Your local water company

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

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Dee Valley Group plc

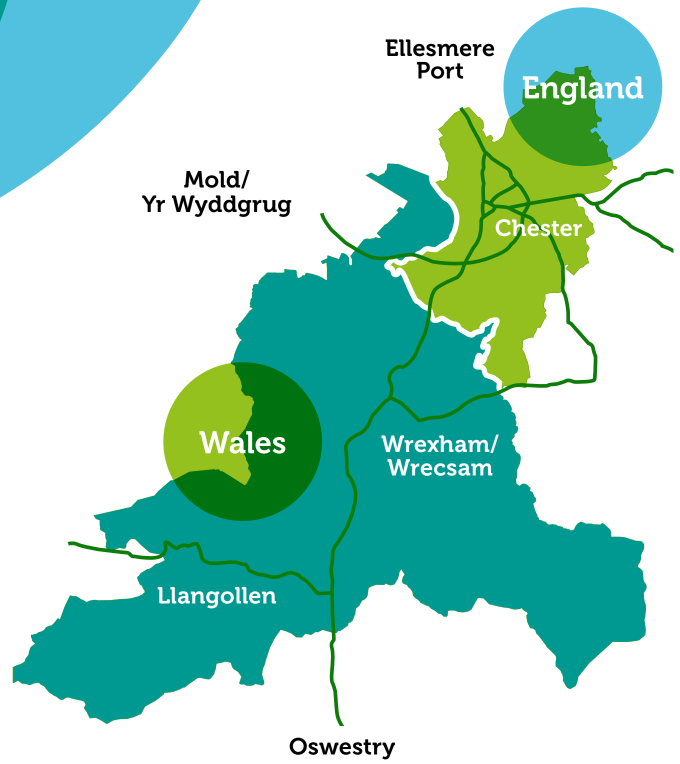
Annual Report & Financial Statements 2015

Annual Report & Financial Statements

For the year ended 31 March 2015

Your local water company

Overview



Dee Valley Group at a glance

Dee Valley Group plc, through its trading subsidiary Dee Valley Water plc, supplies drinking water to 266,000 people in northeast Wales and in northwest Cheshire. The company has 125,000 customers.

Our objective is to provide a reliable supply of high quality drinking water and a high standard of customer service while maintaining charges at affordable levels.

Dee Valley Water has been supplying water to its community for more than 150 years.

Area of supply: 831 square kilometres, centred on Wrexham, Chester and the surrounding area.

- **We supply 62 million litres of water a day**
- **80% of supplies are drawn from the River Dee**
- **More than 60% of the company's customers are in Wales**
- **No customer is more than 40 minutes away from our head office**
- **Dee Valley Water is the smallest independent water company in the water sector of England and Wales**
- **Water quality continued to improve throughout the year with a significant reduction in customer contacts**
- **29,000 regulatory tests met the required standard**
- **Customers consume 133 litres of water per person per day**
- **Continued high customer satisfaction – 29% reduction in written complaints**
- **Leakage was 9.71 million litres (Ml/d) of water a day (15.55%) – one of the lowest levels in the industry**
- **Six water treatment works**
- **28 pumping stations**
- **1,980 kilometres of mains**

29,000

regulatory tests met the required standard

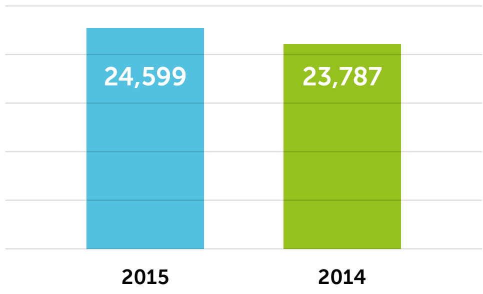
Continued high customer satisfaction

29%

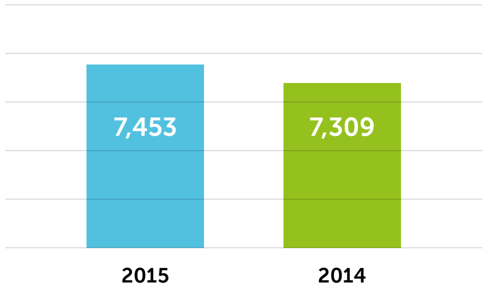
reduction in written complaints

Financial Highlights

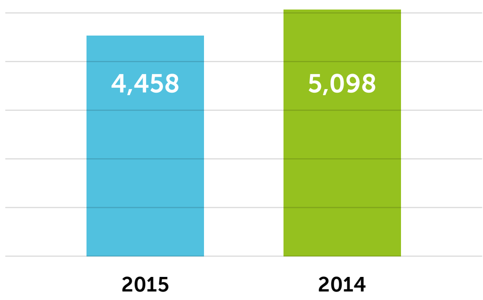
Revenue (£000)



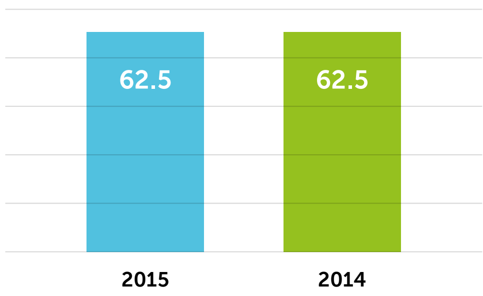
Profit from operations before pension scheme curtailment gain (£000)



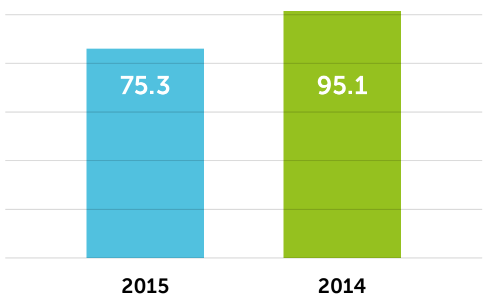
Profit before tax (£000)



Total dividend (pence per ordinary share)



Adjusted earnings per share (pence per ordinary share)



Contents List

Chairman's Statement

Welcome to our 2015 Annual Report and Financial Statements which adopts a new format and design which I hope you will approve of.

The past year has been a defining one for Dee Valley Group Plc ('the Group') as it marked the end and beginning of significant milestones. I am pleased to report that the Group has emerged stronger and better placed to meet the challenges ahead.

We successfully navigated the end of our 2010-2015 investment plan while finalising our 2015-2020 strategic Business Plan with Ofwat with a satisfactory agreement. Ian Plenderleith was appointed Chief Executive and, most important, we have delivered another satisfactory performance for our customers and shareholders.

The successful delivery of our investment programme for 2010-2015 has led to measurably improved water quality and security of supply for our customers. These improvements will continue – with an even greater focus on improving customer service – following approval of our largest ever investment programme (up to £50m) by Ofwat for the period 2015-2020 Periodic Review ('PR14').

Despite increasing our investment programme by almost 50% in PR14 we have worked with our regulators to ensure our bills remain amongst the lowest in the sector. Dee Valley Water, the Group's operating company, has always tried to strike a balance between investing to improve services for customers and keeping our customers' bills low. The outcomes from PR14 demonstrate our continuing success as our bills will be the fourth lowest in the water industry in England and Wales for the period 2015-2020, falling by an average of 2% before inflation during 2015-2020.

As a company listed on the London Stock Exchange, delivering appropriate returns to our shareholders is imperative, and after securing the long term funding necessary for our investment plan we have a financial structure in place that enables shareholders to benefit from outperformance.

"Everyone who works for Dee Valley Water knows we are a customer service company. As such, the customer is at the heart of our business and must always come first."

Our financial performance

We believe our operational and financial performance makes us an attractive investment for current and future shareholders. Our Business Plan and cost of capital were approved by Ofwat in December 2014, which gives good visibility to the investment community. The Group has targeted an investment grade rating of BBB/Baa1, which has been publicly confirmed.

Overall operational financial performance for the year ended 31 March 2015 has remained broadly consistent with the prior year. Revenue for the year was £0.8m higher than 2014 due to increased consumption and the impact of a 2.2% price increase. This was, however, offset by an increase in operating expenses of £0.9m relating to the PR14 process and increased maintenance and bad debt costs.

Retained profit for the year of £3.5m is £2.2m lower than the prior year (2014: £5.7m), however the 2014 position was inflated by a pension scheme curtailment gain (£1.3m) and a prior year deferred tax credit (£1.7m).

Operational cost control and revenue outperformance remain a key focus of the Executive Board as we enter the 2015-2020 period to ensure that we can deliver effectively and efficiently for our customers and other stakeholders.

Our regulatory environment

The past year was busy and demanding as we completed and gained approval for our Business Plan for the period 2015-2020 in what has become a changed regulatory landscape. This was a particularly challenging process for all the water companies in England and Wales as Ofwat revised its requirements, placing an even greater emphasis on proactive customer dialogue, including the establishment of independent Customer Challenge Groups throughout the business planning process.

All of our plans for investments and operating expenditure had to be reviewed through the lens of the customer. We made sure we got this right by conducting an unprecedented level of customer and stakeholder consultation.

Dee Valley Water is in a good position to perform well in this new outcomes based regulatory system. For the first time, we have customer outcomes to achieve with financial penalties for non-compliance. We look forward to working with Ofwat throughout the next five years to achieve good outcomes for our customers and the company. Where possible, we will aim to exceed these outcomes.

Our customers

Everyone who works for Dee Valley Water knows we are a customer service company. As such, the customer is at the heart of our business and must always come first. As indicated, this guiding principle ensured our Business Plan was approved and praised by our Customer Challenge Panel. We were further encouraged by the independent customer research carried out during our business planning process which revealed that more than 50% of our customers say no amount of saving on their water bills would compensate for moving to an alternative supplier.

There is clear evidence that our customers appreciate our work and values and the benefits they see in receiving their water supply from a relatively small, local company providing a high-quality service. I thank them for their continuing support. We will build on this vote of confidence.

Customer trust in Dee Valley Water is based on the empirical evidence that we have always delivered a high-quality service at an affordable price. This has always been at the forefront of our thinking. We recognise that our customers want and expect a high-quality water service at all times. This is why we have continued to make focussed investments in our networks and systems to ensure our customers can have confidence in the security of their water supply and the quality of the services they receive.

The success of these investments can be seen when measuring the comparative performance of our water network with the rest of the industry. We are in the top tier of water companies for fewer interruptions to supply and for low leakage.

Customers expect a high-quality response when they contact us and we believe we can make further improvements to this service. In 2014-2015 we ranked eighth in Ofwat's complaints handling survey. In a drive to improve on this we are investing in our systems, processes and people. A significant benefit arising from our relatively small size compared to other water companies is that it enables us to provide a faster, more agile and personal customer service that few companies can match and we will maximise this.

> “We recognise that our customers want and expect a high quality water service at all times.”

Recognising, understanding and meeting the needs of vulnerable customer groups is an essential function of the universal service provided by a public utility. Dee Valley Water is fully committed to helping these groups. We provide flexible, weekly payment plans that ensure vulnerable customers can meet their commitments. We have the third highest penetration rate for customers on the WaterSure tariff, and from April 2016 plan to have a social tariff in place.

We want our customers to hold us to account for our service performance throughout the entire 2015-2020 business plan period. To this end, we will continue to engage with an independent Customer Challenge Panel made up of customers and local customer advocates to review our performance and make sure the voice of the customer is constantly heard inside Dee Valley Water.

A targeted investment programme

We will continue to "work smart" and work hard to ensure the drinking water we produce meets the highest standards for our customers, and complies with all the requirements of the Drinking Water Inspectorate. Last year we continued to build our investment programme on the operational success and greater flexibility delivered by the new Llywn Onn water treatment works we completed in 2013.

In 2014-2015 we cleaned almost 10% of our network to remove manganese deposits that have built up in some of our water mains over many years. While the level of manganese occurring in the water is low and the supply is safe to drink, it can lead to discolouration. To ensure the most effective cleaning programme is implemented throughout the Business Plan period we have trialled a wide range of innovative techniques. It is most gratifying to note that the success of our innovative cleaning programme has been recognised by our customers and the Drinking Water Inspectorate.

In the period 2015-2020 we will implement an investment programme costing close to £50m. This will be the largest in our history and is almost 50% more than was invested in the previous regulatory period (2010-2015). We will continue to target much of this investment at achieving the water quality outcomes we agreed with our customers and Ofwat. As in previous regulatory periods, we will strive to be innovative in our thinking and approach so customers and shareholders can benefit from opportunities for outperformance.

Our people

The commitment and professionalism of our people and teams remains key to the delivery of continuous improvements in our performance and I would like to thank everyone for their hard work, dedication and flexibility during what was a busy and challenging year.

A well trained, well equipped and motivated workforce is crucial to delivering successful outcomes for our customers and shareholders and we remain fully focussed on maintaining high levels of capability, employee development and engagement.

We will continue to strive to improve our Health and Safety performance and culture. The safety and well-being of our people is paramount and we believe that everyone in Dee Valley Group, collectively and individually, has a part to play in maintaining a safe working environment. This will remain a key focus for the Board.

Our board

In September 2013 Ofwat launched an initiative to further improve Board leadership, transparency and governance. We recognise that this is in the best interest of customers and the water industry and welcome this initiative. As a company listed on the London Stock Exchange our operating model, reporting and Board structure reflect the highest standards of corporate governance and fully comply with the UK Corporate Governance Code.

Our Board has undergone a number of changes during 2014-2015. On 28 May 2015, post year end, we accepted the retirement of David Weir, after 13 years of valuable service. David has worked tirelessly on behalf of the company and his significant contribution helped us reach the strong position we find ourselves in today. On behalf of our shareholders, my Board colleagues, all of our employees and wider stakeholders, I would like to extend my sincere thanks to David for everything he has done for the Group.

To replace David we welcome Kevin Starling as a non-executive director. Kevin has a wealth of experience in the water industry, having worked in the UK, internationally and in different regulatory environments. The knowledge and experience he brings will provide a valuable complement to the existing skills of the Board, especially with the faster pace of regulatory change being driven by Ofwat and our customers. On 26 August 2014, David Strahan ended his tenure as Chief Executive to take up a new career challenge in Northern Ireland. I would like to thank David for his contribution to the Group during his time as Chief Executive and Finance Director and to wish him every success for the future. As mentioned, David was replaced by Ian Plenderleith as Chief Executive and we welcome Ian to his new role and wish him success as he leads the company in implementing our five-year plan.

Our future

With the 2015-2020 price review process now behind us and having secured the long term funding for our new, ambitious five-year business plan, we can look forward to delivering a constantly improving and efficient service that brings benefits to all of our customers, shareholders and the wider environment.

We have agreed the service outcomes that our customers require from us. Our challenge now is to outperform these outcomes as sustainably and efficiently as possible. If we can be innovative in how we deliver our service and investment programmes, both our customers and shareholders will further benefit.

Having our long term funding in place enables us to implement a new dividend policy that balances the long term interests of shareholders and all of our stakeholders.

Our supply area is mainly in Wales and we consider ourselves to be an important part of the water sector in this country. We welcomed the publication of the Water Strategy for Wales earlier this year and look forward to constructive engagement with the Welsh Government to help it to improve the performance of the water sector in Wales for the benefit of all customers.

JH Schofield

Jon Schofield
Chairman

Chief Executive's Statement

It's a real pleasure to lead a truly local company providing such a vital service which is highly regarded by its customers.

I was delighted to join the Group last year. It is a real pleasure to have this opportunity to lead a truly local company providing such a vital service which is highly regarded by its customers and has such a long and rich history.

Our people are dedicated to maintaining Dee Valley Water's tradition of providing high levels of customer service and regulatory compliance and I am enjoying working with them, customers and other stakeholder groups.

As the Chairman's Statement indicates, the past year (2014-2015) was eventful for the Group, culminating in the finalisation of the PR14 process with Ofwat. This required a huge effort by the company and it was pleasing that after all our hard work Ofwat approved 97% of the Business Plan we submitted for the period 2015-2020.

While we have ambitious plans to improve our supply network, systems and processes during the next five years, we are equally committed to delivering an affordable service for our customers. This is verified by the pre-inflation 2% reduction in bills we will implement during this period. We have the fourth lowest water bills in England and Wales.

It was disappointing Ofwat ranked us in the "prescribed" category (the lowest ranking) due to problems with specific aspects of our Plan submission, as I know how hard the team worked to keep up with the often changing requirements of the Business Plan process. However, it is important that we face up to this challenge and take it as an opportunity to demonstrate to our customers, Ofwat and other stakeholders the quality of our performance across all areas of the business.

> "We have been at the forefront of water companies helping those with payment problems in recent years. We were the first to introduce weekly direct debit payment plans"

Our approved Plan contains four key performance outcomes that have been challenged, discussed, scrutinised and supported by our independent Customer Challenge Panel. These are:

- **Provide excellent water quality**
- **Provide reliable and high quality customer service**
- **Minimise the environmental impact**
- **Provide a value for money service**

We are fully committed to achieving all of these.

In addition to managing the PR14 process we had to ensure we did not take our eye off the ball and successfully delivered the capital programme approved by Ofwat for the five year period to March 2015. This was accomplished with a total spend of £34.1m – compared to a capital programme allowance of £34m.

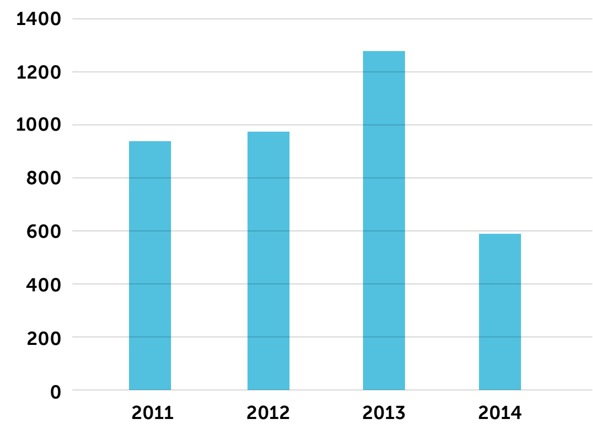
Despite a challenging backdrop, our 2014-2015 operational performance was good when set against most measures, as can be seen from the details in the Review of the Year section. Of the performance indicators used by Ofwat to assess the stability of our assets, we failed to meet the required quality standards on just one – water infrastructure – which was ranked as "deteriorating".

This was caused by the long-running historic problem of naturally occurring manganese in our raw waters. Since this problem arose we have made significant investments in our treatment plants and how we manage our supply network. As a result manganese is now entering the network at a much reduced level and we have cleaned much of our network to remove the manganese that had entered in previous years. It was very encouraging to note that these improvements in water quality have been recognised by the Drinking Water Inspectorate.

Manganese is not a threat to health, however, it has caused water discolouration when there are disturbances in the network which has led to a higher number of customer contacts than the target set by Ofwat.

Due to this on-going problem, we received a £700,000 Regulatory Capital Value (RCV) shortfall penalty from Ofwat in the Final Determination for 2010-2015. In the 2015-2020 Business Plan Ofwat has allowed us the capital investments we require to finalise the improvements in water quality. We must now deliver this investment programme as efficiently and sustainably as possible.

Discoloured water contacts



> "Suggestions are made to a company in order to promote best practice in responding to future breaches. The company had no suggestions during 2014."
>
> Technical Audit by Drinking Water Inspectorate

We are committed to investing in our assets, processes and people to meet all the targets set by our regulators and, where possible, more challenging targets we set for ourselves.

Other operational performance measures were encouraging in 2014-2015. For example:

- **We significantly outperformed our leakage target and currently have the lowest leakage in the industry**
- **The average duration of interruptions to supply remains very good**
- **our customer service ranking is improving**

Our overall Service Incentive Mechanism (SIM) score, the customer service measure used by Ofwat, has remained constant at a satisfactory level in recent years. However, most of the other water companies have improved at a fast pace and our overall ranking has slipped. As indicated, the customer is at the heart of our business and the customer experience is the key indicator of our performance. We want to deliver "five out of five" service points in each customer interaction.

In 2014-2015 we saw an improvement in the qualitative part of our SIM score, as our ranking jumped from tenth to eighth (out of 18 companies). We were also categorised as "significantly above average" by Ofwat. During the next five-year period we will be making every effort to ensure that our customer service is in the upper quartile at the very least. A company of our size has the opportunity to be more agile than the industry as a whole and we must ensure we capitalise on this advantage. I look forward to working with our Customer Challenge Panel to achieve this objective.

In this context I would like to reiterate that we are committed to recognising and not overlooking the needs of our vulnerable customers. Affordability remains a key issue for all households, but even more so for those who are less well off or who need to use more water than the average because of specific family circumstances.

We have been at the forefront of water companies helping those with payment problems in recent years. We were the first to introduce weekly direct debit payment plans and have the third highest penetration of customers on the WaterSure tariff, the cross-industry scheme for customers which caps the cost regardless of how much water is used.

Due to our relatively small geographical size, we try to make personal visits to assist customers who cannot pay their bills. We are also working on introducing a social tariff and have undertaken to implement this by April 2016. Our supply area is mostly in Wales and we are fully committed to working with the Welsh Government on its water strategy, of which bill affordability is a key component.

With the business planning phase now behind us, we are looking forward to delivering our programme for the next five years in the most efficient manner to secure our network, ensure improvements in customer service and sustainable returns for our shareholders.

We will work proactively and positively with all our regulators, customers, other stakeholders and the Welsh Government to achieve this. My focus for 2015-2016 will be to place customer service at the very centre of our operations and to deliver further improvements in our processes and working practices.

As I hope this new version of our Annual Report demonstrates, we are committed to building on and improving how, when, and where we communicate with customers, stakeholders and our people.

We announced our AMP6 dividend policy commitment to share future financial outperformance with shareholders on 18 May. We believe this clearly demonstrates the link between company performance and shareholder returns with the aim of providing sustainable, long-term returns for shareholders.

Finally, I would like to thank all our staff, our suppliers and business partners for all their expertise, energy and support in helping us to provide the best possible service to our customers during the past year. It is because of all their efforts that we are able to report improvements in our operating and service performance.

I look forward to working with you all to ensure our continuing successes in the year ahead.

I. J. A. Plenderleith

Ian Plenderleith

Chief Executive
10 June 2015

Key Performance Indicators

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

	2015	2014	Measurement
	Performance / Status		
Customer Experience			
Service Incentive Mechanism	78*	80	Score out of 100
Water supply interruptions	0.2*	0.2	Hours per total property supplied
Reliability and Stability			
Serviceability water non-infrastructure	Stable*	Stable	
Serviceability water infrastructure	Deteriorating*	Deteriorating	
Leakage	9.76*	10.15	Million litres per day
Security of Supply Index (SoSI)	100*	100	Index score
Environmental Impact			
Greenhouse Gas (GHG) emissions	9.4*	8.9	ktCO2e
Financial			
Gearing	69%	68%	
Interest cover	3.0	3.8	

(*) The current year key performance indicators have yet to be audited.

For a definition of terms refer to the Glossary on page 96.

Our Regulators

OFWAT
is the economic regulator of the water sector in England and Wales

Welsh Government
The Welsh Government is responsible for the water industry in Wales

Natural Resources Wales
largest Welsh Government Sponsored Body, formed in 2013, largely taking over the functions of the Countryside Council for Wales, Forestry Commission Wales and Environment Agency in Wales, as well as certain Welsh Government functions

Consumer Council for Water
the independent representative of household and business water consumers

Consumer Council for Water Wales
the independent representative of household and business water consumers in Wales

Drinking Water Inspectorate
provides independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers

Environment Agency
aims to create better places for people and wildlife, and to support sustainable development. Activities include monitoring water resources.

Measuring our Future Performance

We worked with our independent Customer Challenge Panel to develop a series of performance commitments we will deliver as part of our new five-year Business Plan (2015-2020). These were chosen after our largest ever consultation exercise with customers across our supply area and were approved by Ofwat.

Our main performance commitments are:

1. Provide excellent water quality

- Number of discolouration contacts per 1,000 population – reducing from 3.69 in 2014-2015 to 1.01 by 2017-2018
- Water quality per supply zone (MZC) – 100% samples per zone meeting the standards set by the Drinking Water Inspectorate
- Delivery of the outcomes of the Legacy treatment works
- Delivery of the outcomes of the service reservoir water quality risk management schemes

2. Provide a reliable and high-quality customer service

- Average duration of interruptions – the total hours lost due to interruptions for three hours or longer per property within Dee Valley Water's supply area, reducing from 0.33 hours per property in 2014-2015 to 0.2 hours per property by 2017-2018 (updated methodology)
- Sustainable economic level of leakage – 90.8 litres per property per day
- Security of supply index – 100%
- Number of bursts in a year – reducing from 256 in 2014-2015 to 222 by 2017-2018

3. Minimise our environmental impact

- Reduce our greenhouse gas emissions to ensure they remain below 9,727 tonnes a year by 2019-2020

4. Provide a value for money service

- A new measure from independent customer satisfaction surveys that will track customer rankings for value for money and affordability

5. Provide a reliable and high-quality customer service to household customers

- Help customers reduce per capita consumption from 133 litres per person per day to 127 litres per person per day by 2019-2020
- Customer service – improve our Service Incentive Mechanism score (Ofwat's measure) from 78 in 2014-2015 to 80 by 2015-2016

6. Provide a reliable and high-quality customer service to non-household customers

- Customer service – improve our Service Incentive Mechanism score (Ofwat's measure) from 78 in 2014-2015 to 80 by 2015-2016

We are determined to deliver these performance commitments as sustainably and efficiently as possible. Through efficient service and financial outperformance we will meet the requirements and needs of both our customers and shareholders.

Strategic Report
Review of the Year

Our Customers

We have positioned our customers at the heart of the business and believe they benefit from the fact that we are a relatively small company which has been supplying water to its community for more than 150 years.

As such, we are a truly local water company embedded in our community in a way that few larger water suppliers can match. We are no more than 40 minutes away from our furthest customers and most of our staff live in the supply area and have been with the company for many years.

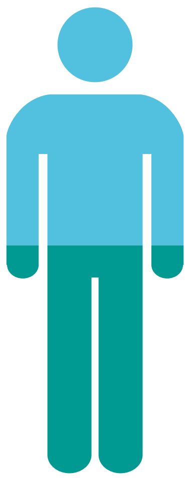
This proximity enables us to take a more personalised approach to the quality of the service we provide.

Everyone who works for Dee Valley Water knows we are a customer service company. This guiding principle was a key factor in ensuring our Business Plan for 2015-2020 was approved and praised when it was reviewed by our independent Customer Challenge Panel.

Customers prefer Dee Valley Water

Independent customer research carried out ahead of producing our Business Plan on the benefits of a local supplier revealed that 51% of our customers say no amount of saving on their water bill would compensate for moving to an alternative supplier.

Customer trust in Dee Valley Water is based on the empirical evidence that we have always delivered a high-quality service at an affordable price. We recognise that our customers want and expect a high-quality water service at all times. This is why we have continued to invest in our networks and systems to ensure our customers can have confidence in the security of their water supply and the quality of the services they receive.



51%

of our customers say no amount of saving on their water bill would compensate for moving to an alternative supplier.

“We had a visit from your engineer last week and I wanted to say what a nice and helpful person he was, this being very rare nowadays.”

Tanya Fry, Deeside

Customer service

We know customers expect a high-quality response when they contact us. We also know customer expectations keep on rising.

A significant benefit arising from our relatively small size compared to most other water companies is that it enables us to provide a faster, more agile and personal customer service.

Dee Valley Water achieves consistently high rankings in Ofwat’s quarterly Customer Experience Survey. But while our Service Incentive Mechanism (SIM) score, the customer service measure used by Ofwat, has remained constant at a satisfactory level in recent years, most water companies have improved on their performance and our overall ranking has slipped.

In a drive to improve on this we are investing in our systems, processes and people. In 2014-2015 the qualitative aspect of our SIM score ranking jumped from tenth to eighth (out of 18 companies) and was categorised as “significantly above average” by Ofwat. We will make every effort during the next five-year period to ensure that our customer service is in the upper quartile.

Customer complaints

Our focus on improving customer service has led to customer complaints declining by 29% year on year – from 369 in 2013-2014 to 263 in 2014-2015. This is good news for our customers, and demonstrates our commitment to improving our service, especially in terms of “getting things right first time”.

Help for vulnerable customers and a social tariff

Dee Valley Water plans to introduce a social tariff in 2016 for customers most in need. Research has shown that water supply customers broadly support this. Bills for customers not receiving a reduction will rise by a small amount, so there is no net change in overall average bills.

Affordability remains a key issue for many households, but even more so for those struggling to pay household bills or who need to use more water than the average because of specific family circumstances.

The company already provides a significant level of financial support to customers struggling to pay their bills. More than 1,500 customers receive support through WaterSure, the industry-wide scheme which caps the cost regardless of how much water is used. This is the third highest take-up rate in the sector.

Additionally, more than 4,900 customers are on a weekly payment plan with 1,500 paying by weekly direct debit – Dee Valley Water is the only supplier in the sector to offer this.

The company believes that meeting the needs of vulnerable customer groups is an essential function of the universal service provided by a public utility. It is fully committed to helping customers meet their commitments.

Due to our relatively small geographical size, we try to make personal visits to assist customers who cannot pay their bills. Our supply area is mostly in Wales and we are fully committed to working with the Welsh Government on its water strategy, of which bill affordability is a key component.

Customer Challenge Panel

We want our customers to hold us to account for our service performance throughout the entire 2015-2020 Business Plan period. An independent Customer Challenge Panel made up of customers and local customer advocates will review our performance and make sure the voice of the customer is heard inside Dee Valley Water.

Business Plan and bills

Independent research carried out for our Business Plan for 2015-2020 revealed that 71% of our domestic customers considered our proposals to be acceptable. The majority of business customers also considered it to be acceptable. These levels of acceptability were based on an earlier version of the Plan that proposed a modest price increase. Given that bills will be reduced by 2% over the next five years – apart from increases allowed for inflation – customer acceptability will be even higher.

Informing customers

Dee Valley Water was an early adopter of a mass text messaging system which alerts customers if there is a supply problem in their area e.g. a burst main. As well as texting mobile telephones, it also sends a message to landlines using a computerised voice message.

On average we are sending about 15,000 text messages a month to individual customers. The introduction of the system has already led to a significant drop in telephone calls from customers when a supply problem occurs in their area.

So far, the company has collected 70,000 telephone numbers – more than half of the 125,000 customer base.

15,000

text messages sent every month to customers

Monitoring customer satisfaction

To gain further insight into our customer service levels, Dee Valley Water will later this year (2015), launch a system to measure customer sentiment. It will enable us to monitor our interactions with customers and provide accurate and timely information on their views on our performance. It will offer constructive feed-back for the company and its processes but will also praise our workforce – where it is due – for a job well done.

New customer champion

Dee Valley Water has appointed a new Head of Customer Services to ensure the company continues to deliver and improve all its services which interact with customers. Wendy Jones, who previously headed the Contact Centre, Global Support, for Avios, will oversee initiatives such as improving online tools, contact methodology and training.

Water Quality

Our water quality continued to improve throughout the year and 99.88% of the 29,000 regulatory tests met the required standard.

Samples are taken during every stage of the water supply process, as well as random sampling at customers' kitchen taps.

Our water quality score would have been higher but for the effect of discolouration arising from the continuing legacy of naturally occurring traces of manganese in the water. However, we ran a major programme to reduce incidents of discolouration last year and it proved to be a success with a significant reduction in customer complaints.

The programme, which is continuing, aims to remove deposits of manganese from some of our water mains. Where traces of manganese occur in our water it is not harmful, but can be unsightly.

We are eliminating it by upgrading our capability to remove it during the treatment process and by using innovative techniques to clean our pipes.

The problem is caused by the long-running historic problem of naturally occurring manganese in our raw waters. Since this problem arose we have made significant investments in our treatment plants and how we manage our supply network. As a result manganese is now entering the network at a much reduced level and we have cleaned much of our network to remove the manganese that had entered in previous years. It was very encouraging to note that these improvements in water quality have been recognised by the Drinking Water Inspectorate. Manganese is not a threat to health, however, it has caused water discolouration when there are disturbances in the network which has led to a higher number of customer contacts than the target set by Ofwat.

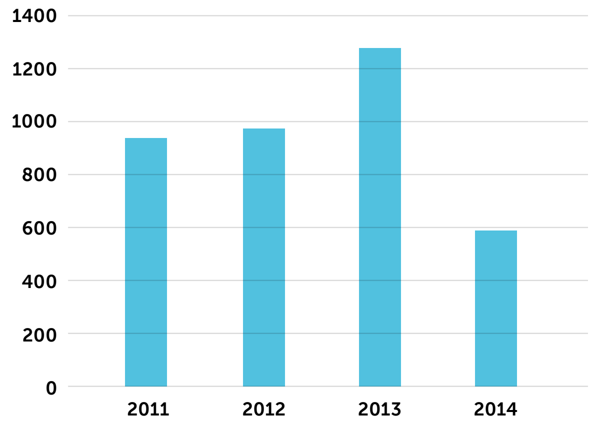
Our new £17m water treatment works at Llwyn Onn became fully operational in the early part of the year and is successfully removing any traces of manganese in the water supplied to 90,000 people.

The success of the elimination programme can be judged by the fact that discoloured water contacts numbered 1,286 in 2013 but reduced by more than half to less than 600 in 2014. (See chart above right). There was also a big drop in the number of taste and odour contacts in 2014 compared to 2013. This programme continues and we expect to be able to report an even lower level of contacts for 2015.

Quality schemes

We continue to focus on improving water quality and, with the Drinking Water Inspectorate's support, are working on 12 water quality schemes – the most in the industry, relative to our size – for the next five years.

Discoloured water contacts



4,000

regulatory samples taken from treatment works, service reservoirs and customers' taps

29,000

tests performed on these samples

27

tests failed to meet the regulatory standards

0

None of these failures indicated the water was harmful to health

Chlorine

We are refining the way we add chlorine to our water to 'disinfect' it and this has led to a drop in customer complaints about tasting or smelling of chlorine.

Risk and awareness sessions

We have invited hospitals, nursing homes and other organisations to attend risk and awareness sessions where, in partnership with the Drinking Water Inspectorate, we provided information and advice about how best to maintain and use water storage and supply systems to avoid possible dangers.

Accreditation for water sampling

As indicated, water sampling is a key activity and we are working to get UKAS ISO17025 Laboratory Accreditation for the full chain of sampling activity from homes to our treatment works. Our staff are approaching this challenge with enthusiasm and we expect to receive accreditation in 2015.

Lead pipes

We have an ongoing programme of replacing lead pipes. This has been expanded following the introduction of a new, more stringent standard for the detection of lead in water by changing our policy on lead pipe replacement. If our supply pipe to a property is lead we will now always replace it if the customer replaces theirs too. We hope this change will encourage more customer driven pipe replacement, leading to a longer term sustainable solution for lead.

Our Environment and Community

Dee Valley Water has a clear commitment to seek to support and protect the environment in all circumstances. We aim to ensure all of our activities take environmental protection into account and have clear policies in place to support this.

We know this is a key priority for our customers because it is always near the top of the list when we carry out customer surveys. But it is an equally important issue for the people who work at Dee Valley Water, most of whom live in our supply area and have been with us for many years.

Dee Valley Water's strong commitment to the environment and its community has been established during 150 years of continuous service. As a relatively small company we know our supply area intimately and are no more than 40 minutes away from our furthest customers.

Our efforts to minimise our environmental impact include reducing – where possible – the amount of water we abstract from the River Dee and other sources, avoiding pollution due to the release of substances that may be harmful and managing carefully our use of power, chemicals and fleet of vehicles.

It is vital that we all embrace the need for greater water efficiency as we face the threat of climate change and as the cost of supplying fresh water and disposing of it – not to mention heating it – increases.

Water consumption in Dee Valley Water's supply area totals 62 million litres a day. This equates to 133 litres of water per person per day.

Low level of leakage

Minimising leakage is crucial if we are to continue to reduce the amount of water we abstract from the environment. But it also has a key knock-on effect of helping to reduce how much energy and chemicals we use – plus the carbon we produce – in the water treatment process.

In 2014-2015 our leakage was 9.71 million litres of water a day (15.55%) – one of the lowest levels in the industry and below the Ofwat target of 10.22 million litres a day.

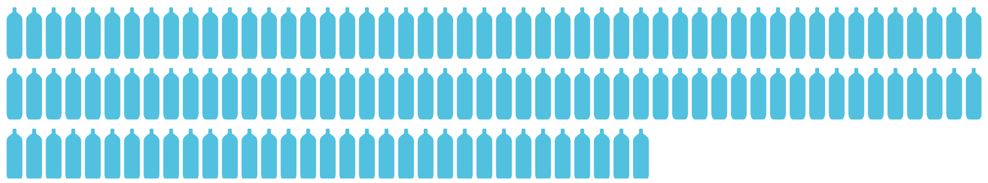
The local knowledge of our people, advances in leakage detection technology and operational improvements such as being able to closely measure how much water is being supplied to designated areas, plus reducing water pressure in areas where it is higher than necessary, are all contributory factors in outperforming the leakage target.

But it is a never-ending challenge. Dee Valley Water has more than 1,980 kilometres of mains network and some pipes are 100 years old; despite a continuous programme of repair and replacement, burst or cracked pipes will always occur. However, we do have one of the lowest burst rates in the industry.

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

It is important to note that it is not just Dee Valley Water's pipes that leak. It has been independently verified that approximately one third of leakage is on customer pipe work/fittings – often on the supply pipe running from the boundary of their property to their home.

Dee Valley Water supply 133 litres of water per person per day



To assist customers when they have leakage or other problems with their supply pipe, we offer a subsidised repair scheme and free on site advice and leak detection.

Promoting water efficiency

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

We are committed to working with our customers to advise them on water efficiency and water efficient products.

Responsible water consumption by our customers, together with our low level of leakage, helps protect water resources, which is particularly important in periods of low rainfall.

Educating our children

Our dedicated free programme in local junior schools of promoting water efficiency, an understanding of the water cycle and the importance of water for health, represents our biggest direct investment outside of the business in helping to protect the environment and support our local community.

Our tutors visited 50 junior schools in 2014-2015, delivering the message about water efficiency to 4,415 pupils. There are 102 Infant, Junior and Primary Schools in Dee Valley Water's supply area and, in the past few years, our tutors have delivered the water efficiency message to 87 of them.

The teaching sessions cover topics such as:

- **Where does our water come from?**
- **Is it safe to play by open water, such as rivers and reservoirs?**
- **How we make water safe to drink**
- **From rainfall to your home**
- **Water is precious – the consequences of not saving it**
- **Saving water at home and at school**
- **How much water our bodies need**

While the aim of the sessions is to promote water efficiency, they also –depending on the age group (Key Stages two or three) – align with curriculum needs and cover such requirements as:

- **Global warming and the carbon footprint created by water heating**
- **Water poverty in the Third World – linking to the charity WaterAid which is supported by the UK water industry**
- **Water audits and how to monitor water usage**

As the participation figures indicate, this free programme is popular with teachers and school children and we are currently making plans to improve and expand it.

> "Love being out and about meeting people."
>
> Emlyn Roberts,
> Customer Liaison Officer

FOCUS Wales Festival

Dee Valley Water aims to contribute to important local events in Wales and was proud to agree to become a sponsor of the FOCUS Wales Festival in the course of the 2014-2015 year. The four-day Welsh Arts Festival, which took place in Wrexham, places the music industry spotlight on the emerging talent that Wales has to offer the world. This was the Festival's fifth year and around 5,000 people heard more than 150 bands perform in a variety of spaces and music venues, using 15 stages, attended three days of interactive sessions and events, and three days of stand-up comedy.

Charities

The company has a policy of supporting local rather than national charities and made a number of donations in the course of the year. It also supports individual members of staff in their efforts to raise money for charities. There are plans to consult staff on adopting a charity to support this year and on introducing a 'Give a Day' scheme.

Dee Valley Water values highly this history of involvement with our local community and is happy to take part, sponsor and to support local events and initiatives where appropriate. However, our resources are limited and so we direct most of our financial support towards those activities and initiatives that, in our judgment, can make the biggest difference.

“5,000 people heard more than 150 bands perform in a variety of spaces and music venues, using 15 stages”

Our People

Our people are our most important asset and, as a responsible employer, we are making every effort to ensure they are treated as such. We are proud of the fact that Dee Valley Water is a company where people are pleased to work and which has a high proportion of staff who have been with us for many years – if not decades.

We are aiming to provide a safe and friendly working environment in which our people feel motivated and enabled to deliver a high standard of customer service.

As a truly local water company supplying a relatively small area, we are proud of the fact that most of our people are also customers. Employing people with local knowledge who can understand, interact with and help our customers at this empathetic level enables us to deliver an enhanced personal service.

We are working to provide every opportunity for our people to develop their skills and expand their roles within the company and are proud that our Executive Management Team includes people who joined the company straight from school.

People who have a history of success in the company and the water industry bring a level of knowledge and expertise that is unrivalled. This enhances our operational performance and customer service.

Much has and is continuing to change within the water industry and we are working with our people to ensure we are flexible and embrace new ways of working and develop new skills. We recognise that we haven't always invested in our people sufficiently to enable them to realise their ambition and reach their potential. This is something we will rectify in 2015 and beyond.

Employee survey

We have introduced a new Employee Survey which seeks to make sure Dee Valley Water is a great place for people to work. Our people provide answers to questions on a wide range of topics and issues covering such things as job satisfaction, training and how they view the company and its management. They can be as honest and candid as they wish because the survey is anonymous.

In this year's survey we were especially pleased to see that our people believed we provide a good service for our customers, and that we provide a safe and healthy work environment for them. However, we can make improvements in inter departmental cooperation and communication.

As the survey becomes established, we will be able use this information to make Dee Valley Water a better employer and a better place to work, and to measure our performance against previous years to drive continuous improvement.

> “The company is involving staff in changes that are, and will be, happening and it's nice to be asked for feedback”
>
> Emma Edwards,
> Assistant Customer
> Accounts Manager

Employee Engagement Forum

We established an Employee Engagement Forum during the year which meets on a monthly basis to provide a forum for open dialogue amongst staff, and updates them on developments within the business. This two-way approach to employee engagement allows for good feedback from our people. It also provides an opportunity for all our employees, through their nominated representative, to ask questions of senior managers and Board members.

Employee events

During the latter half of 2014-2015 we held two employee events aimed at informing and engaging our people as we sought to improve communication and manage change. This provided a great opportunity to improve the quality of dialogue with our people, and gave them relevant and timely information about the company's performance and their roles in our ongoing success.

We are committed to building on this more inclusive approach to communication and to find new ways to improve the level of engagement and involvement of our people.

Social Club

We are in the process of reviving our Social Club to broaden its activities and attract new members. Support for social activities reflects the Company's commitment to fostering a strong sense of community at Dee Valley Water.

Capturing ideas

We have just launched a new suggestions scheme which encourages our people to come up with ideas on how we can save time and money by doing jobs more efficiently or differently, or improve equipment and working conditions, eliminate waste and prevent accidents.

Health and safety

The health and wellbeing of our people, customers and everyone coming into contact with our business is paramount. Providing excellent health and safety across the business is a crucial performance indicator.

In 2014-2015 we recorded our best-ever health and safety performance – a significant improvement year on year. Time lost to injuries was the second lowest ever. We encourage staff to report near misses and logged a record number. We will strive to improve on this performance in 2015-2016.

We have improved our health and safety management system by creating active health and safety teams. This gives our people ownership of the issues and allows them to manage, fix and improve health and safety challenges at a team level.

Apart from our extensive programme of on and off site safety inspections and audits of work undertaken on the public highways, we encourage all of our people to report near misses and potential causes of accidents so they can be eliminated or rectified. Our health and safety performance is reviewed at every Board meeting.

Diversity

We are committed to equal opportunities and an entirely non-discriminatory working environment. Our aim 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. The company is dedicated to undertaking its business operations in a way which respects individual human rights, treats people with dignity and allows freedom of association. At 31 March 2015 the number of employees was as follows:

Employees (FTE)	Male	Female
Directors	5	-
Senior Managers	6	-
Employees	123	33

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.

Our future leaders

Dee Valley Water's future also depends on bringing new people – particularly young people – into the business and developing their skills. We are pleased to report that we now have four young people working on certified apprenticeship schemes.

Four apprentices completed their training in 2014. These were the first apprentices to be taken on by the company in 30 years. This reflects our commitment to helping young people in our community to secure sustainable careers in industry.

Operational Review

Despite the necessary focus on finalising our Business Plan for 2015-2020, our operational performance throughout the year remained on track and we met all the remaining commitments in our 2010-2015 Plan on time and within the overall capital expenditure budget allowed by Ofwat in the Final Determination in 2009.

Our buildings, equipment and infrastructure have been improved and are more resilient, leaving us better equipped to meet customer expectations.

Water quality improvements

In 2014-2015 we cleaned almost 10% of our mains network to remove manganese deposits that have built up in some of our water mains over many years. While the level of manganese occurring in the water is low and is not harmful, it can lead to discolouration. To ensure the most effective cleaning programme is implemented throughout the Business Plan period we have trialled a wide range of innovative techniques.

The most effective system for cleaning larger pipes is called "ice pigging", where ice is pumped through the pipe to remove clusters of sediment off the walls. So far we have cleaned 18km of large mains and removed more than one and a half tons of sediment.

In total, we cleaned 140km of mains last year – the same distance as Wrexham to Gloucester. We will clean 250km this year – or from Wrexham to London.

The successful use of innovative cleaning techniques has been recognised by our customers and the Drinking Water Inspectorate.

Burst pipes

Managing and maintaining our supply network to prevent deterioration and minimise burst pipes is a key performance indicator – as is ensuring any burst is repaired swiftly.

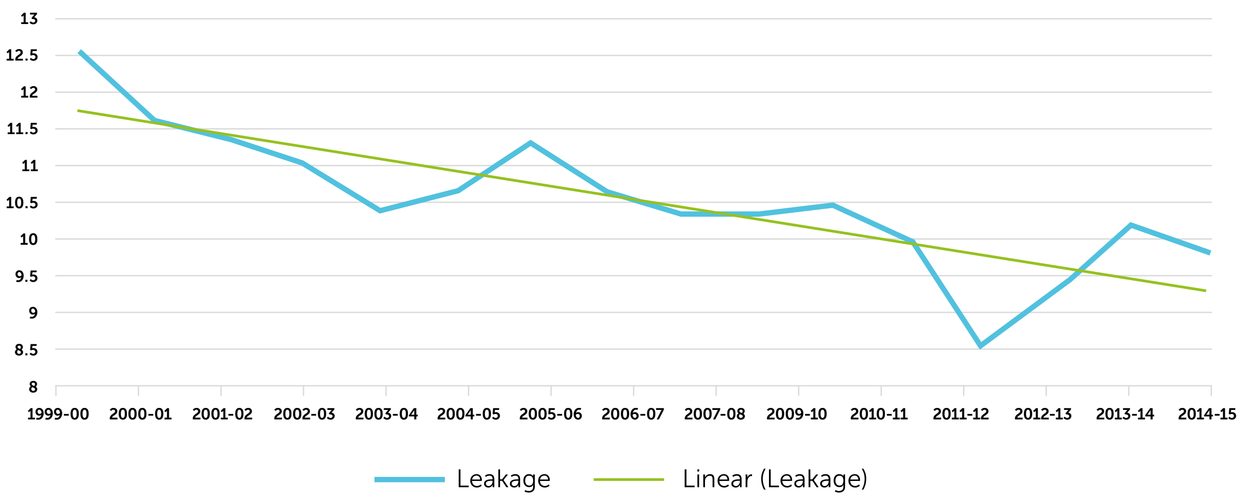
We have an ongoing mains replacement programme and renewed more than 10km of mains in 2014-2015. We had 247 burst mains – a burst rate of 125 bursts per 1,000km – the fourth lowest in England and Wales.

Leakage

Minimising leakage is an important issue for our customers and reducing it has always been a top priority.

In 2014-2015 our leakage was 9.71 million litres (Ml/d) of water a day (15.55%) – one of the lowest levels in the industry and below the Ofwat target of 10.22 million litres per day.

Leakage 1999/00-2014/15



The local knowledge of our people, advances in leakage detection technology and operational improvements such as being able to closely measure how much water is being supplied to designated areas, plus reducing water pressure in areas where it is higher than necessary, are all contributory factors in outperforming the leakage target.

> "Leakage is close to lowest in the industry."

Llywn Onn water treatment works

The new £17m Llwyn Onn water treatment works which came on line on 12 August 2013, had a busy 12-month defects period correcting and fine-tuning aspects that needed further attention. This is standard for a project of this size and nature, and the contractor has worked well with our staff in addressing all issues. The works is functioning well and providing high-quality drinking water up to its capacity of 47 million litres of water a day to 90,000 people.

Service reservoirs

As part of our on-going programme to protect assets and build greater resilience we have carried out inspections and maintenance at nine of our 36 service reservoirs that store treated drinking water. The inspections revealed a variety of issues that required remedial works. At Boughton two reservoirs have been taken out of service altogether due to the cost of repair and risk to supply.

Sesswick Pumping Station

The largest pumps Dee Valley Water operates are located at Bangor-on-Dee, otherwise known as Sesswick, pumping station. Water is taken from the River Dee and pumped either to the raw water storage reservoir at Marchwiel or to Llwyn Onn water treatment works. The equipment was at the end of its serviceable life and has been replaced with energy efficient pumps with variable speed control. Other environmental benefits include the fact that we can vary the pumping regime to take advantage of lower night time electricity tariffs.

Sesswick has also been protected against high water levels in the River Dee with reinforced concrete and demountable flood walls. With the flooding experienced across the country in recent years this will help ensure we continue to provide water to our customers during the worst flood periods. The work included security installations in line with central government requirements.

Control Room

We have relocated our Control Room at our Packsaddle headquarters to provide greater security and to increase operational efficiencies.

Security upgraded

Security featured prominently throughout the past five-year Business Plan period with physical security measures included in almost all the project work undertaken. This last year has seen fencing, CCTV, intruder alarms, automatic gates, heavy metal doors, locks and a new secure key system being installed at all sites not updated in the first four years. Protecting and improving our assets is fundamental to ensuring we can provide a high-quality and sustainable service for our customers and benefit the wider environment.

Water meters

We are committed to ensuring customers are billed accurately and in a manner which best suits their personal situations. In 2014-2015 we continued with our meter replacement programme and met our target by replacing 3,500 of our older meters. We also installed an additional 1,600 for people opting to have a water meter.

Remote working

To help improve our customer service and the efficiency of our operations, we are continuing to develop our ability to work more efficiently remotely – particularly for our teams working off site – and have tested and begun to use a range of electronic devices. We have also upgraded our Geographical Information System.

> "I take great satisfaction from helping customers and find my colleagues at Dee Valley Water are more than willing to help me when needed"
>
> Dan Edwards

Investing to improve the quality of our services and the local economy

During the past five years we have invested more than £34m in capital investment programmes aimed at upgrading and renewing our infrastructure. The largest investment – £17m at the Llywn Onn treatment works in Wrexham – has brought significant improvements in the quality of water supplied to 90,000 people who live around Wrexham.

This major improvement in water quality builds on the investment programme we implemented during the previous Business Plan period (2005-2010) when we upgraded the Boughton water treatment plant in Chester.

Our Business Plan for the next five years (2015-2020) outlines how we will invest close to £50m into continuing to protect and improve water quality and security of supply on behalf of our customers. This is our largest ever five-year investment programme and work will take place across all our main supply areas – Wrexham, Chester and the rural areas that surround them.

The nature of our operations and capital expenditure programmes means that Dee Valley Water is a large investor in its supply area. Where possible, we source supplies locally and employ local companies. This helps the region's business community and contributes to its economy.

£34m

During the past five years we have invested more than £34m in capital investment programmes aimed at upgrading and renewing our infrastructure

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 and this register is also reviewed by the Audit Committee on an annual basis as part of a wider review of the effectiveness of the Group's system of internal control. The Board also monitors key risk and performance indicators at each Board meeting.

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

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

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

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

Risk	What Does It Mean	Mitigation
Failure of principal assets	We supply water to our customers through assets from which we do not have complete supply alternatives. If one of these assets were to fail this would result in temporary loss of supply to our customers	Over the past two AMP periods we have made significant investments in our two main water treatment works. In planning and carrying out these investments we have undertaken extensive studies of the reliability and availability of our main assets. In addition we are investing in new and improved asset management technologies and systems which will improve our asset maintenance and will enable us to focus our expenditures to improve asset performance and lower risks. We are also reviewing our business plan investments to improve the resilience of our water supply system by moving water more easily around our network and through connections to neighbouring suppliers.
Failure to meet Ofwat outcomes and standards	For PR14 Ofwat has set the company some challenging operational performance targets. If we are unable to meet these targets we may be subjected to significant regulatory penalties.	We are currently reviewing our processes, equipment and systems and making investments to deliver significant improvements in the quality of product and service. We have a series of internal measures that enable us to proactively monitor performance and take prompt corrective action when and where necessary.
The Silk Recommendations are fully implemented and regulatory practice in Wales significantly diverges from regulation in England.	Dee Valley Water operate in accordance with Welsh government policy as we are a company that is mainly in Wales. The Silk commission recommended aligning the political and regulatory boundaries which would mean that Dee Valley Water would lose its status as a Welsh company and would effectively be split in two. If this were to happen and Welsh government policy further diverge from Ofwat policy, Dee Valley Water's costs and bills could increase which could lead to customer loss of confidence and reputational damage.	As a Welsh company we are committed to working proactively with the Welsh government to develop its water strategy for the citizens of Wales. We believe that changes in regulatory practice should bring proven benefits to customers and the wider environment. We will engage with the Welsh government, Natural Resources Wales, the DWI, the Environment Agency and Ofwat to find ways to best implement Silk so that it brings benefits for customers. We participate actively in the Welsh Water Forum and have opened dialogue with local and national Welsh Assembly Members to develop this discussion to benefit customers.
Failure to meet the customer service standards expected by our customers	Ofwat's new regulatory processes places customers at the heart of all businesses. Failure to meet these higher standards will lead to customer dissatisfaction and SIM penalties imposed by Ofwat, all of which will damage the company's reputation.	We have re-shaped our customer service function to ensure that we have a co-ordinated company-wide approach to customer service. We have also invested in new technology to enable us to better understand the needs of our customers. Our performance as measured by Ofwat's SIM measure continues to improve, however in recent years the rest of the industry has improved at a faster pace which has seen our ranking slip. We have set ourselves a challenging target of achieving upper quartile performance in this AMP period.
As a result of a failure in working practices or assets we may injure members of staff, contractors or a member of the general public	Our work requires our employees and contractors to use equipment and carry out tasks which have the potential to cause serious harm. In addition, we undertake a lot of work in dynamic public places such as busy streets. We take every precaution to prevent injury, however the failure of a procedure or the breakdown of an asset could lead to injury.	We continually review our H&S strategies and working practices to look for improvements. Our assets are subject to regular monitoring and maintenance though proactive and reactive programmes of work. Our reservoirs are independently inspected and then maintained by our staff to ensure that they remain safe. We recognise that the key to a safer organisation is the behaviour of staff, as such we encourage near miss reporting across the organisation as we believe this ensures that we review incidents to address the root causes of incidents. We have started to implement a new management system that will improve behavioural safety across all business areas, and we have reviewed and improved our risk management system improvements, including a new reporting system. Senior leaders are fully bought into this system and carry out a number of audits on key risk areas each year.

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.
There is a risk that the Group may have difficulty financing activities during Asset Management Plan 6 ('AMP6') due to a final determination on price limits ('FD') from Ofwat which included lower allowed revenue than our business plan. The FD allowed lower wholesale costs (wholesale totex) than our forecast and a reduced weighted average cost of capital (WACC) of 3.6% compared to the position between 2010-2015 of 5.1%.	The Board accepted the final determination on 20 January 2015 which included lower allowed revenue in comparison to the original business plan. Lower resulting cashflows could also impact on operating activities during the period and on dividend return to shareholders and business valuation/share price.	The annual business planning process provides a platform for the Board to review financeability and affordability. Decisions on shareholder distributions are therefore made in light of this process and actual annual performance. Post year-end, the Group has completed a re-financing of its revolving credit facility. The new £30 million facility secures funding for the five-year period to 2020, at a lower cost than the previous facility.

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

Financial Review

Underlying operational financial performance for the year ended 31 March 2015 has remained broadly consistent with the prior year.

Overview

The year ended 31 March 2015 represents the end of Asset Management Plan 5 ('AMP5'), the five-year investment plan agreed with Ofwat in 2009. This has been a challenging five-year period for the Group, with key capital investments being delivered in accordance with allowed costs, notably including the commissioning of the £17.1m Llwyn Onn water treatment works.

Operational costs have exceeded allowances over the period due to increased power, carbon reduction and pension costs and also as a result of the investment required to address discolouration issues in certain parts of the operating network.

Periodic Review 2014 ('PR14') was a challenging process for the Group and the outcome poses some challenges with regard to allowed wholesale costs ('totex') and the Group's average cost of capital ('WACC'). However, securing almost all of our forecast capital and operational investment demonstrates the regulator's confidence in our business plan and provides a strong platform for Asset Management Plan 6 ('AMP6').

Financial Results

Profit from Operations

Profit from operations for the year ended 31 March 2015 was £7.5 million (2014: £8.6 million). Prior year profitability was positively impacted by changes in defined benefit pension scheme provision. The changes were implemented with effect from 1 December 2013 and resulted in a pension scheme curtailment gain of £1.3 million. Excluding this gain, profit from operations for the year has increased by £0.1 million in comparison to the prior year (2014 profit from operations before curtailment gain: £7.3 million).

Revenue for the year (£24.6 million) was £0.8 million higher than 2014 due to a favourable variance in consumption in both the household and non-household sectors and the impact of a 2.2% price increase, effective from 1 April 2014.

Operating expenses, excluding the impact of the 2014 pension scheme curtailment gain, were £0.9 million higher than the prior year. This was due to incremental consultancy costs associated with the PR14 process, an increase in costs associated with core reactive maintenance activity and bursts during the year and an increased bad debt charge.

Following a review of the existing doubtful debt provisioning estimate, management have taken the decision to provide fully against all debts that are greater than two years old and also to specifically provide for customers' debts based on historic default and non-payment. This prudently recognises the risk of non-recovery in respect of these significantly aged debtors and has led to an increase in the total bad debt charge of £0.5 million at 31 March 2015, included in the £0.9 million increase in operating expenses referred to above.

Taxation

A taxation charge of £1.0 million has arisen in the year (2014: £0.6 million credit), the variance relating to a prior year deferred tax credit which arose due to the change in the corporation rate from 23% to 21% (effective from 1 April 2014) and the additional reduction to 20% (effective from 1 April 2015). Both of these changes were substantively enacted on 2 July 2013 and therefore the full impact of these reductions were applied in calculating the prior year tax position.

The deferred tax liability at 31 March 2015 has been calculated based on the rate of 20% (2014: 20%). A reconciliation of the tax charge for the year is contained in note 6 to the Financial Statements.

Profit after Taxation

Profit after taxation of £3.5 million is £2.2 million lower than the prior year (2014: £5.7 million). Whilst profit from operations before the pension scheme curtailment gain is broadly consistent with the prior year, the curtailment gain (£1.3 million) and prior year deferred tax credit (£1.7 million) resulted in a significantly higher profit after taxation in the year ended 31 March 2014.

Unadjusted earnings per share of 75.3p was lower than the prior year equivalent (122.3p). Adjusting 2014 earnings for the pension credit referred to above results in a reduced earnings per share of 95.1p.

Final Dividend and Dividend Policy

Taking into account the reduction in current year profit after taxation and the challenging outcome of the periodic review process, with an average 2% pre-inflation reduction in bills applied from 1 April 2015, the Board has proposed a final dividend of 42.0 pence per ordinary share in respect of the year ended 31 March 2015. Including the interim dividend of 20.5 pence per ordinary share paid in January 2015, the total dividend of 62.5 pence per ordinary share is consistent with the prior year.

The Board has considered the Group's dividend policy during the period from 2015-2020 in light of the outcome of the final determination and the Group's non-regulated business. It is the Board's current intention to maintain an annual dividend base of 62.5 pence per share plus a proportion of any financial outperformance, whether from revenue or cost efficiency, which will be assessed by the Board on an annual basis.

The final dividend is expected to be paid on 3 August 2015 to shareholders on the register at the close of business on 3 July 2015.

Balance Sheet

Group net assets increased by £2.0 million (7.1%) to £29.4 million during the year. The increase was due to the retained profit for the year of £3.5 million less dividends paid of £2.9 million, plus an actuarial gain, net of deferred taxation, on the defined benefit pension scheme of £1.4 million.

The net book value of Property, Plant and Equipment increased by £2.0 million to £96.1 million, with capital expenditure of £6.8 million more than offsetting the depreciation charge for the period (£4.5 million). Contributions received in the year of £1.2 million (2014: £0.8 million) are recorded as deferred income (see note 17) and credited to the Income Statement over the life of the relevant asset. Key capital expenditure in this final year of AMP5 included investment at Sesswick pumping station, the Packsaddle control room and the mains renewal programme.

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.

A valuation of the Group's defined benefit surplus as at 31 March 2015 was performed by the Group's actuarial advisors in accordance with IAS 19 Employee Benefits. The assumptions underlying the calculation of liabilities of the defined benefit scheme represent the current central estimates recommended by the actuaries. The defined benefit surplus increased to £7.9 million (2014: £5.6 million), primarily due to asset returns exceeding interest on the scheme's liabilities. Further disclosures in respect of pensions are provided in note 22 to the Financial Statements.

Liquidity and Financing

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.

During the year the Group had in place a revolving credit facility of £9.0 million, which was committed until 31 March 2016, in addition to an undrawn committed overdraft facility of £3.0 million. The Group utilised the revolving credit facility in order to fund capital expenditure and at 31 March 2015 £6.0 million was drawn on this facility (2014: £6.0 million). 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 2015 the total outstanding balance had increased to £51.7 million (2014: £50.4 million).

As noted above, the revolving credit facility in place at the year-end was committed until 31 March 2016. In order to secure future funding for the Group and to support the AMP6 investment plan (up to £50 million), the Group refinanced this facility, entering into a new five year revolving credit facility of £30.0 million on 15 May 2015. This new facility replaces the £9.0 million facility and has been negotiated on more favourable terms, with an option for a two year extension beyond 2020, providing both flexible and cost effective funding.

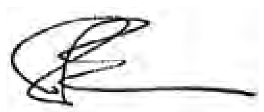
Cash Flow

Net cash flow from operating activities was £13.0 million, £0.8 million higher than the prior year operating cash flow (£12.2 million). This can primarily be attributed to a favourable movement in working capital.

Capital expenditure (£6.7 million), interest (£2.0 million) and tax payments (£0.7 million) were consistent with the prior year, as was the drawing on the revolving credit facility. After taking into account dividend payments of £2.9 million (2014: £2.9 million), net cash flow for the year improved by £0.8 million in comparison to the prior 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.



Andrew Bickerton
Finance Director

Governance

Board of Directors

Jon Schofield (54)

FCA
Independent Non-executive Chairman

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: Member of the Audit, Remuneration and Nomination Committees

Philip Holder (66)

FCA
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: Chairman of Audit Committee, member of the Nomination and Remuneration Committees

Ian Plenderleith (51)

ACMA
Chief Executive

Appointed to the Board on 26 August 2014

Ian has spent his entire career in the utilities sector and the last decade in the water sector. He has specific expertise in capital markets and leading companies with the highest standards of corporate governance. He served as Chief Financial Officer of AS Tallinna Vesi (Tallinn Water, which is part of the United Utilities Group) from 2004 to 2007 where he played a significant role in their listing on the Tallinn Stock Exchange. From 2008 to June 2014 he served as Chief Executive Officer of AS Tallinna Vesi. Prior to these roles he spent 16 years in various positions within the United Utilities Group.

External appointments: None

Committee membership: Member of Nomination Committee

David Weir (68)

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, GTS Chemical Holdings Plc and VSA Holdings

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

Kevin Starling (51)

Non-executive Director

Appointed to the Board on 28 May 2015

Kevin has spent over 25 years in the utility industry, joining Anglian Water in 1988 immediately prior to privatisation. Since then he has been CEO of a number of international businesses including United Utilities Australia, Sofia Water in Bulgaria and ESVAL, the first privatised water company in Chile. Kevin has also been a board member of many high profile listed and private utility companies including Aguas Argentinas in Argentina, Manila Water in the Philippines and Tallinn Water in Estonia.

External appointments: Director of K Star Solutions Ltd and Ferret Technology Ltd

Committee membership: Member of the Audit, Nomination and Remuneration Committees

Andrew Bickerton (38)

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

Corporate Governance Report

The Board is committed to the highest standards of corporate governance and ensuring effective, transparent reporting. The Group has, throughout the period under review, been fully compliant with the UK Corporate Governance Code (Code) save as where explained below.

Responsibilities of the Board

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

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

The roles of Chairman and 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. Photographs of the members of the Board together with a brief description of their experience is contained on pages 38 and 39. David Weir was the senior independent non-executive Director throughout the period under review.

One-third of the directors must retire by rotation each year and all directors are subject to re-election by shareholders at intervals of no more than three years. New directors appointed to the Board are also 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, any 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 Andrew Bickerton.

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 13 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.

Andrew Bickerton (1)	**12 (12)**
Philip Holder	**11 (13)**
Norman Holladay (2)	**1 (1)**
Ian Plenderleith (3)	**8 (8)**
Jon Schofield	**13 (13)**
Graham Scott (4)	**5 (5)**
David Strahan (5)	**5 (5)**
David Weir	**13 (13)**

1 – Andrew Bickerton was appointed to the Board on 6 May 2014
2 – Norman Holladay resigned from the Board on 5 May 2014
3 – Ian Plenderleith was appointed to the Board on 26 August 2014
4 – Graham Scott resigned from the Board on 1 August 2014
5 – David Strahan resigned from the Board on 26 August 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. Reports from the Chairmen of these committees are set out on pages 44 to 55 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.

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 a copy of the Annual and Interim Reports.

The Group's website contains up-to-date information for shareholders and other interested parties including Annual and Interim Reports, 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 30 to 33.

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 14 to 33 and the Financial Review on pages 36 and 37. The financial position of the Group including cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 36 and 37. In addition, notes 23 and 25 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, financial risk and management objectives, details of financial instruments and also exposure to credit and liquidity risk.

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

Audit Committee Report

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 auditors 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.

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

Membership

The Committee's membership is comprised of four independent non-executive directors, Philip Holder, Jon Schofield, David Weir and Kevin Starling. Philip Holder 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 page 38 and 39.

Meetings

There were five scheduled meetings of the Committee during the year with full attendance at each meeting. The increased frequency of meetings during the year reflected the increased governance around the Periodic Review 2014 process. 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 our review, the Committee considers reports from management and also the report from the external auditor in respect of the outcome of their annual audit and other assurance work.

The primary areas of judgement considered by the Committee in relation to the annual report and financial statements for the year ended 31 March 2015 and how these were addressed were:

- **Pension Scheme – The Group's trading company, Dee Valley Water plc, participates in a defined pension scheme, the Water Companies Pension Scheme, for qualifying employees. Judgements are required in respect of the actuarial assumptions for the pension disclosures 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 the external auditor. During the year the Committee have reviewed and agreed with the changes to the doubtful debt provisioning estimate on the basis that the current year change prudently recognises the risk of non-recovery in respect of those aged debtor categories;**
- **Revenue recognition: unbilled income – Revenue for customers with a water meter includes an estimate of usage between the date of the last meter reading and the balance sheet date. The Committee considered management's process for deriving the unbilled income accrual and discussed the judgement in respect of this accrual with the external auditor;**
- **Carrying Value of Property, Plant and Equipment – The Committee reviewed the carrying value of property, plant and equipment and the estimated useful lives used to calculate depreciation through receiving a report from management outlining the basis for the assumptions used; 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 the external auditor.**

Business Plan

On 30 January 2015 the Group accepted the Ofwat Final Determination of price limits which will apply from 2016 to 2020 and was based on the Group's five year business plan. The business plan included the investment proposals for this period together with a range of outcomes and performance incentives.

The Committee were engaged throughout the business plan process and also in the decision to accept the Final Determination. Detailed discussions and challenges were undertaken with management on a range of financial, economic and operational assumptions included in the business plan prior to accepting the Final Determination.

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 30 to 33. The Committee conduct an annual review of risk including the changes in those risks during the period under review.

The Committee regards this review 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.

The Committee are conducting a full review of Risk Management, policy and process in preparation for AMP6 which also includes consultation with key stakeholders of the organisation and the development of an Internal Audit and Assurance process.

Internal Audit

During the year, the Committee reviewed the need for an internal audit function. The review included consideration of the scope and nature of the work carried out by the external auditor, reviews carried out by management and the scope and nature of work carried out by the Group's Technical Auditor.

The Committee are committed to demonstrating the importance of both robust internal control and vigorous assurance processes. As such, a key area of review and discussion was with regard to Ofwat's proposals for reporting and assurance for the period 2016-2020 'AMP6 Reporting proposals and assurance' and also areas of improvement which were identified during the Periodic Review 2014 process.

Following its annual review the Committee recommended the establishment of an internal audit function to the Board. The Committee also recommended that a statement including the scope for assurance and internal audit for each year is published, to ensure that external stakeholder feedback is taken into account.

The internal audit function will be established in the first quarter of 2015/16 with the publication of a statement on assurance and internal audit scope in the second half of 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.

The Committee gives careful consideration before appointing the external auditor to provide other services. The Group regularly uses 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 2015 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.

Other

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

Phil Holder

Philip Holder

On behalf of the Audit Committee
10 June 2015

Nomination Committee Report

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 are members of the Committee which is chaired by the Chairman of the Group. 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

There were two scheduled meetings of the Committee during the year with full attendance at each meeting.

During 2014, the Committee kept the structure, size and composition of the Board under review as well as the diversity of skills and experience. Furthermore, following the appointment and subsequent resignation of David Strahan from the Chief Executive position, the Committee carefully considered the process to appoint a successor. In order to seek suitable candidates for the position the Committee 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 Ian Plenderleith as Chief Executive on 26 August 2014.

In addition, to further enhance the existing skills and experience of the Board, the Committee appointed Kevin Starling on 28 May 2015. Kevin's biography is included on page 39.

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.

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.

JH Schofield

Jon Schofield

On behalf of the Nomination Committee
10 June 2015

Remuneration Committee Report

The key objective of the Committee is to assess and make recommendations to the Board on the remuneration policy of the Group and to 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 meeting, 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 six scheduled meetings of the Committee during the year with full attendance at all but one meeting. 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 the organisation and enhance shareholder value.

The table below summarises the main elements of the Group's remuneration policy for executive Directors.

	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 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.	The two executive Directors joined the Group during the year and their remuneration was determined by the Committee, taking into account market practice. The policy is consistent with the prior year.
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.	The Group contributes to a defined contribution scheme for both the Chief Executive and Finance Director. The pension contribution for both individuals is based on 15% of basic salary.	None
Annual bonus	To 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. The key performance indicators and personal objectives for each Director are approved by the Committee. Performance against these objectives is assessed annually and this assessment forms the basis of the bonus award.	Maximum bonus potential is capped at 50% of salary.	Introduced and approved in the year

The bonus award for the executive Directors reflected performance against the Group's key performance indicators, their own personal objectives and, in the current year, the outcome of the Periodic Review process. Bonuses awarded in the 2015-16 financial year will also reflect the Group's performance against the Performance Commitments approved by Ofwat (see page 13 for further details) and will again be capped at a maximum of 50% of base salary.

The annual bonus is currently available to the executive Directors and seven other members of the Group's senior management team. The bonus available to these senior managers is capped at 15% of salary. The annual salary increase is linked to inflation during the year and was provided to all employees.

Whilst the Committee did not consult with employees in determining the executive Directors' remuneration, external benchmarking is conducted periodically and the package of benefits and incentives offered was carefully considered to ensure that it is appropriate for the Directors' roles and provides sufficient rewards for strong performance. Shareholders' views on Directors' remuneration are sought annually, through the approval of the Directors' remuneration report at the Annual General Meeting.

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 above tables.

Base salary will be set at a level appropriate to the role and the expertise 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. There are no additional fees paid in respect of the chairmanship of Board committees. 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.

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 periods 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.

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

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

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

The Group makes contributions to a defined contribution pension scheme in respect of Ian Plenderleith and Andrew Bickerton. Details 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 Ian Plenderleith and Andrew Bickerton are dated 26 August 2014 and 6 May 2014 respectively.

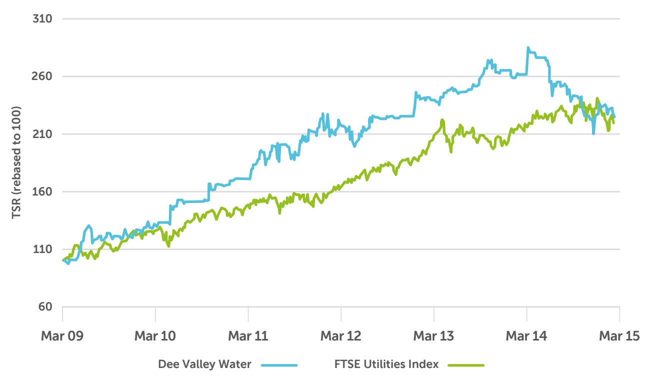
Non-executive Directors have letters of appointment, rather than service contracts, which provide for six months termination notice by either party. In the event of early termination, non-executive Directors are not entitled to receive compensation for loss of office. The letter of appointment of each 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. This applied to only one Director during the year, David Weir. As noted in the Chairman's report, we accepted David's retirement on 28 May 2015 and he will formally retire after the Annual General Meeting in July 2015.

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.



The table below shows the Chief Executive's remuneration (base salary, bonus and benefits in kind) over the same period as the TSR chart and the percentage of the maximum available bonus that was awarded each year.

	2010	2011	2012	2013	2014	2015
CEO remuneration (£000)	132 (1)	116 (2)	119 (2)	124 (2)	147 (2)	204 (3)
% of maximum bonus awarded (%)	-	-	-	-	-	92

(1) Includes the emoluments of Bryn Bellis, who resigned as a Director on 1 December 2009 (£97,000), and Norman Holladay (£35,000);
(2) Includes the emoluments of Norman Holladay only;
(3) Includes the emoluments of Norman Holladay, who resigned as a Director on 5 May 2014 (£35,000); David Strahan, who resigned as a Director on 26 August 2014 and was in post as Chief Executive from 5 May 2014 to 26 August 2014 (£52,000) and Ian Plenderleith, who was appointed on 26 August 2014 (£117,000). The annual bonus scheme was introduced and approved in the current year and the bonus percentage awarded relates to Ian Plenderleith only.

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 2015.

Directors' Remuneration

	Base salary and fees £000	Bonus £000	Benefits in kind £000	Pensions £000	Total 2015 £000	Total 2014 £000
Andrew Bickerton (1)	91	25	5	14	135	-
Philip Holder (2)	23	-	-	-	23	5
Norman Holladay (3)	33	-	2	3	38	202
Ian Plenderleith (4)	78	35	4	12	129	-
Jon Schofield	37	-	-	-	37	23
Graham Scott (5)	12	-	-	-	12	36
David Strahan (6)	66	-	3	10	79	147
David Weir	23	-	-	-	23	23
	363	60	14	39	476	436

1) Andrew Bickerton was appointed a Director on: 6 May 2014
2) Philip Holder was appointed a Director on: 21 January 2014
3) Norman Holladay resigned as a Director on: 5 May 2014
4) Ian Plenderleith was appointed a Director on: 26 August 2014
5) Graham Scott resigned as a Director on: 1 August 2014
6) David Strahan resigned as a Director on: 26 August 2014

The total increase in remuneration (base salary, bonus and benefits in kind) of the three individuals who served as Chief Executive during the year was 39%, including associated handover periods and bonus or other one-off payments totalling £47,000. The increase in average remuneration for all employees was 1%.

Directors' Pension Entitlements

The Group made contributions of £36,000 into a defined contribution scheme in respect of Ian Plenderleith, Andrew Bickerton and David Strahan. Philip Holder, Jon Schofield, Graham Scott and David Weir are not members of any Group pension scheme.

Relative Importance of the Spend on Pay

The table below shows the relative importance of the employee benefits expense (for all employees) compared with the returns distributed to shareholders:

	2015 £000	2014 £000	% change
Remuneration paid to or receivable by all employees	6,191	6,247	(0.9%)
Distributions to shareholders by way of dividends	2,895	2,927	(1.1%)

Directors' Share Interests

The Directors of the Company at 31 March 2015 and their beneficial interests in the shares of the Company were as follows:

	Ordinary Shares	
	2015 No.	2014 No.
Andrew Bickerton	396	-
Philip Holder	-	-
Ian Plenderleith	-	-
Jon Schofield	1,000	-
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 2015 and 10 June 2015.

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 2015

Directors Report

This Directors' Report should be read in conjunction with the Strategic Report contained on pages 14 to 33 and the Corporate Governance, Audit, Nomination and Remuneration Committee reports on pages 40 to 55.

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 Strategic Report on pages 14 to 33 and Financial Review on pages 36 and 37, which include information about the likely developments in the Group's business.

Dividends per share

	Interim Paid Pence per share	Final Proposed Pence per share	Total Pence per share
Ordinary shares and non-voting ordinary shares	20.5	42.0	62.5

The final dividend is payable on 3 August 2015.

Property, Plant and Equipment

Additions to property, plant and equipment, including infrastructure renewals, amounted to £6.8 million (2014: £6.1 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 38 and 39.

Andrew Bickerton, Philip Holder, Ian Plenderleith, Jon Schofield, Kevin Starling, David Weir.

Andrew Bickerton was appointed a Director on:
6 May 2014.

Norman Holladay resigned as a Director on:
5 May 2014.

Ian Plenderleith was appointed a Director on:
26 August 2014.

Graham Scott retired as a Director on:
1 August 2014.

Kevin Starling was appointed Director on:
28 May 2015.

David Strahan resigned as a Director on:
26 August 2014.

Jon Schofield and David Weir are to retire at the Annual General Meeting and Jon Schofield will offer himself for re-election. David Weir will not offer himself for re-election and will formally retire after the Annual General Meeting in 2015.

Following an evaluation of their performance, the Board considers that Jon Schofield and Philip Holder continue to perform effectively and to demonstrate commitment to their roles.

Andrew Bickerton was appointed Finance Director and Company Secretary on 6 May 2014.

Ian Plenderleith was appointed as Chief Executive on 26 August 2014 and having been appointed since the date of the last Annual General Meeting he therefore offers himself for re-election.

Kevin Starling was appointed as a non-executive Director on 28 May 2015 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. One-third of the directors retire by rotation each year. 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 50 to 55.

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

Greenhouse Gas Emissions

Total Greenhouse Gas Emissions for the year ended 31 March 2015 were as follows:

	2015	2014
Greenhouse Gas Emission Source	Tonnes of CO2e	Tonnes of CO2e
Combustion of fuel and operation of facilities	970	696
Electricity, heat, steam and cooling purchased for own use	7,723	7,506
Company's chosen intensity measurement:		
Emissions reported above normalised to kilogrammes of C02e per ML of water	32.25	30.81
Emissions reported above normalised to kilogrammes of C02e per 1 million litres of drinking water	377.75	358.01
Emissions reported above normalised to kilogrammes of C02e per 1 million litres of drinking water per meter head pumped	2.94	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 9, which has been developed by UK Water Industry Research, has been utilised. The emissions factors used are Defra's Environmental Reporting Guidelines (published in June 2014, updated in July and October 2014). Process emissions specific to the water industry have been calculated using industry-specific conversion factors.

Substantial Interests

At 1 June 2015, 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 14,179 (2014: 51,933) B shares, representing 0.1% (2014: 0.37%) of the original issued capital. The nominal value and consideration amounted to £32,612 (2014: £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 102 and 103 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 have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Andrew Bickerton
Secretary
10 June 2015

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 59 to 63 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 56 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 14 to 33 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:

JH Schofield

Jon Schofield
Chairman

I. J. A. Plenderleith

Ian Plenderleith
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 2015 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 43 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 (2015: £2.4 million, 2014: £1.6 million) (note 12) 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 judgment around the likelihood of a customer to pay its bills based on historical experience of levels of recovery from accounts in particular ageing categories. The bad debt provision has increased in the year primarily because all receivables aged greater than 2 years old and additional specific customer debts with history of non-payment are now being provided for in full. This is based on the latest cash collection rates.	We have: • reviewed the design and implementation of management's controls around this risk, particularly around capturing the key data inputs to the model. This included agreeing a sample of this data back to its source, being the billing system; • 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; and • benchmarked the bad debt charge against peer Group businesses.
Potential impairment of goodwill and tangible assets The Group has a significant amount of goodwill (2015 and 2014: £5.4 million – see note 9) and tangible assets (2015: £96.0 million, 2014: £94.1 million – see note 10) on its balance sheet. The Group's assessment of impairment is a judgmental process which requires estimating the value in use of the Group's tangible and intangible assets.	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; and • agreed the Regulated Capital Value and Group's market capitalisation calculations to third party data and compared these values to the Group's assets net book value.
Revenue recognition risk in relation to the estimation of unbilled revenue For water customers with water meters, the amount recognised 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. This is a key judgment because 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 model; and • challenged the validity of management's estimate of the current year accrued 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.

In the prior year an additional risk was included above in relation to the amount of the Group's pensions curtailment gain. As this was a non-recurring event in the prior year, no such risk is included in the current year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 45.

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 £225,500 (2014: £192,000), which is 5% of pre-tax profit (2014: 5% of pre-tax profit adjusted for the nonrecurring 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 £4,510 (2014: £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 ten 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.

C J Robertson

Christopher Robertson ACA
(Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Manchester, United Kingdom

10 June 2015

Financial Statements

Group Income Statement
for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Revenue		24,599	23,787
Other operating income	2	2,459	2,187
Other operating expenses (net)	3	(19,605)	(17,408)
Profit from operations		7,453	8,566
Profit from operations before pension scheme curtailment gain		7,453	7,309
Pension scheme curtailment gain		-	1,257
Profit from operations		7,453	8,566
Finance income	5	269	35
Finance expenses	5	(3,264)	(3,503)
Profit before tax		4,458	5,098
Taxation	6	(968)	566
Profit for the year		3,490	5,664
Basic and diluted earnings per ordinary share	8	75.3p	122.3p
Adjusted earnings per ordinary share	8	75.3p	95.1p

All results arise from continuing operations.

Group Statement of Comprehensive Income
for the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Profit for the year		3,490	5,664
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit pension scheme	22	1,698	(1,310)
Deferred tax (charge)/credit on actuarial gain/(loss)	6	(340)	262
Effect of change in corporation tax rate on accumulated actuarial gains		-	228
Other comprehensive income/(expense) for the year		1,358	(820)
Total comprehensive income for the year net of tax		4,848	4,844

Group and Parent Company Balance Sheet
as at 31 March 2015

	Notes	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Assets					
Non-current assets					
Goodwill	9	5,381	5,381	-	-
Property, plant and equipment	10	96,131	94,081	-	-
Retirement benefit surplus	22	7,866	5,554	-	-
Investments	11	2	2	32,365	32,365
		109,380	105,018	32,365	32,365
Current assets					
Inventories – raw materials and consumables		341	355	-	-
Trade receivables	12	3,461	3,283	-	-
Other receivables	13	1,953	1,718	3,725	3,725
Cash and cash equivalents	14	8,737	8,226	-	-
		14,492	13,582	3,725	3,725
Total assets		123,872	118,600	36,090	36,090
Liabilities					
Current liabilities					
Interest-bearing loans and borrowings	15	7,391	7,639	1,391	1,424
Trade and other payables	16	11,924	11,171	2,556	2,469
Current income tax liabilities		347	397	-	-
		19,662	19,207	3,947	3,893
Non-current liabilities					
Interest-bearing loans and borrowings	15	51,772	50,500	-	-
Deferred income	17	8,980	8,021	-	-
Deferred tax	18	14,071	13,438	-	-
		74,823	71,959	-	-
Total liabilities		94,485	91,166	3,947	3,893
Net assets		29,387	27,434	32,143	32,197
Issued share capital	19	232	232	232	232
Other reserves	26	6,201	6,168	30,574	30,541
Retained earnings		22,954	21,034	1,337	1,424
Total equity		29,387	27,434	32,143	32,197

Approved by the Board of Directors on 10 June 2015 and signed on its behalf by:

JH Schofield

Jon Schofield
Chairman

Ian J A Plenderleith
Chief Executive

Company registered in England and Wales with Company Number 4316684

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 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	15	-	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 1 April 2014		232	30,541	(32,316)	7,943	21,034	27,434
Profit		-	-	-	-	3,490	3,490
Actuarial gain (net of deferred tax) on defined benefit pension scheme		-	-	-	-	1,358	1,358
Total comprehensive income for the year		-	-	-	-	**4,848**	**4,848**
Repayment of B shares	15	-	33	-	-	(33)	-
Dividends	20	-	-	-	-	(2,895)	(2,895)
Total contributions by, and distributions to, owners of the Company		-	**33**	-	-	**(2,928)**	**(2,895)**
Balance at 31 March 2015		**232**	**30,574**	**(32,316)**	**7,943**	**22,954**	**29,387**

Company Statement of Changes in Equity

	Notes	Share capital £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2013		232	30,422	1,601	32,255
Profit		-	-	2,869	2,869
Total comprehensive income for the year		-	-	**2,869**	**2,869**
Repayment of B shares	15	-	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 1 April 2014		232	30,541	1,424	32,197
Profit		-	-	2,841	2,841
Total comprehensive income for the year		-	-	**2,841**	**2,841**
Repayment of B shares	15	-	33	(33)	-
Dividends	20	-	-	(2,895)	(2,895)
Total contributions by, and distributions to, owners of the Company		-	**33**	**(2,928)**	**(2,895)**
Balance at 31 March 2015		**232**	**30,574**	**1,337**	**32,143**

Group and Parent Company Cash Flow Statement
as at 31 March 2015

	Notes	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Cash flows from operating activities					
Profit before tax		4,458	5,098	-	-
Adjustments for:					
Depreciation	10	4,505	4,534	-	-
Loss on disposal of assets	3	154	169	-	-
Net finance costs	5	2,995	3,468	-	-
		12,112	13,269	-	-
Decrease/(increase) in inventories		14	(146)	-	-
Increase in trade and other receivables		(413)	(1,337)	-	-
Increase in trade and other payables		1,675	906	87	177
Increase in retirement benefit surplus		(354)	(471)	-	-
Cash generated from operating activities		13,034	12,221	87	177
Interest paid	5	(1,992)	(1,969)	(54)	(58)
Tax paid		(726)	(661)	-	-
Net cash from operating activities		10,316	9,591	33	119
Cash flows from investing activities					
Purchase of property, plant and equipment		(6,725)	(6,687)	-	-
Proceeds from sale of plant and equipment		54	34	-	-
Equity dividends received		-	-	2,895	2,927
Interest received	5	9	8	-	-
Net cash (used in)/generated from investing activities		(6,662)	(6,645)	2,895	2,927
Cash flows from financing activities					
Repayment of B shares	15	(33)	(119)	(33)	(119)
Equity dividends paid	20	(2,895)	(2,927)	(2,895)	(2,927)
Net cash used in financing activities		(2,928)	(3,046)	(2,928)	(3,046)
Net increase/(decrease) in cash and cash equivalents		726	(100)	-	-
Cash and cash equivalents at beginning of year	14	8,011	8,111	-	-
Cash and cash equivalents at end of year	14	8,737	8,011	-	-

Notes to the Financial Statements
for the year ended 31 March 2015

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 have, unless otherwise stated, been applied consistently to all years presented in these Financial Statements.

In the current financial year, no new accounting policies which have been adopted have had a material impact on the financial statements.

At the date of approval of these financial statements, the following Standards and interpretations were in issue but not yet effective:

IFRS 9 "Financial Instruments" is likely to affect the measurement and disclosure of financial instruments. This standard will be applied in the financial statements with effect from 1 April 2018 subject to adoption by the EU. The impact of the changes arising from the standard have not yet been quantified.

IFRS 15 "Revenue from contracts with customers" will affect the measurement and recognition of revenue with effect from 1 April 2018 subject to adoption by the EU. The impact of the changes arising from the standard have not yet been quantified.

Going Concern

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

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

The Directors therefore 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.

Notes to the Financial Statements continued

for the year ended 31 March 2015

Carrying Value of Long-Life Assets

The carrying value of property, plant and equipment (PPE) at 31 March 2015 was £96.1 million. Additions to PPE during the year totalled £6.8 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. An impairment review requires subjective judgements concerning cash flows and discount rates for the cash generating unit under review. The Directors do not consider there to be a significant risk of material adjustment within the next twelve months.

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 2015, the Group's gross trade receivables were £5.8 million and the provision for impairment amounted to £2.4 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 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 2014) 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 prior 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 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.

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.

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.

Notes to the Financial Statements continued

for the year ended 31 March 2015

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 aqueducts Water mains	150 – 300 years 50 – 70 years 50 – 60 years
Mobile plant, vehicles and equipment	Equipment Water meters Mobile plant and vehicles Software	7 – 20 years 15 years 5 – 7 years 3 years

Inventories

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

Trade and Other Receivables

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

Trade and Other Payables

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

Non-Current Liabilities: Index-Linked Loan

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

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.

Notes to the Financial Statements continued

for the year ended 31 March 2015

2 Other Operating Income

	2015 £000	2014 £000
Billing commission	2,222	1,991
Deferred contributions released	181	165
Other	56	31
	2,459	2,187

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)

	2015 £000	2014 £000
Raw materials and consumables used	765	714
Employee benefits expense	5,057	5,110
Other operating expenses	9,278	8,307
Depreciation	4,505	4,534
Pension scheme curtailment gain	-	(1,257)
	19,605	17,408

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

	2015 £000	2014 £000
Auditor's remuneration:		
Audit of the Company's annual accounts and consolidation	23	16
Audit of the Company's subsidiaries	34	34
Total audit services	57	50
Other services pursuant to legislation	48	13
Tax services	-	-
Pension services	-	-
Other services	9	17
Total non-audit services	57	30
Total Auditor's remuneration	114	80
Hire of property, plant and equipment	340	246
Loss on disposal of assets	154	169

4 Employee Benefits Expense

	2015 £000	2014 £000
Wages and salaries	5,591	5,575
Social security costs	547	519
Pension costs – defined benefit scheme (note 22)	405	582
Pension costs – defined contribution schemes (note 22)	194	88
Other post-retirement benefits	1	2
	6,738	6,766
Less employee costs of own work capitalised (note 10)	(1,681)	(1,656)
	5,057	5,110
Key management remuneration	491	392

The amounts above include remuneration in respect of Directors. Full disclosure of Directors' remuneration is included in the Remuneration Committee report on page 55.

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

	2015 No.	2014 No.
Water operations	43	43
Water administration	75	77
Services division	49	48
	167	168

During the year the Company had no employees (2014: None).

5 Finance Income and Finance Expenses

	2015 £000	2014 £000
Finance income:		
Demand deposits	9	8
Net expected return on pension scheme assets (note 22)	260	27
	269	35
Finance expenses:		
Loan interest	1,938	1,911
Loan indexation	1,272	1,534
Fixed dividend on B shares	54	58
	3,264	3,503

Notes to the Financial Statements continued

for the year ended 31 March 2015

6 Taxation

	2015 £000	2014 £000
(a) Analysis of charge/(credit) in the year		
Current year tax		
Current tax expense – continuing operations	716	671
Adjustment in respect of prior years	(41)	-
Current tax charge	675	671
Deferred tax		
Accelerated capital allowances:		
Current year	130	85
Prior years	40	(1,747)
	170	(1,662)
Retirement benefits:		
Current year	123	351
Prior years	-	74
	123	425
Deferred tax charge/(credit)	293	(1,237)
Total tax charge/(credit)	968	(566)
(b) Recognised in the Statement of Comprehensive Income		
Deferred tax attributable to the actuarial gain/(loss) on defined benefit pension scheme	340	(490)
(c) Reconciliation of effective tax rate		
Profit before tax	4,458	5,098
Profit before tax multiplied by the standard rate of corporation tax of 21% (2014: 23%)	936	1,173
Expenditure not deductible for tax purposes	9	192
Adjustment for prior years:		
Current tax	(41)	-
Deferred tax	40	77
	(1)	77
Effect of substantive enactment of change in rate of corporation tax	-	(1,753)
Other tax adjustments	24	(255)
Total tax charge/(credit)	968	(566)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was announced in the March 2013 Budget and substantively enacted on 2 July 2013. The full impact of this change has been reflected in the tax charges for the years ended 31 March 2014 and 31 March 2015. The deferred tax liability at 31 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date (2014: 20%).

The Company's wholly-owned subsidiary, Energy Supplies UK Ltd (ESUK), had unutilised tax losses of £1,788,000 at 31 March 2015 (2014: £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 £2,841,000 (2014: £2,869,000).

8 Earnings per Ordinary Share

Basic and diluted earnings per ordinary share (EPS) have been calculated on the basis of the weighted average number of ordinary shares in issue during the year of 4,632,170 (2014: 4,632,170).

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

	2015 £000	2014 £000
Continuing operations	3,490	5,664
Adjusted earnings (excluding pension scheme curtailment gain)	3,490	4,407

9 Goodwill

	2015 £000	2014 £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.

Two valuation methods were considered in calculating the value in use. Firstly, a market valuation based on market capitalisation plus net debt (Enterprise Value). Secondly, consideration was given to the Regulated Capital Value, including the premiums to this noted on recent transactions in the sector. The Directors consider the carrying amount of goodwill to be recoverable based on these value in use assessments.

Notes to the Financial Statements continued

for the year ended 31 March 2015

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 2013	61,536	58,205	16,592	136,333
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 1 April 2014	**64,613**	**59,811**	**17,291**	**141,715**
Additions:				
Purchased goods and services	3,022	858	1,202	5,082
Employee costs of own work capitalised	324	1,357	-	1,681
Disposals	-	(178)	(177)	(355)
At 31 March 2015	**67,959**	**61,848**	**18,316**	**148,123**
Depreciation				
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 1 April 2014	**21,009**	**14,961**	**11,664**	**47,634**
Charge for the year	1,961	1,519	1,025	4,505
Disposals	-	-	(147)	(147)
At 31 March 2015	**22,970**	**16,480**	**12,542**	**51,992**
Net book value				
At 31 March 2015	**44,989**	**45,368**	**5,774**	**96,131**
At 1 April 2014	43,604	44,850	5,627	94,081
At 1 April 2013	42,631	44,775	5,351	92,757

As at 31 March 2015, the gross carrying value of property, plant and equipment that was fully depreciated was £15,713,000 (2014: £14,688,000).

Included within purchased good and services above are capitalised borrowing costs of £Nil (2014: £Nil) related to the Group's construction investment programme.

The Company has no property, plant and equipment (2014: £Nil). The Company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2015 or 31 March 2014.

11 Investments

	Group Other investments (unlisted) £000	Company Shares in subsidiary undertakings £000
Cost at 31 March 2015	**2**	**32,365**
Cost at 31 March 2014	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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Trade receivables	5,812	4,924	-	-
Impairment provision (note 25)	(2,351)	(1,641)	-	-
	3,461	**3,283**	**-**	**-**

Notes to the Financial Statements continued

for the year ended 31 March 2015

13 Other Receivables

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Amounts owed by Group undertakings	-	-	3,725	3,725
Other receivables	200	138	-	-
Prepayments and accrued income	1,753	1,580	-	-
	1,953	1,718	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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Demand deposits	8,609	8,126	-	-
Cash at bank and in hand	128	100	-	-
	8,737	8,226	-	-

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

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Cash at bank and in hand	128	100	-	-
Demand deposits	8,609	8,126	-	-
Overdrafts	-	(215)	-	-
	8,737	8,011	-	-

15 Interest-bearing Loans and Borrowings

Current	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
B shares	1,391	1,424	1,391	1,424
Short term loans	6,000	6,000	-	-
Overdrafts	-	215	-	-
	7,391	7,639	1,391	1,424

During the year, the Company redeemed 14,179 (2014: 51,933) B shares, representing 0.10% (2014: 0.37%) of the original issued capital. The nominal value and consideration amounted to £32,612 (2014: £119,446).

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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
3.5% Irredeemable Consolidated Debenture Stock		99	99	-	-
3.635% Secured Index-Linked Loan:					
Principal	2032	35,000	35,000	-	-
Indexation	2032	16,673	15,401	-	-
		51,772	50,500	-	-

Notes to the Financial Statements continued

for the year ended 31 March 2015

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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Amounts owed to Group undertakings	-	-	2,556	2,469
Trade payables	10,182	9,811	-	-
Other taxes and social security	176	154	-	-
Other payables	71	44	-	-
Deferred income – third party contributions	204	181	-	-
Accruals	1,291	981	-	-
	11,924	11,171	2,556	2,469

17 Deferred Income

Third party contributions	Group 2015 £000	Group 2014 £000
Current	204	181
Non-current	8,980	8,021
	9,184	8,202

18 Deferred Tax

	Group £000
Balance at 1 April 2014	13,438
Deferred tax movement for the year	633
Balance at 31 March 2015	14,071

Deferred tax liabilities are calculated at a rate of 20% (2014: 20%) and are attributable to the following:

	At 1 April 2014 £000	Recognised in income statement £000	Recognised in statement of comprehensive income £000	At 31 March 2015 £000
Accelerated capital allowances	12,328	170	-	12,498
Pension asset	1,110	123	340	1,573
	13,438	293	340	14,071

	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

19 Share Capital

	Voting Ordinary Shares		Non-Voting Ordinary Shares	
Share Capital in Equity	2015 £000	2014 £000	2015 £000	2014 £000
At 31 March	207	207	25	25

	Issued and fully paid	
	2015	2014
Number of voting 5p ordinary shares	4,138,902	4,138,902
Nominal value of voting 5p ordinary shares	£206,945	£206,945
Number of non-voting 5p ordinary shares	493,268	493,268
Nominal value of non-voting 5p ordinary shares	£24,663	£24,663
Number of £1 deferred shares	1	1
Nominal value of £1 deferred shares	£1	£1
Number of £1 redeemable preference shares	-	-
Nominal value of £1 redeemable preference shares	-	-

Notes to the Financial Statements continued

for the year ended 31 March 2015

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	
	2015	2014	2015	2014
Number of B shares	13,897,717	13,897,717	604,758	618,937
Nominal value of B shares	£31,964,749	£31,964,749	£1,390,947	£1,423,559

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 year:

	2015 Pence per share	2015 £000	2014 Pence per share	2014 £000
Ordinary shares				
Previous year final dividend	42.0	1,739	42.7	1,767
Current year interim dividend	20.5	848	20.5	848
Non-voting ordinary shares				
Previous year final dividend	42.0	207	42.7	211
Current year interim dividend	20.5	101	20.5	101
		2,895		2,927

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

	2015 Pence per share	2015 £000	2014 Pence per share	2014 £000
Ordinary shares				
Current year interim dividend – paid	20.5	848	20.5	848
Current year final dividend – proposed	42.0	1,739	42.0	1,738
Non-voting ordinary shares				
Current year interim dividend – paid	20.5	101	20.5	101
Current year final dividend – proposed	42.0	207	42.0	207
		2,895		2,894

The final dividend for the year ended 31 March 2015 of £1,946,000 (equivalent to 42.0 pence per share) will be proposed for approval at the Annual General Meeting on 23 July 2015 and has not been provided for as a liability at 31 March 2015.

Notes to the Financial Statements continued

for the year ended 31 March 2015

21 Contractual Obligations

	2015 £000	2014 £000
Capital expenditure contracted but not included in the financial statements	1,564	3,060

22 Pension Schemes

The Group offers stakeholder pension schemes. For the year ended 31 March 2015 employer contributions to such schemes amounted to £194,000 (2014: £88,000).

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 latest formal actuarial valuation was carried out as at 31 March 2014 and is in the process of being finalised. Over the year to 31 March 2015, employer contributions of £884,000 (2014: £1,053,000) 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 2016 is £900,000.

The results of the formal actuarial valuation as at 31 March 2014 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19 (as revised in June 2011).

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:

	2015 £000	2014 £000	2013 £000
Fair value of Section assets	61,241	52,585	52,856
Present value of defined benefit obligation	(53,375)	(47,031)	(47,747)
Net asset recognised in the balance sheet	7,866	5,554	5,109

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:

	2015 £000	2014 £000
Employer's part of current service cost	405	582
Section expenses	125	218
Past service gain	-	(1,257)
Net interest credit	(260)	(245)
Total profit and loss charge/(credit)	270	(702)

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

	2015 £000	2014 £000
Net actuarial (gains)/losses in the year due to:		
- Changes in financial assumptions	6,060	-
- Changes in demographic assumptions	(268)	(89)
- Experience adjustments on benefit obligations	403	(158)
Actuarial (gain)/loss on assets relative to interest on assets	(7,893)	1,557
(Gain)/loss to recognise in other comprehensive income	(1,698)	1,310

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

	2015 £000	2014 £000
Opening defined benefit obligation	47,031	47,747
Employer's part of current service cost	405	582
Past service gain	-	(1,257)
Interest cost	1,972	2,012
Contributions from scheme members	117	117
Actuarial loss/(gain)	6,195	(247)
Benefits paid	(2,345)	(1,923)
Closing defined benefit obligation	53,375	47,031

Notes to the Financial Statements continued

for the year ended 31 March 2015

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

	2015 £000	2014 £000
Opening fair value of Section assets	52,585	52,856
Expected return on Section assets	2,232	2,257
Actuarial gain/(loss)	7,893	(1,557)
Contributions by the employer	884	1,053
Contributions by Section members	117	117
Benefits paid	(2,345)	(1,923)
Expenses	(125)	(218)
Closing fair value of Section assets	**61,241**	**52,585**

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

	2015	2014
Equity instruments	28%	29%
Diversified growth funds	9%	9%
Debt instruments	54%	52%
Emerging markets multi-asset funds	4%	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.

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

Assumptions (per annum)	2015 £000	2014 £000	2013 £000
Retail Prices Index inflation	3.20%	3.60%	3.60%
Consumer Prices Index inflation	2.20%	2.60%	2.60%
Discount rate	3.20%	4.30%	4.30%
Pension increases in payment			
• uncapped	2.20%	2.60%	2.60%
• capped at 5% per annum	2.20%	2.60%	2.60%
General salary increases			
- uncapped	-	-	3.60%
- capped at 2% per annum	1.8%	1.9%	-
Life expectancy of a male aged 60 at the balance sheet date	27.7 years	27.4 years	27.4 years
Life expectancy of a female aged 60 at the balance sheet date	29.6 years	29.7 years	29.7 years
Life expectancy of a male aged 60, twenty five years after the balance sheet date	30.6 years	29.9 years	30.0 years
Life expectancy of a female aged 60, twenty five years after the balance sheet date	32.1 years	31.8 years	31.8 years

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

The following table illustrates the sensitivities of the defined benefit obligation to some of the significant assumptions as at 31 March 2015.

Key financial assumptions	Assumption adopted	Sensitivity	Indicative change in liabilities %	£m
Discount rate	3.2% p.a.	+/-0.5%	-8%/+9%	-4.0/+4.6
Pension increases and deferred revaluation	2.2% p.a.	+/-0.5%	+7%/-6%	+3.8/-3.3
Life expectancy:				
Current male pensioner aged 60 in 2014	27.7 years			
Current female pensioner aged 60 in 2014	29.6 years			
Future male pensioner aged 60 in 2038	30.6 years			
Future female pensioner aged 60 in 2038	32.1 years			
Sensitivity		+1 year	3%	1.6

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

Notes to the Financial Statements continued

for the year ended 31 March 2015

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	(1,391)	-	(1,391)	-	3.8	-
Irredeemable consolidated debenture stock	(99)	-	(99)	-	3.5	-
Index-linked loan to 2032 (note 15)	(51,673)	-	-	(51,673)	3.635[1]	17 yrs
Short term loan	(6,000)	-	(6,000)	-	1.212	-
Cash at bank	128	128	-	-	-	-
Demand deposits	8,609	-	8,609	-	0.25	-
Net debt at 31 March 2015	(50,426)	128	1,119	(51,673)		

[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 2015, 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 were committed until 2016. Post year-end, these facilities were re-financed and the Group entered into a new five-year revolving credit facility of £30.0 million. For further details, see Note 1 to the Financial Statements (page 71).

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 50 to 55. During the year, the Company received dividends of £2,895,000 (2014: £2,927,000) 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 £79.1 million (2014: £67.3 million) compared to a book value of £51.7 million (2014: £50.4 million).

Credit Risk

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

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

The ageing of trade receivables at the reporting date was:

	2015 Gross £000	2015 Impairment £000	2015 Net £000	2014 Gross £000	2014 Impairment £000	2014 Net £000
Up to 1 year	3,438	(251)	3,187	2,906	(2)	2,904
Up to 2 years	553	(279)	274	479	(264)	215
Up to 3 years	187	(187)	-	220	(102)	118
Over 3 years	182	(182)	-	153	(107)	46
Total amounts past due not individually impaired, with non-specific provision allowances	4,360	(899)	3,461	3,758	(475)	3,283
Total amounts past due and individually impaired, with specific provision allowances	1,452	(1,452)	-	1,166	(1,166)	-
Trade receivables (note 12)	5,812	(2,351)	3,461	4,924	(1,641)	3,283

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 2013	1,482
Provided during the year	444
Written off during the year	(285)
At 1 April 2014	1,641
Provided during the year	966
Written off during the year	(256)
At 31 March 2015	2,351

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

for the year ended 31 March 2015

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 2015 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 were committed until 2016. Post year-end, these facilities were re-financed and the Group entered into a new five-year revolving credit facility of £30.0 million. For further details, see Note 1 to the Financial Statements (page 71).

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

As at 31 March 2015	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	51,673	(114,760)	(937)	(959)	(1,987)	(6,264)	(104,613)
Short term loans	6,000	(6,007)	(6,007)	-	-	-	-
B shares	1,391	(1,391)	(1,391)	-	-	-	-
Irredeemable debenture stock	99	(100)	(2)	(2)	(4)	(12)	(80)
Trade and other payables	11,924	(11,924)	(11,924)	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-
	71,087	(134,182)	(20,261)	(961)	(1,991)	(6,276)	(104,693)

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)

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:

	2015 £000	2014 £000
Fixed rate instruments		
Financial assets	8,609	8,126
Financial liabilities	(7,490)	(7,523)
	1,119	603
Variable rate instruments		
Financial liabilities	(51,673)	(50,401)

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 2015	(484)	525
31 March 2014	(520)	491

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 2015 was £71.2 million (2014: £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 102 and 103 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 2015 amounted to 3,062 shares (0.07% 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 23 July 2015 at the Ramada Wrexham, Ellice Way, Wrexham, LL13 7YH at 10.30 a.m. The business of the meeting will be:

Ordinary Business

To receive the Directors' Report and audited Financial Statements for the Company for the year ended 31 March 2015 together with the Independent Auditor's report thereon.

1. To receive the Directors' Report and audited Financial Statements for the Company for the year ended 31 March 2015 together with the Independent Auditor's report thereon.
2. To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy on pages 50 to 53 of the Directors' Remuneration Report), for the year ended 31 March 2015.
3. To declare a final dividend of 42.0 pence per share on the Ordinary Shares and Non-Voting Ordinary Shares.
4. To re-elect Jon Schofield who, being required to retire by rotation, offers himself for re-election.
5. To re-elect as a Director Ian Plenderleith, who has been appointed since the last Annual General Meeting.
6. To re-elect as a Director Kevin Starling, who has been appointed since the last Annual General Meeting.
7. 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

8. 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 2016, 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 24 July 2014.

9. 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 8 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 2016 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.

10. 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:

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

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

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

10.3.1 5 pence per Ordinary Share; and

10.3.2 5 pence per Non-Voting Ordinary Share;

10.4 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);

10.5 the authority hereby conferred shall expire on 31 July 2016 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2016 unless previously renewed, varied or revoked by the Company in general meeting; and

10.6 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
Secretary
10 June 2015

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 21 July 2015, (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 15 June 2015 (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 15 June 2015 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;

    (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 2015, 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 1
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 2015. Shareholders will note that the format of the Directors' Remuneration Report has been amended following the changes which the Government brought into force in 2013, including the adoption of a remuneration policy section and an implementation section within the report. The Directors' Remuneration Policy, which is set out on pages 50 to 53 of the Report, is subject to a binding vote by shareholders at least every three years. The policy was approved at the last Annual General Meeting in 2014, and therefore remains valid until the 2017 Annual General Meeting (subject to any changes being proposed prior to that date, or to the advisory vote on the annual implementation report on Directors' remuneration not being passed). No changes are proposed to be made to the policy this year, and it has only been included in the 2015 Report for ease of reference.

Resolution 3
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 3 July 2015. Subject to approval by the Ordinary shareholders at the Annual General Meeting, the final dividend will be paid on 3 August 2015. An interim dividend of 20.5 pence per Ordinary Share and Non-Voting Share was paid on 5 January 2015. This gives a total dividend of 62.5 pence per Ordinary Share and Non-Voting Share for the year ended 31 March 2015.

Resolutions 4, 5 and 6
Re-election of Directors

David Weir is proposing to retire as a Director immediately after the AGM and he is not offering himself for re-election. Jon Schofield is the other Director retiring by rotation this year and he offers himself for re-election.

Ian Plenderleith and Kevin Starling were appointed since the last Annual General Meeting, and offer themselves for re-election. One third of the Directors retire each year and all members of the Board of Directors submit themselves for re-election at least every three years. Brief biographical details about the Directors standing for re-election appear on pages 38 and 39 of this Annual Report.

Resolution 7
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 7 proposes the re-appointment of the Company's existing auditor, Deloitte LLP, who were appointed after a competitive tendering process completed in 2013. In accordance with standard practice, this Resolution also authorises the Directors to determine the remuneration of the Company's auditor.

Special Business

Resolution 8
Authority to issue shares

The purpose of resolution 8 is to renew the Directors' power to allot shares.

Paragraph (a) of resolution 8 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 £77,203. This amounts represents approximately one third of the issued ordinary share capital of the Company as at 15 June 2015, 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 £154,405, 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 15 June 2015, the latest practicable date prior to publication of this Notice.

The authorities sought under paragraphs (a) and (b) of resolution 8 will expire at the conclusion of the Annual General Meeting of the Company held in 2016.

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 9
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 10
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 2016 or on 31 July 2016, 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.