial gains and losses are recognised immediately through the Statement of Other Comprehensive Income in order for the net pension asset or liability recognised in the Consolidated Balance Sheet to reflect the full value of the scheme deficit or surplus. Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under the revised version of IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined liability or asset. The revised version of IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

These Financial Statements are the first Financial Statements in which the Group has adopted the revised version of IAS 19 (as revised in June 2011). As the Group has always recognised actuarial gains and losses immediately, there is no effect on the prior year defined benefit obligation and balance sheet disclosure.

For the year ended 31 March 2014, the Group Income Statement shows an expense which is £27,000 higher (2013: £142,000 higher) and the Condensed Group Statement of Comprehensive Income shows a loss which is £27,000 lower (2013: £142,000 lower) than it would have been prior to the adoption of the revised version of IAS 19 (as revised in June 2011).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

GOING CONCERN

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

CARRYING VALUE OF LONG-LIFE ASSETS

The carrying value of property, plant and equipment (PPE) at 31 March 2014 was £94.1 million. Additions to PPE during the year totalled £6.1 million and the depreciation charge for the year was £4.5 million. The estimated useful lives of PPE are based on management's judgement and experience and those lives used generally in the water industry. When management identifies that actual useful lives differ materially from estimated useful lives used to calculate depreciation, the charge is adjusted prospectively.

The Group is required to evaluate whether the carrying value of PPE may be impaired and not recoverable. The Directors carry out this assessment with reference to the Group's market capitalisation and regulatory capital value and therefore requires subjective judgement. The Directors do not consider there to be a significant risk of material adjustment within the next twelve months.

PROVISION FOR DOUBTFUL RECEIVABLES

The Group estimates the recoverability of trade receivables on a regular basis during the year and at the balance sheet date. The provision for impairment is based on the relative age of receivables and customer segmentation. The actual level of receivables recovered may differ from the estimated net recoverable value of receivables at the balance sheet date. At 31 March 2014, the Group's gross trade receivables were £4.9 million and the provision for impairment amounted to £1.6 million.

CARRYING VALUE OF GOODWILL

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

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

DEFINED BENEFIT PENSION SCHEME

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

The cost of providing benefits is determined using the Projected Unit Credit Method, with the last formal actuarial valuation (31 March 2011) being updated to the accounting date by an independent qualified actuary. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the Group Statement of Comprehensive Income in the period which they occur. Re-measurement recorded in the Group Statement of Comprehensive Income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the defined benefit asset. Defined benefit costs are split into three categories:

- Current service cost, past-service cost and gains and losses on curtailments and settlements;
- Net-interest expense or income; and
- Re-measurement.

The Group presents the first two components of defined benefit costs within operating expenses (net) in its Group Income Statement. The pension scheme curtailment gain in the financial year has been accounted for as a past-service cost.

Net interest expense or income is recognised within finance costs. The retirement benefit obligation recognised in the consolidated balance sheet represents the surplus in the Group's defined benefit scheme. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme.

DEFINED CONTRIBUTION PENSION SCHEME

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

BASIS OF CONSOLIDATION

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

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

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

REVENUE RECOGNITION

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

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

Revenue is stated net of VAT, where applicable.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

SEGMENTAL ANALYSIS

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

RECOGNITION OF DIVIDENDS

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the Group Income Statement in the period in which they are incurred.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

INVENTORIES

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

TRADE AND OTHER RECEIVABLES

Trade receivables are non-interest bearing and are initially recognised at invoice value less any provision necessary to reflect impairment. Impairment is determined according to the type and age of receivables. Other receivables are stated at the estimated recoverable amount.

TRADE AND OTHER PAYABLES

Trade and other payables, excluding accruals, are stated at the cash amount payable and are non-interest bearing. Accruals are determined according to the best estimate of amounts payable for liabilities in existence at the year end.

NON-CURRENT LIABILITIES: INDEX-LINKED LOAN

The index-linked loan is stated at the principal amount of £35 million plus indexation based on the relevant movement in the Retail Price Index since the loan was raised. The loan was initially measured at fair value, net of transaction costs. It has subsequently been measured at amortised cost using the effective method of movement in the Retail Price Index until the maturity date in 2032. Loan interest paid on the indexed principal amount at 3.635% is taken to the Group Income Statement as a finance expense. Indexation added to the loan during the financial period is also taken to the Group Income Statement as a finance expense.

CASH AND CASH EQUIVALENTS

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

DEFERRED INCOME

Third party contributions in respect of fixed assets are accounted for and presented as deferred income. Note 17 to the Financial Statements contains further details in respect of deferred income.

DEFERRED TAX

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

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

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

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

CURRENT INCOME TAX

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

EMPLOYEE COSTS CAPITALISED

Employee costs arising directly from the construction or acquisition of property, plant and equipment are identified by internal procedures and transferred from Employee Benefits Expense (note 4) to Property, Plant and Equipment (note 10).

DERIVATIVES

In respect of forward contracts for energy, the Group applies the "own use" exemption in IAS 39 and accordingly does not account for them as financial instruments. The Group has no other derivatives in place.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

2 OTHER OPERATING INCOME

	2014 £000	2013 £000
Billing commission	**1,991**	1,916
Deferred contributions released	**165**	143
Other	**31**	20
	2,187	**2,079**

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

3 OPERATING EXPENSES (NET)

	2014 £000	2013 £000
Raw materials and consumables used	**714**	712
Employee benefits expense	**5,110**	4,620
Other operating expenses	**8,307**	7,573
Pension scheme curtailment gain	**(1,257)**	-
	12,874	**12,905**

Included within 'other operating expenses' above are the following:

	2014 £000	2013 £000
Auditor's remuneration		
Audit of the Company's annual accounts and consolidation	**16**	15
Audit of the Company's subsidiaries	**34**	33
Total audit services	**50**	**48**
Other services pursuant to legislation	**13**	13
Tax services	**-**	17
Pension services	**-**	49
Other services	**17**	-
Total non-audit services	**30**	**79**
Total Auditor's remunertion	**80**	**127**
Hire of property, plant and equipment	**246**	302
Loss on disposal of assets	**169**	222

The amounts included as auditor's renumeration in 2013 relate to amounts paid to the predecessor auditor.

4 EMPLOYEE BENEFITS EXPENSE

	2014 £000	2013 £000
Wages and salaries	**5,575**	5,194
Social security costs	**519**	493
Pension costs – defined benefit scheme	**582**	577
Pension costs – defined contribution schemes	**88**	61
Other post-retirement benefits	**2**	2
	6,766	**6,327**
Less employee costs of own work capitalised (note 10)	**(1,656)**	(1,707)
	5,110	**4,620**

The amounts above incudes remuneration in respect of Directors.

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

	2014 No.	2013 No.
Water operations	**43**	41
Water administration	**77**	76
Services division	**48**	49
	168	166

During the year the Company had no employees (2013: None).

5 FINANCE INCOME AND FINANCE EXPENSES

	2014 £000	2013 £000
Finance income:		
Demand deposits	**8**	42
Net expected return on pension scheme assets (note 22)	**27**	119
	35	**161**
Finance expenses:		
Loan interest	**1,911**	1,833
Loan indexation	**1,534**	1,494
Fixed dividend on B shares	**58**	61
	3,503	**3,388**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

6 TAXATION

	2014 £000	2014 £000	2013 £000
(a) Analysis of charge in the year			
Current year tax			
Current tax expense – continuing operations		671	660
Adjustment in respect of prior years		-	(3)
Current tax charge		671	657
Deferred tax			
Accelerated capital allowances:			
Current year	85		
Prior years	(1,747)		
		(1,662)	(725)
Retirement benefits:			
Current year	351		
Prior years	74		
		425	214
Deferred tax credit		(1,237)	(511)
Total tax (credit)/charge		(566)	146
(b) Recognised in the Statement of Comprehensive Income			
Deferred tax attributable to the actuarial loss on defined benefit pension scheme		(490)	(231)
(c) Reconciliation of effective tax rate			
Profit before tax		5,098	4,032
Profit before tax multiplied by the standard rate of corporation tax of 23% (2013: 24%)		1,173	968
Expenditure not deductible for tax purposes		192	149
Adjustment for prior years:			
Current tax	-		
Deferred tax	77		
		77	(233)
Effect of substantive enactment of change in rate of Corporation tax		(1,753)	(587)
Other tax adjustments		(255)	(151)
Total tax (credit)/charge		(566)	146

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and further reductions to 20% (effective from 1 April 2015) were announced in the March 2013 Budget and substantively enacted on 2 July 2013. The full impact of these changes have been reflected in the tax charge for the year ended 31 March 2014. The deferred tax liability at 31 March 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

The Company's wholly-owned subsidiary, Energy Supplies UK Ltd (ESUK), had unutilised tax losses of £1,788,000 at 31 March 2014 (2013: £1,788,000) that can only be used by ESUK. As the criteria for recognition of a deferred tax asset were not met, no asset has been recognised at the balance sheet date.

7 PROFIT AFTER TAXATION

The profit for the year dealt with in the Financial Statements of the Company was £2,869,000 (2013: £2,774,000).

8 EARNINGS PER ORDINARY SHARE

Basic and diluted earnings and adjusted earnings per ordinary share have been calculated on the basis of the weighted average number of ordinary shares in issue during the year of 4,632,170 (2013: 4,632,170).

The net profit for the period used in the calculation of basic and diluted earnings per ordinary share was as follows:

	2014 £000	2013 £000
Profit for the year	5,664	3,886

The net profit for the period used in the calculation of adjusted earnings per ordinary share was as follows:

	2014 £000	2013 £000
Profit for the year	5,664	3,886
Pension scheme curtailment gain	(1,257)	-
Adjusted profit for the year	4,407	3,886

9 GOODWILL

	2014 £000	2013 £000
Goodwill on the acquisition of Chester Water Ltd	5,381	5,381

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

10 PROPERTY, PLANT AND EQUIPMENT

	Freehold land, buildings and fixed plant £000	Infrastructure assets £000	Mobile plant, vehicles and equipment £000	Total £000
Cost				
At 1 April 2012	57,562	55,946	9,175	122,683
Reclassification of assets	(7,328)	-	7,328	-
Additions:				
Purchased goods and services	11,056	1,022	259	12,337
Employee costs of own work capitalised	246	1,461	-	1,707
Disposals	-	(224)	(170)	(394)
At 1 April 2013	61,536	58,205	16,592	136,333
Additions:				
Purchased goods and services	2,679	517	1,198	4,394
Employee costs of own work capitalised	398	1,258	-	1,656
Disposals	-	(169)	(499)	(668)
At 31 March 2014	**64,613**	**59,811**	**17,291**	**141,715**
Depreciation				
At 1 April 2012	19,495	11,895	7,595	38,985
Reclassification of assets	(2,959)	-	2,959	-
Charge for the year	2,369	1,535	818	4,722
Disposals	-	-	(131)	(131)
At 1 April 2013	18,905	13,430	11,241	43,576
Charge for the year	2,104	1,531	899	4,534
Disposals	-	-	(476)	(476)
At 31 March 2014	**21,009**	**14,961**	**11,664**	**47,634**
Net book value				
At 31 March 2014	**43,604**	**44,850**	**5,627**	**94,081**
At 1 April 2013	42,631	44,775	5,351	92,757
At 1 April 2012	38,067	44,051	1,580	83,698

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

As at 31 March 2014, the gross carrying value of property, plant and equipment that was fully depreciated was £10,264,000 (2013: £10,809,000).

Included within purchased goods and services above are capitalised borrowing costs of £Nil (2013: £9,000) related to the Group's construction investment programme.

The Company has no property, plant and equipment (2013: £Nil). The Company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2014 or 31 March 2013.

11 INVESTMENTS

	Group Other investments (unlisted) £000	Company Shares in subsidiary undertakings £000
Cost at 31 March 2014	**2**	**32,365**
Cost at 31 March 2013	2	32,365

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

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

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

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

12 TRADE RECEIVABLES

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade receivables	**4,924**	4,362	**-**	-
Impairment provision	**(1,641)**	(1,482)	**-**	-
	3,283	**2,880**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

13 OTHER RECEIVABLES

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Amounts owed by Group undertakings	-	-	3,725	3,725
Other receivables	138	94	-	-
Prepayments and accrued income	1,580	1,465	-	-
	1,718	1,559	3,725	3,725

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

14 CASH AND CASH EQUIVALENTS

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Demand deposits	8,126	8,080	-	-
Cash at bank and in hand	100	73	-	-
	8,226	8,153	-	-

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

Cash at bank and in hand	100	73	-	-
Demand deposits	8,126	8,080	-	-
Overdrafts	(215)	(42)	-	-
	8,011	8,111	-	-

15 INTEREST-BEARING LOANS AND BORROWINGS

Current	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
B shares	1,424	1,543	1,424	1,543
Short term loans	6,000	6,000	-	-
Overdrafts	215	42	-	-
	7,639	7,585	1,424	1,543

During the year, the Company redeemed 51,933 (2013: 36,778) B shares, representing 0.37% (2013: 0.26%) of the original issued capital. The nominal value and consideration amounted to £119,446 (2013: £84,589).

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

DIVIDEND RIGHTS

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

CAPITAL RIGHTS

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

REDEMPTION RIGHTS

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

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

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

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

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

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

VOTING RIGHTS

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

Non-Current	Maturity date	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
3.5% Irredeemable Consolidated Debenture Stock		99	99	-	-
3.635% Secured Index-Linked Loan					
Principal	2032	35,000	35,000	-	-
Indexation	2032	15,401	13,867	-	-
		50,500	48,966	-	-

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

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

16 TRADE AND OTHER PAYABLES

	Group 2014 £000	Restated Group 2013 £000	Company 2014 £000	Company 2013 £000
Amounts owed to Group undertakings	-	-	2,469	2,292
Trade payables	9,811	9,142	-	-
Other taxes and social security	154	157	-	-
Other payables	44	59	-	-
Deferred income – third party contributions	181	165	-	-
Accruals	981	1,477	-	-
	11,171	11,000	2,469	2,292

17 DEFERRED INCOME

Third party contributions	Group 2014 £000	Group 2013 £000
Current (note 16)	181	165
Non-current	8,021	7,427
	8,202	7,592

18 DEFERRED TAX

	Group £000
Balance at 1 April 2013	15,165
Deferred tax movement for the year	(1,727)
Balance at 31 March 2014	**13,438**

Deferred tax liabilities are calculated at a rate of 20% (2013: 23%) and are attributable to the following:

	At 1 April 2013 £000	Recognised in Income Statement £000	Recognised in Statement of Comprehensive Income £000	At 31 March 2014 £000
Accelerated capital allowances	13,990	(1,662)	-	12,328
Pension asset	1,175	425	(490)	1,110
	15,165	(1,237)	(490)	13,438

	At 1 April 2012 £000	Recognised in Income Statement £000	Recognised in Statement of Comprehensive Income £000	At 31 March 2013 £000
Accelerated capital allowances	14,715	(725)	-	13,990
Pension asset	1,191	214	(231)	1,175
	15,907	(511)	(231)	15,165

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and further reductions to 20% (effective from 1 April 2015) were announced in the March 2013 Budget and substantively enacted on 2 July 2013. The full impact of these changes have been reflected in the tax charge for the year ended 31 March 2014. The deferred tax liability at 31 March 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

19 ISSUED SHARE CAPITAL

SHARE CAPITAL IN EQUITY

	Voting Ordinary Shares		Non-Voting Ordinary Shares	
	2014 £000	2013 £000	2014 £000	2013 £000
At 31 March	207	207	25	25

	Authorised		Issued and fully paid	
	2014	2013	2014	2013
Number of voting 5p ordinary shares	8,398,373	8,398,373	4,138,902	4,138,902
Nominal value of voting 5p ordinary shares	£419,919	£419,919	£206,945	£206,945
Number of non-voting 5p ordinary shares	932,931	932,931	493,268	493,268
Nominal value of non-voting 5p ordinary shares	£46,647	£46,647	£24,663	£24,663
Number of £1 deferred shares	1	1	1	1
Nominal value of £1 deferred shares	£1	£1	£1	£1
Number of £1 redeemable preference shares	49,999	49,999	-	-
Nominal value of £1 redeemable preference shares	£49,999	£49,999	-	-

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

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

DIVIDEND RIGHTS

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

CAPITAL RIGHTS

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

VOTING RIGHTS

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

The rights attaching to the Deferred Share are as follows:

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

SHARE CAPITAL IN DEBT

	Authorised		Issued and fully paid	
	2014	**2013**	**2014**	**2013**
Number of B shares	**13,897,717**	13,897,717	**618,937**	670,870
Nominal value of B shares	**£31,964,749**	£31,964,749	**£1,423,559**	£1,543,005

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

CAPITAL MANAGEMENT POLICIES

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

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

20 DIVIDENDS

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

	2014 Pence per share	2014 £000	2013 Pence per share	2013 £000
Ordinary shares				
Previous year final dividend	**42.7**	**1,767**	41.4	1,714
Current year interim dividend	**20.5**	**848**	19.8	820
Non-voting ordinary shares				
Previous year final dividend	**42.7**	**211**	41.4	204
Current year interim dividend	**20.5**	**101**	19.8	98
		2,927		**2,836**

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

	2014 Pence per share	2014 £000	2013 Pence per share	2013 £000
Ordinary shares				
Current year interim dividend – paid	**20.5**	**848**	19.8	820
Current year final dividend – proposed	**42.0**	**1,738**	42.7	1,767
Non-voting ordinary shares				
Current year interim dividend – paid	**20.5**	**101**	19.8	98
Current year final dividend – proposed	**42.0**	**207**	42.7	211
		2,894		**2,896**

The final dividend for the year ended 31 March 2014 of £1,945,000 (equivalent to 42.0 pence per share) will be proposed for approval at the Annual General Meeting on 24 July 2014 and has not been provided for as a liability at 31 March 2014.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

21 CONTRACTUAL OBLIGATIONS

	2014 £000	2013 £000
Capital expenditure contracted but not included in the financial statements	**3,060**	2,610

22 PENSION SCHEMES

The Group offers stakeholder pension schemes. For the year ended 31 March 2014 employer contributions to such schemes amounted to £88,000 (2013: £61,000).

The Group's trading company, Dee Valley Water plc (DVW), participates in a defined benefit pension scheme, the Water Companies Pension Scheme, for qualifying employees. This is a sectionalised scheme and DVW participates in the Dee Valley Water plc Section of the Scheme. Under the scheme, each member's pension at retirement is related to their pensionable service and their pensionable salary history.

The Section funds are administered by trustees and are independent of DVW's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section is closed to new entrants.

The weighted average duration of the expected benefit payments from the Section is around 16 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, then DVW 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 DVW to make additional contributions to recover any deficit that arises.

Contributions are based on funding valuations typically carried out every three years. The next valuation is to be carried out as at 31 March 2014. Over the year to 31 March 2014, employer contributions of £1,053,000 (2013: £1,133,000) 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 2015 is £965,000.

In the current year, the Group has applied the revised version of IAS 19 (as revised in June 2011) 'Employee Benefits' and the related consquential amendments. Further details in respect of the application of the revised version of IAS 19 (as revised in June 2011) are contained in note 1 to the Financial Statements.

The results of the formal actuarial valuation as at 31 March 2011 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19(R).

Remeasurements are recognised immediately through other comprehensive income.

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

	2014 £000	2013 £000	2012 £000
Fair value of Section assets	**52,585**	52,856	47,609
Present value of defined benefit obligation	**(47,031)**	(47,747)	(42,644)
Net asset recognised in the balance sheet	**5,554**	**5,109**	**4,965**

The Group has concluded that it can recognise the full amount of this surplus on the grounds that it could gain sufficient economic benefit from the refund of the surplus assets that would be available to it following the final payment to the last beneficiary of the Section.

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

	2014 £000	Restated[1] 2013 £000
Employer's part of current service cost	**582**	593
Section expenses	**218**	127
Past service gain	**(1,257)**	-
Net interest credit	**(245)**	(262)
Total profit and loss (credit)/charge	**(702)**	**458**

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

	2014 £000	2013 £000
Net actuarial (gains)/losses in the year due to:		
- changes in financial assumptions	**-**	3,609
- changes in demographic assumptions	**(89)**	416
- experience adjustments on benefit obligations	**(158)**	58
Actuarial loss/(gain) on assets relative to interest on assets	**1,557**	(3,552)
Loss to recognise in other comprehensive income	**1,310**	**531**

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

	2014 £000	2013 £000
Opening defined benefit obligation	**47,747**	42,644
Employer's part of current service cost	**582**	577
Past service gain	**(1,257)**	-
Interest cost	**2,012**	1,982
Contributions from scheme members	**117**	114
Actuarial (gain)/loss	**(247)**	4,083
Benefits paid	**(1,923)**	(1,653)
Closing defined benefit obligation	**47,031**	**47,747**

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

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

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

	2014 £000	Restated[1] 2013 £000
Opening fair value of Section assets	**52,856**	47,609
Expected return on Section assets	**2,257**	2,228
Actuarial (loss)/gain	**(1,557)**	3,552
Contributions by the employer	**1,053**	1,133
Contributions by Section members	**117**	114
Benefits paid	**(1,923)**	(1,653)
Expenses	**(218)**	(127)
Closing fair value of Section assets	**52,585**	**52,856**

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

	2014	2013
Equity instruments	**29%**	25%
Diversified growth funds	**9%**	9%
Debt instruments	**52%**	56%
Emerging markets multi-asset funds	**5%**	5%
High yield bonds	**5%**	5%
	100%	**100%**

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 Group or in financial securities issued by the Group.

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. gilts) 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.

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

The following table sets out the key IAS 19(R) assumptions used for the Section:

Assumptions (per annum)	2014	2013	2012
Retail Prices Index inflation	**3.60%**	3.60%	3.50%
Consumer Prices Index inflation	**2.60%**	2.60%	2.50%
Discount rate	**4.30%**	4.30%	4.70%
Pension increases in payment			
- uncapped	**2.60%**	2.60%	2.50%
- capped at 5% per annum	**2.60%**	2.60%	2.50%
General salary increases			
- capped	**-**	3.60%	3.50%
- uncapped	**1.90%**	-	-
Life expectancy of a male aged 60 at balance sheet date	**27.4 year**	27.4 years	26.9 years
Life expectancy of a female aged 60 at balance sheet date	**29.7 year**	29.7 years	29.2 years
Life expectancy of a male aged 60, twenty five years after the balance sheet date	**29.9 year**	30.0 years	28.9 years
Life expectancy of a female aged 60, twenty fives years after the balance sheet date	**31.8 year**	31.8 years	30.8 years

Mortality tables utilised for assumptions SAPS SINA (-1 year) CMI 2011 (1%).

The following table illustrates the sensitivities of the defined benefit obligation to some of the significant assumptions as at 31 March 2014.

Key financial assumptions	Assumption adopted	Sensitivity	Indicative change in liabilities %	£m
Discount rate	4.3% p.a	+/- 0.5%	-7%/+8%	-3.5/+3.9
Pension increases and deferred revaluation	2.6% p.a	+/- 0.5%	-5%/+6%	-2.6/+2.8
Life expectancy				
Current male pensioner aged 60 in 2014	27.4 yrs			
Current female pensioner aged 60 in 2014	29.7 yrs			
Future male pensioner aged 60 in 2038	29.9 yrs			
Future female pensioner aged 60 in 2038	31.8 yrs			
Sensitivity		+1 yr	3%	1.4

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 date. This is unlikely in practice - for example, a change in discount rate is unlikely to occur with any movement in the value of the assets held by the Section.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2014

23 ANALYSIS OF INTEREST RATE EXPOSURE

	Total £000	No interest paid/ received £000	Fixed interest rate £000	Index-linked £000	Weighted average interest rate %	Weighted average period for which rate is fixed
B shares	(1,424)	-	(1,424)	-	3.800	-
Irredeemable consolidated debenture stock	(99)	-	(99)	-	3.500	-
Index-linked loan to 2032 (note 15)	(50,401)	-	-	(50,401)	3.635[1]	18 years
Short term loan	(6,000)	-	(6,000)	-	1.488	-
Cash at bank	19	19	-	-	-	-
Overdraft	(215)	(215)	-	-	-	-
Demand deposits	8,126	-	8,126	-	0.226	-
Net debt at 31 March 2014	**(49,994)**	**(196)**	**603**	**(50,401)**		

[1] Plus RPI

The Group's financial instruments comprise long and short-term borrowings, cash and liquid resources and various items such as trade debtors and creditors which arise directly from operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The main risk arising from the Group's financial policies is interest rate risk. The Group's policy is to finance its operations by a combination of long and short-term borrowings and retained profits. The objective is to ensure adequacy of funding by means of drawn and undrawn facilities. At 31 March 2014, the Group had an undrawn committed overdraft facility of £3.0 million together with a revolving credit facility of £9.0 million, of which £3.0 million was undrawn. These facilities are committed until 2016.

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

24 RELATED PARTY TRANSACTIONS

The Group regards its key management to be the Directors of the Company and their remuneration is shown in the Report of the Remuneration Committee on pages 24 to 29. During the year, the Company received dividends of £2,927,000 (2013: £2,835,000) from Dee Valley plc, one of its subsidiaries.

25 FINANCIAL INSTRUMENTS

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

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

This note gives information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. None of the Group's financial assets and liabilities has a material variation between book value and fair value, with the exception of the index-linked loan, which has a fair value of £67.3 million (2013: £68.6 million) compared to a book value of £50.4 million (2013: £48.9 million).

CREDIT RISK

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

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

The ageing of trade receivables at the reporting date was:

	2014 Gross £000	2014 Impairment £000	2014 Net £000	2013 Gross £000	2013 Impairment £000	2013 Net £000
Up to 1 year	**2,906**	**(2)**	**2,904**	2,538	(92)	2,446
Up to 2 years	**479**	**(264)**	**215**	393	(121)	272
Up to 3 years	**220**	**(102)**	**118**	196	(78)	118
Over 3 years	**153**	**(107)**	**46**	174	(130)	44
Total amounts past due not individually impaired, with non-specific provision allowances	**3,758**	**(475)**	**3,283**	**3,301**	**(421)**	**2,880**
Total amounts past due and individually impaired, with specific provision allowances	**1,166**	**(1,166)**	**-**	1,061	(1,061)	-
Trade receivables (note 12)	**4,924**	**(1,641)**	**3,283**	**4,362**	**(1,482)**	**2,880**

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

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

	Group £000
At 1 April 2012	1,289
Provided during the year	492
Written off during the year	(299)
At 1 April 2013	1,482
Provided during the year	444
Written off during the year	(285)
At 31 March 2014	**1,641**

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

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for the year ended 31 March 2014

LIQUIDITY RISK

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

Liquidity risk is managed by short and long-term cash flow forecasts. At 31 March 2014 the Group had an undrawn committed overdraft facility of £3.0 million together with a revolving credit facility of £9.0 million, of which £3.0 million was undrawn at the year end. These facilities are committed until 2016.

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

As at 31 March 2014	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	>5 years £000
Secured bank loans	50,401	(124,525)	(927)	(943)	(1,988)	(6,266)	(114,401)
Short term loans	6,000	(6,007)	(6,007)	-	-	-	-
B shares	1,424	(1,424)	(1,424)	-	-	-	-
Irredeemable debenture stock	99	(100)	(2)	(2)	(4)	(12)	(80)
Trade and other payables	11,171	(11,171)	(11,171)	-	-	-	-
Bank overdraft	215	(215)	(215)	-	-	-	-
	69,310	**(143,442)**	**(19,746)**	**(945)**	**(1,992)**	**(6,278)**	**(114,481)**

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

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

INTEREST RATE RISK

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

	2014 £000	2013 £000
Fixed rate instruments		
Financial assets	**8,126**	8,080
Financial liabilities	**(1,738)**	(1,683)
	6,388	**6,397**
Variable rate instruments		
Financial liabilities	**(50,401)**	**(48,867)**

PROFIT AND LOSS SENSITIVITY FOR VARIABLE RATE INSTRUMENTS

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

Profit or loss	1% increase £000	1% decrease £000
Variable rate instruments		
31 March 2014	**(520)**	**491**
31 March 2013	(397)	392

26 PURPOSE OF RESERVES

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

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

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

GLOSSARY OF TERMS

GEARING

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

GREENHOUSE GAS (GHG) EMISSIONS

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

INTEREST COVER

Interest cover is calculated as net cash flow divided by debt service cost (cash interest only). Net cash flow is defined as actual operating profit (before depreciation) plus drawings on revolving credit facility plus interest income less income tax less total capital expenditure.

LEAKAGE

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

POLLUTION INCIDENTS (WATER)

The total number of pollution incidents in a calendar year emanating from a discharge or escape of a contaminant from a Group asset.

REGULATORY CAPITAL VALUE (RCV)

The RCV represents the capital base of the Group on which it is allowed to earn a return at the defined cost of capital set by Ofwat. The forecast RCV published by Ofwat as at 31 March 2014 was £73.6 million (2013: £73.6 million).

SECURITY OF SUPPLY INDEX (SOSI)

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

SERVICEABILITY INDICATOR (INFRASTRUCTURE AND NON-INFRASTRUCTURE)

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

SERVICE INCENTIVE MECHANISM (SIM)

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

WATER SUPPLY INTERRUPTIONS

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

NOTICE OF MEETING

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

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

Notes explaining the resolutions to be proposed at the Company's Annual General Meeting are set out after the Notice of Annual General Meeting on pages 77 and 78 of this Annual Report.

The Directors consider that the proposals set out in the Notice of Annual General Meeting are in the best interests of the Company and shareholders as a whole. The Directors recommend shareholders vote in favour of the resolutions set out in the Notice as they intend to in respect of their own beneficial holdings, which as at 10 June 2014 amounted to 2,432 shares (0.06% of the issued voting share capital).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Dee Valley Group plc will be held on 24 July 2014 at Leverhulme Stand (Ground Floor), Chester Race Co., The Racecourse, Chester CH1 2LY at 3.00 p.m. The business of the Meeting will be:

ORDINARY BUSINESS

1. To receive the Directors' Report and audited Financial Statements for the Company for the year ended 31 March 2014 together with the Independent Auditor's report thereon.

2. To approve the Directors' Remuneration Policy, set out on pages 24 to 26 of the Annual Report and Financial Statements.

3. To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy on pages 24 to 26 of the Directors' Remuneration Report), for the year ended 31 March 2014.

4. To declare a final dividend of 42.0 pence per share on the Ordinary Shares and Non-Voting Ordinary Shares.

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

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

7. To re-elect as a Director Jon Schofield who, being required to retire by rotation, offers himself for re-election.

8. To re-elect as a Director Philip Holder, who has been appointed since the last Annual General Meeting.

9. To re-elect as a Director Andrew Bickerton, who has been appointed since the last Annual General Meeting.

10. To reappoint Deloitte LLP as auditor to the Company and to hold office until the end of the next Annual General Meeting, and to authorise the Directors to determine its remuneration

SPECIAL BUSINESS

11. To pass as an Ordinary Resolution:

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

(a) up to an aggregate nominal amount of £77,203 (such amount to be reduced by the aggregate nominal amount allotted or granted under paragraph (b) below in excess of such sum); and

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

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

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

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

such authorities to apply until the end of the Annual General Meeting of the Company to be held in 2014, save such authorities to apply until the end of the Annual General Meeting of the Company to be held in 2015, save that the Company may before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for the authority conferred on the Directors pursuant to Section 551 of the Companies Act 2006 on 25 July 2013.

12. To pass as a Special Resolution:

That pursuant to and in accordance with Sections 570 and 573 of the 2006 Act the Directors be empowered to allot equity securities (as defined in the 2006 Act) for cash pursuant to the general authority conferred by Resolution 11 above as if Section 561 of the Act did not apply to any such allotment and so that:

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

(b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding the expiry of such power, provided however that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2015 or, if earlier, fifteen months after the passing of this Resolution except to the extent that the same is renewed or extended on or before such date and shall be limited:

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

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

13. To pass as a Special Resolution:

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

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

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

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

13.3.1 5 pence per Ordinary Share; and

13.3.2 5 pence per Non-Voting Ordinary Share;

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

13.5 the authority hereby conferred shall expire on 31 July 2015 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2015 unless previously renewed, varied or revoked by the Company in general meeting; and

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

By order of the Board

Andrew Bickerton
Company Secretary
10 June 2014

Packsaddle
Wrexham Road
Rhostyllen
Wrexham
LL14 4EH

NOTES

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

2. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 22 July 2014, (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

3. As at 9 June 2014 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 4,138,902 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 9 June 2014 are 4,138,902.

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

5. To be valid, the form of proxy must be completed, signed and returned so as to reach the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the Meeting. Please note that in determining whether the 48 hour deadline has been satisfied, no account shall be taken of any part of a day which is not a weekday on which commercial banks are generally open for business in London. A form of proxy is enclosed. Completion of the form does not preclude a member from subsequently attending and voting at the meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    (c) the articles of association of the Company.

20. Under s338 and s338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which may properly be moved and is intended to be moved at the Meeting and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 5.00 p.m. on 12 June 2014, being the date 6 weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

21. A copy of this Notice, and other information required by section 311A of the Companies Act 2006 can be found at www.deevalleygroup.com

ANNUAL GENERAL MEETING EXPLANATORY NOTES

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

ORDINARY BUSINESS

RESOLUTION 2
DIRECTORS' REMUNERATION POLICY

Pages 24 to 26 of the Annual Report and Financial Statements form the Directors' Remuneration Policy, which shareholders are requested to approve. Once the Directors' Remuneration Policy is approved, the Company will not be able to make a remuneration payment to a current or prospective Director or a payment for loss of office to a current or past Director, unless that payment is consistent with the policy or has been approved by a resolution of the members of the Company.

RESOLUTION 3
DIRECTORS' REMUNERATION REPORT

Pursuant to section 439 of the Companies Act 2006, the Board of Directors propose a Resolution approving the Directors' Remuneration Report (excluding the part containing the Directors' Remuneration Policy) for the year ended 31 March 2014. Shareholders will note that the format of the Directors' Remuneration Report has been amended this year following the changes which the Government brought into force in 2013, including the adoption of a remuneration policy section (subject to approval in accordance with Resolution 2 above) and an implementation section within the Report.

RESOLUTION 4
FINAL DIVIDEND

A final dividend of 42.0 pence per Ordinary Share and Non-Voting Ordinary Share is recommended by the Directors for payment to shareholders on the register of members of the Company at the close of business on 4 July 2014. Subject to approval by the Ordinary shareholders at the Annual General Meeting, the final dividend will be paid on 1 August 2014. An interim dividend of 20.5 pence per Ordinary Share and Non-Voting Share was paid on 3 January 2014. This gives a total dividend of 62.5 pence per Ordinary Share and Non-Voting Share for the year ended 31 March 2014.

RESOLUTIONS 5, 6, 7, 8 AND 9
RE-ELECTION OF DIRECTORS

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

RESOLUTION 10
AUDITOR

The Company is required to appoint the auditor at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. Resolution 10 proposes the re-appointment of the Company's existing auditor, Deloitte LLP, who were appointed after a competitive tendering process completed after the last Annual General Meeting. In accordance with standard practice, this Resolution also authorises the Directors to determine the remuneration of the Company's auditor.

SPECIAL BUSINESS

RESOLUTION 11
AUTHORITY TO ISSUE SHARES

The purpose of resolution 11 is to renew the Directors' power to allot shares.

Paragraph (a) of resolution 11 would give the Directors the authority to allot shares or grant rights to subscribe for or convert any securities into ordinary shares up to an aggregate nominal amount equal to £77,202. This amounts represents approximately one third of the issued ordinary share capital of the Company as at 9 June 2014, the latest practicable date prior to publication of this Notice.

In line with guidance issued by the Association of British Insurers, paragraph (b) of this resolution would give the Directors authority to allot ordinary shares or grant rights to subscribe for or convert any securities into ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £154,406, as reduced by the nominal amount of any shares issued under paragraph (a) of this resolution. This amount (before any reduction) represents approximately two thirds of the issued ordinary share capital of the Company as at 9 June 2014, the latest practicable date prior to publication of this Notice.

The authorities sought under paragraphs (a) and (b) of resolution 11 will expire at the conclusion of the Annual General Meeting of the Company held in 2015.

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

RESOLUTION 12
DISAPPLICATION OF STATUTORY RIGHTS OF PRE-EMPTION

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

RESOLUTION 13
AUTHORITY TO PURCHASE ORDINARY SHARES

At the Annual General Meeting, Ordinary shareholders are being invited to grant authority to the Company to make market purchases of its Ordinary Shares and Non-Voting Ordinary Shares. It is proposed such authority shall expire on the conclusion of the Annual General Meeting to be held in 2015 or on 31 July 2015, if earlier.

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

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

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

Registered in England and Wales
Registered number 04316684

LSE Stock Code: DVW

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