Annual Report & Financial Statements

For the year ended 31 March 2016

Dee Valley Group

Your local water company

Overview

Dee Valley Group at a Glance

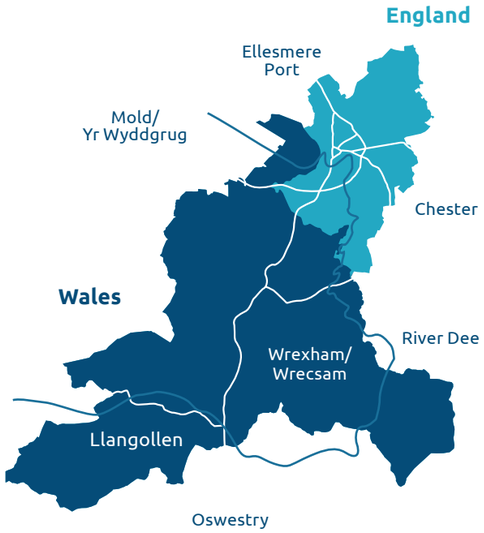
Dee Valley Group plc, through its trading subsidiary Dee Valley Water plc, supplies drinking water to 266,000 domestic and business customers in north-east Wales and in north-west Cheshire.

Our objective is to provide a reliable supply of wholesome 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.

- Fourth lowest water charges in England and Wales
- We supply 62 million litres of water a day
- 80% of supplies are drawn from the River Dee
- No customer is more than 40 minutes away from our head office
- We are the smallest independent water company in England and Wales
- Water quality continued to improve with a 27% reduction in customer contacts
- Most satisfied customers (87%) of all the water companies for value for money
- 92% of domestic customers who interacted with us were satisfied with our service
- 13% reduction in written complaints
- Leakage 9.71 (unaudited) million litres (Ml/d) of water a day (15.5%). We continue to have one of the lowest levels in the industry
- 290km of mains cleaned - one seventh of the network
- 98% of customer calls answered within 30 seconds

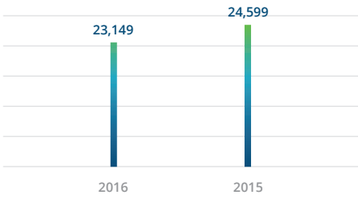


92%
domestic customers satisfied with our service

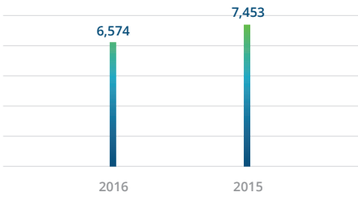
87%
most satisfied customers of all the water companies for value for money

Financial Highlights

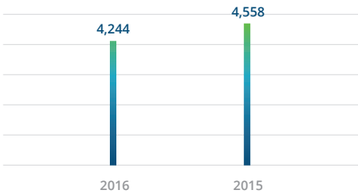
Revenue (£000)



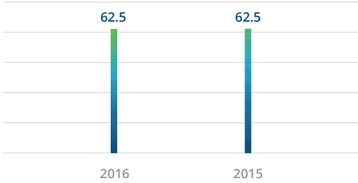
Profit from operations (£000)



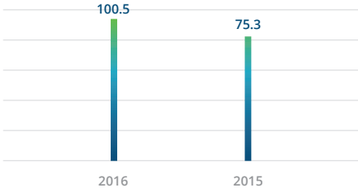
Profit before tax (£000)



Total dividend (pence per ordinary share)



Adjusted earnings per share (pence per ordinary share)



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Chairman's Statement

I am pleased to report that the Group made significant progress in the first year of our new five-year business plan (2015-2020) and we can look forward with confidence to achieving our customer performance commitments.

We have made significant commercial changes to the Company which have increased our operational performance and sharpened our focus on providing an even better service for our customers.

290km
we cleaned one seventh of our network

Financial performance

Our financial performance continues to be satisfactory with revenue of £23.1 million (2015: £24.6 million) and profit from operations of £6.6 million (2015: £7.5 million).

In common with most water companies, our financial performance was impacted by the PR14 final determination, which imposed a reduction in prices and therefore contributed to the downturn in revenue in the current year. However, this was mitigated by an improvement in operating expenses and financing costs.

Following the agreement of a five-year, £30 million revolving credit facility early in the year, the Group is well placed to deliver the investment plan agreed with Ofwat for the period to 2020. The facility provides cost effective funding to support the delivery of the largest capital investment plan in the Group's history.

Strong progress has been made against the Group's operational key performance indicators this year and this, alongside the financial certainty provided by the agreement of financing at favourable interest rates, ensures that the Group can progress confidently into the second year of AMP6.

We proposed a final dividend of 42.0p per share on 9 June, which is in accordance with our AMP6 divided policy published in May 2015.

Customer care

Customer service and care for our most vulnerable customers is of paramount importance for everyone at Dee Valley Water. This has been a key area of focus and I am proud to see the continuous improvement in our performance.

Customer satisfaction surveys show our approval ratings continue to go up – our own independent surveys say 92% of the domestic customers who interacted with us are satisfied with the service they received.

An independent survey for the Consumer Council for Water (CCWater) has confirmed that Dee Valley Water has the most satisfied customers (87%) of all the water companies in England and Wales when it comes to value for money.

In addition to high-quality customer service, we recognise that our customers also want low bills and a wide range of payment options. While we have the fourth lowest water bills in England and Wales, the difficulties faced by our many vulnerable customers is a key concern. From 1 April 2016 we launched our own social tariff for those with low household incomes. Eligible customers can get 30% off their bill. To supplement this and provide a local and personal service, we continue to offer flexible payment plans and our customer liaison team visit vulnerable elderly customers to give advice and help them to pay their bills.

Improved performance

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

A good example of this is the work of our network teams who successfully cleaned 290km (one seventh of our network) in a priority effort to eliminate incidents of discoloured water caused by naturally occurring manganese – which is harmless to health. Our customers experienced an immediate benefit. As a result of this programme of work our water quality, mains replacement programme and burst mains record, have all improved.

We have continued with our strong environmental performance, and once again, we expect to have one of the lowest levels of leakage in the industry. Preliminary figures indicate that our leakage for 2015-2016 was 78.6 litres per property – well below Ofwat's target of 90.8 litres per property.

Culture change

This continued improvement in performance would not have been possible without the efforts of our people and teams. During the year the company has undergone a major cultural change. It culminated in us adopting a new vision and values to underpin and support our greater focus on placing the customer at the heart of the business.

Our new vision and values were introduced after extensive consultation and involvement with our people, who gave significant input. They have welcomed the clearer focus and greater commitment to our customers.

Future progress

Our Board continues to focus on driving change, innovation and greater efficiency within the company. Customer service and totex outperformance remain a key focus to ensure we can deliver effectively and efficiently for our customers and other stakeholders. We are well placed to achieve this with a Board membership which has worked at the highest level within the water industry.

While the Board is pleased with the progress we have made and continue to make at the start of this new five-year business plan period, we are not complacent. There is still much to do if we are to achieve our vision to be the leading water service provider, with our local customers at heart.

This is how we will ensure we are delivering for all of our customers, our people, shareholders and the wider community.

Jon Schofield
Chairman

Chief Executive's Statement

I have completed my first full year in Dee Valley Water and it has been a pleasure to work alongside our people and external stakeholders to bring significant improvements in service and operating performance for our customers.

We achieved a positive performance in the past year and can look forward to the next four years, and beyond, secure in the knowledge that we are laying strong foundations for long-term success.

When I started in Dee Valley Water in August 2014 it was clear we had high-quality people with extensive local knowledge. It was also clear that this local knowledge should be used to drive improvements in customer service and operating performance.

This coincided with the change in regulatory focus by Ofwat from capital expenditure (capex) based solutions to total expenditure (totex) and customer outcomes, which gave smaller companies such as ours the opportunity to be more flexible and agile in our means of delivering performance improvements. To fully take advantage of this regulatory shift we needed to create a culture that is forward looking with local customers at its heart. Achieving this would position us to deliver long-term value for our shareholders and external stakeholders.

The changes we have made during the past twelve months have laid the foundations. We have harnessed the knowledge and skills of our people and teams to develop a shared companywide vision. We have simplified and modernised our working practices to ensure our managers can easily access the best operational and customer information; we have made structural changes to ensure we are organised in a way that delivers a great service on behalf of our customers.

Everyone at Dee Valley Water now understands fully – and is completely aligned with – our vision to be the leading water service provider with our local customers at heart. (See Vision and Values on pages 12 and 13).

> We're confident we'll outperform targets set by Ofwat and our Customer Challenge Group.

Our performance

Our performance during the past year has demonstrated that we have the ability to bring about rapid improvements in a short space of time. This includes achieving industry leading results in some areas. However, we are not complacent and there are still areas where we need to continue to improve.

The safe and secure delivery of high-quality, wholesome drinking water is our primary objective. In the previous year our water quality performance was not to the standard we and our customers expect and require. Both our compliance and customer service were below the industry average.

We rectified this by re-organising our teams to enable us to double the length of our annual mains cleaning programme and delivered this in the first quarter of the year. This tremendous effort by our networks teams, combined with improved customer communication, enabled us to achieve significant improvements in both water quality compliance and customer contacts for discolouration, where we improved our performance by more than 40% year on year.

We will continue to make improvements in both these areas, but with the work done this year, and the plans we have in place for the next four years, we are confident we will outperform the regulatory targets set by Ofwat and our Customer Challenge Group.

Our customers expect us to supply high-quality water free from interruptions. We have traditionally delivered excellent service and our performance in 2015-2016 was no different.

A mild winter, combined with the benefits of a re-organised management structure for our below ground assets, has enabled us to respond more quickly to network problems. The year saw a 30% reduction in the number of bursts, a 50% reduction in supply interruptions over three hours, and a stable performance for leakage, a measure where we are consistently one of the industry's leading companies.

When customers have a problem and need to contact us, they expect to receive a level of service comparable with the best they would receive from any organisation. We are committed to improving ours to levels that stand comparison with the best across all industries.

In 2015-2016 we modernised our management structure in customer service and invested in systems that have enabled us to transform our performance. Ofwat's qualitative measure of customer service shows we have improved from eighth to fourth year on year; second for billing and sixth for clean water. On Ofwat's quantitative measure we have seen a 5% reduction in unwanted contacts and a 13% reduction in complaints year on year. These improvements have increased our overall Ofwat SIM (Service Incentive Mechanism) score by 7% from 78 to 83.5 year on year.

It is vital that we deliver these high levels of service at a price that is affordable for customers. Our charges are the fourth lowest in England and Wales and we offer a full range of payment options to help customers manage their bill in a way that is most convenient for them.

From 1 April 2016, we implemented a social tariff scheme to help customers who require further assistance. We are pleased and proud that our customers acknowledged our value for money service, as reported in the Consumer Council for Water's annual survey of customer opinion.

Dee Valley Water's customers were the most satisfied (95%) of all the water companies in England and Wales with the response they received from contact with the company.

Our charges are the fourth lowest in England and Wales.

A year of change and improvement for our people and teams

The past year has seen considerable beneficial change in Dee Valley Water to create a more customer focused, efficient, innovative and resilient company. We are now better placed to face the challenges of a changing business and regulatory landscape.

We have improved our structure, modernised and simplified our working practices and introduced a new vision and company values. This was successful because we fully involved our people and teams.

The Board was pleased and proud that Dee Valley Water was one of the first companies in Wales to become a Living Wage Employer.

I would like to take this opportunity to thank all our people for the way they have risen to the challenge of implementing change through business modernisation and simplification and for the real step change in performance they have delivered throughout the year.

We have created a stronger culture that will enhance our ability to outperform our regulatory targets in the next four years and beyond. Well trained staff who understand the company vision and their role in achieving it, combined with strong local knowledge and close links to our customers, will enable us to deliver the best possible service.

I believe we can look forward to the next four years with confidence. Dee Valley Water is well placed to be successful within Ofwat's changed regulatory environment of totex and customer outcomes. We will continue to work proactively and positively with the Welsh Government and our other regulators and stakeholders to benefit the local area in which we live and work.

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

I look forward to our continuing successes in the year ahead.

Ian Plenderleith

Chief Executive

Our Customer Performance Commitments

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

Customer Experience	Performance	Target	Measurement
Service Incentive Mechanism (SIM)	83.5	80	Score out of 100
Water supply Interruptions	0.087	0.2	Hours lost per property for three hours or longer
Discoloured water contacts	1.32*	2.8	Complaints per 1,000 population
Number of bursts	169	247	Mains bursts
Non-household Service Incentive Mechanism	82.0	80	Score out of 100

*Calendar Year

Reliability and Stability			
Leakage	78.6	90.8	Litres per property per day
Security of supply index	100%	100%	Index score
Per capita consumption and water efficiency	128**	131.44	Litres per person per day
Mean zonal compliance percentage	99.95%***	99.95%	

**Unaudited ***Calendar Year

Our Regulators

Ofwat

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

Responsible for 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

Monitors water resources – including how much water can be drawn from the environment.

Vision and Values

> Our vision is to be the leading water service provider, with our local customers at heart.

The company has undergone a major culture change in the past year which has culminated in it adopting a new vision and values to underpin and support its greater focus on placing the customer at the heart of the business.

The new vision and values were introduced after extensive consultation and involvement with Dee Valley Water people, who gave significant input. They have welcomed the clearer focus and greater commitment to our customers.

Our vision

We will be the leading water service provider, with our local customers at heart.

Having a clear vision helps everyone at Dee Valley Water to understand how the company aspires to perform at the highest level across all of its operations and to provide industry leading customer service.

All of our people have bought into our new vision and understand what is expected of them to help achieve this.

Our values

Our values are set out below. They summarise what we believe really matters and provide a framework for how things should be done. They are our guiding principles and underpin our behaviours. They will help us to achieve our vision.

Our people know they must demonstrate these values in all that they do to ensure Dee Valley Water continues to improve its customer and operational performance and remains a great place to work.

The benefits of having a clear set of values

A well-defined set of values ensures our people know what is required of them and are clear about how they are expected to perform. Everyone understands how each department should perform and what this means in practice.

Practices and procedures are quantifiable and consistent across the company – each employee understands what good looks like and what it means for them. There's a better understanding of where we are and where we want to be. This reinforces everything being done and provides understanding of where improvements are required. This will be linked to reward via a company bonus structure. It can assist with succession planning in identifying the requirements for a role and how staff can develop to advance within the company.

Visual identity

Many of our customers will have noticed that we have changed our branding and visual identity – as shown in this Annual Report and Accounts. Dee Valley Water (and its people), now look like the modern, progressive, responsive company articulated and projected by its new vision and values.

Dee Valley Water
Your local water company

One Team

We work together as 'one team' to achieve our shared goals.

By sharing information, communicating well and helping each other, we can strengthen the customer and employee experience.

Ownership

We hold ourselves accountable for the decisions and actions we take.

We are all jointly responsible for identifying issues and providing reliable solutions.

Passion

We are proud of what we do and bring commitment and enthusiasm to our work.

By caring about what we do, we deliver consistent, high-quality results and inspire those around us.

Trust

We trust each other to act responsibly and deliver on commitments.

We all have the ability to make the right decisions for our organisation and customers.

Respect

We respect each other and the environment within which we work and live.

We understand the importance of treating others as we would like to be treated and recognise the need to care for the environment.

Continuous Improvement

We look to do things better by continually evolving and improving the way we work.

By improving our processes and developing our people, we can be more efficient and provide a better service to our customers.

Strategic Report - Review of the Year
Our Customers

> Polite, friendly, clear communication which was refreshing considering the difficulties one has experienced when phoning other companies.

Our vision for customers

We began this first year of our new five-year business plan period with a thorough review of how we could best achieve our commitment to placing our customers at the heart of our business and how we could meet and exceed Ofwat's increased focus on customer outcomes. The result has been a new vision for the way we should provide customer service.

In this new era of instant communication, multi-channel services and 24hr delivery on promises, customer expectations and demands have changed. They expect so much more from utilities such as Dee Valley Water.

So our focus is much more on a customer led service. Excellence is achieved by speaking to and listening to our local customers; observing what they do, how they are interacting with us and understanding what they want. For example, when making complaints or asking questions about billing.

The key is identifying and understanding where the service we provide or interaction with our customers, is making life difficult for them and leaving them dissatisfied or mistrustful of the overall quality of our performance as a vital utility.

This approach has already provided us with valuable insights into what we need to do to improve our service and enabled us to make significant improvements.

A key aspect of this new vision is to ensure we have an external view of our service. What does the customer experience? What view do they take away of Dee Valley Water? This is how customer attitudes are formed and how they measure our levels of service. Our aim is to get the same customer service scores as John Lewis and Amazon.

For example, we carried out an online survey with 3,000 customers to identify and understand what was driving confusion and complaints about their bill. This has resulted in the bill being re-designed.

How we have improved our customer contact centre

We carried out a full review of what matters to our customers and of our capabilities and response times. What really matters to our customers is being able to talk to us and to get an immediate response. Our billing and accounts team have really responded to the challenge and the customer contact centre has improved service levels dramatically. Lost call rates have plummeted – 98% of customers are answered within 30 seconds.

By continuously reviewing our performance, we have implemented new systems, processes and training for customer facing staff. For example, we have upgraded our telephony systems and put quality monitoring in place internally.

The adoption of our new Vision and Values (see pages 12 and 13) has led to a new approach in how we communicate with customers, whether face to face, by telephone, email or text message. This ensures we always adopt the appropriate 'tone of voice' values that underpin this and stay true to our commitment to place our local customers 'at the heart' of the business.

As a relatively small water only supplier whose customers are no more than 40 minutes away, we are in a rare position for this industry with opportunities to interact and gain feedback from them in person.

A complete review of our written materials and communication techniques has been completed and change is underway to complement our new tone of voice. Our customers don't want their local water company to sound corporate and distant, so an 'accessible and easy to understand' way of communicating has been designed and our people have been trained in how to respond in a friendly, knowledgeable and caring manner.

Excellent customer service. Query handled with precision and care.

How are we performing?

Detailed customer research and extensive feedback mechanisms play a key role in fulfilling our commitment to understanding our customers' needs. Research undertaken by Ofwat – and our own – clearly shows a steady and consistent improvement in our customer satisfaction scores.

Ofwat's annual quality of service survey of the 18 water suppliers in England and Wales last year placed Dee Valley Water in fourth place – we were eighth the year before. Our SIM (Service Incentive Mechanism) score moved up from 78 to 83.5. Ofwat's target for us was 80.

This improvement is very noticeable in our billing and customer accounts team. We are pleased that they have gone from being 10th overall in the last quarter of 2014-15 to finishing second overall at the end of 2015-2016. In the past three quarters of this period we were placed first, second and first.

Our latest independent benchmark survey shows 92% of the domestic customers who interacted with us are satisfied with the service they received. There is a high degree of trust in us as a valued service provider in comparison to the likes of other emergency services.

While these surveys are helpful, real time daily feedback is vital if we are to achieve our vision. In September last year, we launched Rant & Rave in our customer contact centre. This is a feedback engine that sends out a quick and simple text survey after every contact with our customers.

They are asked to rate us between one and five. If any score is below three, one of our people ring the customer immediately to seek to resolve the issue. Rant and Rave has received rave reviews from our people in the customer contact centre and will be rolled out to other areas of the business throughout this year.

Complaints have dropped to **20** per 10,000 customers

Rant and Rave

Percentage breakdown of scores:

Scores All	1	2	3	4	5
6,870	2.92%	1.62%	2.10%	9.00%	83.93%

As Ofwat's quality of service survey shows, there has been pleasing confirmation that we are making good progress from key industry organisations. Another example comes from the Consumer Council for Water (CCWater). Its annual Written Customer Complaints report says written complaints from Dee Valley Water customers to CCWater have fallen by 27% in the past year.

This is the fourth year in succession that complaints to the company have fallen. Complaints have dropped by 64.9% since 2010-11 to 20 per 10,000 customers.

Another domestic report from CCWater says Dee Valley Water has the most satisfied customer (87%) of all the water companies in England and Wales when it comes to value for money.

Our customers were also the most satisfied (95%) with the response they receive from contact with the company.

Vulnerable customers

While we have the fourth lowest water bills in England and Wales, the difficulties faced by our many vulnerable customers is a key concern. An indicator of this is that on 1 April 2016 we launched our own social tariff for those with low household incomes. We consulted with our customers – using surveys and focus groups – before launching the tariff. Eligible customers can get up to 30% off their bill.

We continue to offer a very wide range of flexible payment plans and our customer liaison team visit vulnerable elderly customers to collect their bills.

Gaining a better understanding of the needs of our customers is vital and we are working with consultants to improve our local knowledge to ensure we can effectively target customers in vulnerable circumstances to offer tailored solutions to their needs.

How we are driving further change and improvement

While customers expect excellent service when they contact the company, they also require their water supply to be reliable and of equal high-quality. Our customer services teams have a strong focus on working collaboratively with the operational teams and this has helped produce great results (See Operational Performance, pages 22-27).

Customers do not want or expect a complicated service. While our operational performance in terms of supplying high-quality water is good and – in some key aspects – at the highest level, there have been clear opportunities where we can improve our interaction with customers.

We encourage customers to tell us as soon as possible when things go wrong. Through listening to them and understanding complaints, we have been able to respond swiftly to customers and make improvements to our networks and water quality.

An example of this 'customer power' is that following complaints, we moved a problem main from low down in the asset management plan to top of the list. We also held a meeting with the Parish Council in the affected area to tell them our plans.

Our independent Customer Challenge Group – which monitors our performance – will continue to be fully engaged to represent our customers and express their views, and to challenge us to deliver value for money. It will be closely involved in all of our research and customer engagement planning.

> All of the staff I have ever spoken to at Dee Valley Water have always been very polite and really go out of their way to help the best way they can.

Continuous improvement

We will continue to fulfil our vision of placing customers at the heart of our business by maintaining these higher levels of customer service while continuing to make improvements by more analytical reporting and continuous reviews – including benchmarking with our peers.

From analysing customer feedback we know they wanted improvements to our website and more online self-service capability. We have been aware of this for some time – not least because it will help to make some of our operations more efficient.

Our new, much improved, website has now been launched. Feedback before the launch from our Customer Challenge Group and our people – who were fully engaged in the consultation – has been positive.

Apart from many other key features, the new website is a vital communication channel for all planned and unplanned works. It offers up to the minute information – whether it's about an interruption to our water supply, installing a new water main or repairing a burst pipe.

Responding to and informing our customers as early as possible when we have an incident which may affect their water supply is critical. We were one of the first companies to pioneer text messaging to customers and have continued to make improvements to the system. It is now more targeted to alert only those impacted.

Unnecessary customer contact almost halved during the second part of the year following this improvement.

Web chat will be introduced soon for those who prefer this alternative to making a telephone call. Our website is mobile friendly for those on the move. We will continue to explore how social channels can serve our customers for the future – but they have told us it is not high on their list of priorities.

Many customers have told us they prefer to talk to a real person and not all of them have access to digital channels. So we will continue to offer a full range of services to customers. For example, we have just been awarded certification for 'Keep me posted', a recognition that we are happy to work with customers in any medium of their choice – including paper.

98%
of customer calls are answered within 30 seconds

Water Quality

Our water quality continues to be of an excellent standard with 99.95% of the 29,000 regulatory tests meeting the required standards. We are also pleased to have recorded significant improvements in the level of quality related contacts from our customers with better performance on both taste and appearance (695 contacts in 2015 compared to 957 in 2014).

How we met Ofwat's Outcome Delivery Incentives

We made solid progress in the year for water quality performance with mean zonal compliance increasing from 99.88% in 2014 to 99.95% in 2015. Discoloured water contacts reduced from 2.27 in 2014 to 1.32 per 1,000 people in 2015.

We remain on target with our timescale based ODI's (Outcome Delivery Incentives) for water quality improvements to customers supplied by our Legacy treatment works and the service reservoir upgrade programme.

Discolouration improvements

Discolouration has been a major challenge for us during the past five years, due to the effects of a harmless mineral (manganese), in our raw water. We have been working through an improvement plan to upgrade our treatment works to ensure they stop manganese entering our mains network. We have also run an extensive mains cleaning programme to remove deposits of manganese which have built up in the pipes.

There is now only one treatment works which does not have the capacity to remove manganese from the raw water. But modernising it would be expensive. Following a thorough cost benefit review of best options for our customers and the company to ensure we eliminate this problem, we have decided to upgrade our mains network in a way which will enable us to decommission this treatment site during 2017.

Meantime, we are successfully controlling the manganese levels through careful selection of our source waters. This, combined with a step increase in mains cleaning, has helped to deliver improved performance for our customers.

Our mains supply network is approximately 2,000km long and historically we used to clean 50km of mains each year. But in 2015 the Network team successfully cleaned 290km (one seventh of our network). Our customers experienced an immediate benefit from this level of cleaning and we are continuing with further increases in cleaning during 2016.

Type	Description	Reward level	Performance commitment	Penalty level	2015 performance*
Mean zonal compliance	Percentage of samples results meeting the regulatory standards	N/A	100%	99.93%	99.95%
Discoloured water contacts	Number of customers that contact us with discoloured water divided by population served in 1,000s	1.01	2.80	3.69	1.32

*Calendar Year

During 2015, we moved to a more proactive way of informing our customers about discoloured water by sending them text messages when there was a potential for discolouration – such as following a mains burst. This has proved to be a success. Apart from the benefits of informing customers about possible discolouration, texting on this and other matters also improves our service by keeping them informed.

United Kingdom Accreditation Service

In March 2016, following a successful inspection by UKAS (United Kingdom Accreditation Service), we achieved ISO17025 accreditation for our sampling and field testing.

Achieving this accreditation shows the commitment to the highest standards of the whole water quality team. They have all adapted well to the new requirements. From a company perspective, it gives us greater confidence in the sample results that we use to drive decisions, which can only be a good thing.

Water Quality Improvement Programme

The AMP6 (2015-2020) period has the biggest capital delivery programme in our history. A large number of these improvement programmes have a significant water quality element and are contained within the 11 notices and one undertaking that we have agreed with the Drinking Water Inspectorate.

We completed the first of these improvement schemes with the installation of an ultraviolet disinfection unit at Oerog Treatment Works. This scheme provides us with additional treatment capability in case of raw water deterioration and therefore ensures a more resilient water supply to customers in the Llangollen area.

3,927
Number of regulatory samples

28,774
Number of regulatory tests

11
Number of regulatory failures compared to 27 the previous year

0
Failures indicated that the water was harmful to health

Operational Performance

> Our focus on reducing risk to customers has been commended by the Drinking Water Inspectorate.

The greater emphasis we have placed on putting customers at the heart of our business has helped shape the management and structural changes which have enabled our operational performance to continue to improve throughout the year.

This helped us to out-perform some of our targets while meeting all the remaining commitments in our 2010-2015 Business Plan on time and within the overall capital expenditure budget allowed by Ofwat. In addition, the company's buildings, equipment and infrastructure have been upgraded and are more resilient, leaving us better equipped to manage the business and meet customer expectations.

Ofwat's shift in focus from capex based solutions to totex and customer outcomes has allowed us to think laterally and move away from simply delivering high cost capital schemes. Instead, we are concentrating on how best to provide a resilient and high-quality supply of drinking water for our customers as efficiently as possible, thereby ensuring they pay less for their water.

The largest capital expenditure commitment in our new Business Plan for 2015-2020 was to rebuild our Legacy water treatment works, west of Wrexham (see Water Quality, pages 20-21). Given the greater focus on putting customers at the heart of our business, we reviewed the cost/benefit of doing this, giving full consideration to resilience of supply, water quality and operating cost.

As a result of the new totex world introduced by Ofwat, we have been able to cancel the rebuild. Our Legacy treatment works will be decommissioned and the loss in treatment capacity will be made up by increasing raw water treatment at our two largest and most modern facilities.

The construction of new reservoirs, pumping stations and pipelines to replace the loss of our Legacy treatment works will enhance connectivity across our supply network. It will also reduce operating costs due to the decommissioning of the treatment works. Equally important, these improvements will be achieved with a reduced capital spend which will further benefit our customers.

Once again, we expect to have one of the lowest levels of leakage in the industry.

We have beaten Ofwat's operational delivery incentive for interruptions to supply.

Water quality improvements

As detailed in the Water Quality section (see pages 20-21), we made real progress in the year. Mean zonal compliance increased from 99.88% in 2014 to 99.95% in 2015. Discoloured water contacts reduced from 2.27 in 2014 to 1.32 per 1,000 people in 2015.

In 2015, the Networks team successfully cleaned 290km of mains (one seventh of our network). Our customers experienced an immediate benefit from this level of cleaning and we are continuing with further increases in the programme during 2016.

Our continued focus on reducing risk to customers has been commended by the Drinking Water Inspectorate (DWI) following the installation of a fully automated UV disinfection system at our Oerog Treatment Works which supplies the Llangollen area. This reduces the risk of cryptosporidium (which can cause stomach upsets), entering the water supply. Following incidents in the north of England in 2015, this is now a key issue for the regulator.

We are commissioning a new Orthophosphate dosing facility at the Oreog site to address plumbosolvency issues (leakage of lead), as some customers still have lead supply pipes within their properties.

Fewer customers affected by interruptions to supply

Fewer customers have experienced interruptions to their water supply this year – including from burst pipes.

This is confirmed by Ofwat which set targets for interruptions to customers' water supply in this AMP period. These are based on average supply interruptions per property. The target bands for this year were 0.33 hours per property to 0.20 hours. Our so far unaudited performance for 2015-2016 is well below the reward band. So we have again beaten our operational delivery incentive for this year.

There were 169 burst mains in 2015-2016. This is seven lower than the operational delivery incentive reward band (ODI) set by Ofwat for mains bursts and below the long term average. While another mild winter would have contributed to this, it is also an indication of how we have improved the management of our network.

We continue to replace water mains that have come to the end of their operational life and renewed 10.1 kilometres in 2015-2016.

Customers save by switching to a water meter

Some customers would be better off switching to a measured supply and we continued to fit meters for people opting to change – 1,011 were installed in the year. We have switched to supplying internal remote read meters as standard. These can be read without troubling our customers.

We replaced 2,733 older water meters during the year to ensure the accuracy of our readings. This will be an ongoing programme throughout the AMP.

We replaced
2,733
older water meters

> Fewer customers have experienced interruptions to their water supply – including from burst pipes.

Minimising leakage

Customers place a high importance on minimising leakage and reducing it has always been a top priority.

Our teams have been heavily engaged in leakage detection this year and we expect we will be well within the performance bands set by Ofwat. Preliminary figures indicate that our leakage for 2015-2016 was 78.6 litres per property – well within Ofwat's target band of 76.1 to 90.8 litres per property. Once again, we expect Dee Valley Water to have one of the lowest levels of leakage in the industry.

Water industry research indicates that approximately one third of all leakage is from customers' supply pipes and fittings. Most often, this is on the supply pipe running from the boundary of their property to their home. We offer a subsidised repair scheme and free on site advice and leak detection to assist customers when they have leakage, or other problems with their supply pipe.

Improving and strengthening our supply network

As well as expecting us to provide top-quality water, our customers want us to have a reliable supply network. Building greater resilience into our network structure has been a key activity during the past year.

We are finalising a project to ensure Boughton Water Treatment Works has the capability to withstand both power outages and power dips to provide a continuous operation. This will increase the resilience of our water supply to customers in and around Chester in line with Ofwat's requirements in AMP6.

Customers will also benefit from our largest service reservoir being rebuilt to provide greater storage at our principal water treatment works in Wrexham. A new pumping station will provide water to Wrexham and customers in the surrounding area, with a new large diameter pipeline reinforcing our delivery.

Thirty-six service reservoirs store our treated drinking water and we are carrying out detailed inspections of all of them. Nine were removed from service this year, cleaned, inspected and maintenance work completed. The full programme is scheduled to be completed by the end of 2017.

Several other projects, including booster pumping stations, additional cross connections within our existing network and new process waste treatment facilities, are being undertaken to increase our resilience and improve our ability to supply customers at all times.

Modernising working practices

We have installed state of the art software which is assisting us with detailed information to better manage and maintain all the company's assets and infrastructure in a timely manner. It will help ensure interruptions to customers' water supply are minimised, and provides the ability to schedule and monitor work electronically. This will enable our people to receive and report on work remotely using laptops, tablets and smartphones.

Switching from reactive work to proactive maintenance will help to reduce our operating and maintenance costs. It will also enable us to work more effectively and removes much of the burden of administration. An Asset Manager has been appointed to structure our medium and long term asset management programme, providing us with the ability to plan longer term.

All these improvements benefit our customers by helping us to better manage operational and maintenance costs.

Our People

> It was uplifting to spend time with people whose enthusiasm for, and enjoyment of, their work was clear. I have always found people in the water industry who are passionate about their work and serving their customers. Yesterday provided me with a reminder of what this can look like at its best.

Water Branch, Energy, Water and Flood Division, Welsh Government

Our people have played a key and critical role in driving the recent improvements in both our operational and customer service performance. The Board values their focus and commitment. We understand that by truly involving our people we can make the best use of their talents.

The continuous progression and achievements during the past year would not have been accomplished without their skills, expertise and dedication. It has been fundamental to our success.

Our people recognise and understand the need to provide a high-quality service to both our business and domestic customers. Continuous training and development, modernisation and innovation will help us achieve our vision and values.

We have the best people with the right skills in the right roles to deliver the best possible service to our customers.

Being a small and truly local company has many advantages. The majority of our staff live in the supply area and have a familiarity and knowledge of it which is a huge benefit when liaising with customers. Some have completed more than 40 years' service,

Health and safety

Health and safety is a top priority for us – especially as some of our people are required to work in all weather conditions, within confined spaces and with hazardous materials. We strive for continuous improvement in our health and safety performance.

We have set up health and safety teams across the company and their strong communication skills have enabled good ideas and best practices to be shared. These teams have established an open, positive and supportive environment among team members and are in a better position to hear and learn about best practices from within the company.

In 2015-2016, we improved on the previous year and recorded our best-ever health and safety performance. There were no major incidents and time lost to injuries continued to fall. Near misses were again logged in high numbers.

Living Wage

We are proud that we were one of the first companies in Wales to have been accredited as a Living Wage Employer by The Living Wage Foundation. The living wage, which is a voluntary commitment by the company, is significantly higher than the national minimum wage and is updated annually.

> I'm enjoying it. Every day offers a different challenge.

Mike Rowland,
Apprentice Network Inspector, Network Operations

Responsible employer

We recruited 22 people during the year. We aim to inspire, motivate and develop all new and existing staff to be the best. Our priority is to ensure Dee Valley Water is a great place to work to enable us to retain engaged, motivated and committed people.

Our people are given the time to build their professional skills and the opportunity to advance their careers by identifying career paths within each job profile.

As part of an effective succession planning programme, our enhanced training and development plan will feature a range of options for the growth of key individuals so they are able to learn from experienced colleagues. We endeavour to support our people so they enjoy working together as a team in an open and honest way, making the most of opportunities in a changing workplace.

Improving working conditions

To enable our people to perform at their best, they need a working environment in which they can thrive as individuals and teams. To facilitate this, our head office at Packsaddle has been extensively refurbished to provide a more efficient and improved working environment. The upgrade has been welcomed by our people.

Listening and involving our people

Employee Opinion Survey

We conducted our first employee opinion survey in March 2015 to enable us to listen to our people. It gave them an opportunity to give open and honest feedback. This provided important information on how people really felt and we were able to act to rectify or improve concerns.

This is a vital tool for measuring employee engagement. This year's survey will focus on the values we have introduced and ask questions that matter most to our people. Feedback is invaluable and will provide an understanding of how our people think about a range of important topics.

Employee Engagement Forum

Our Employee Engagement Forum was established two years ago to give our people the opportunity to express their views and for us to listen to them. This is a two-way communication tool which helps us exchange information and is one of the ways we have been working to improve our internal communications. It enables us to function more effectively; our people can have their say, together with providing regular updates on important developments.

Successes to date include improved working environments, the enhancement of our long service awards and a better staff suggestion scheme

Employee events

Our Staff Away Days continued during 2015-2016 to provide a business overview for all of our people. This ensures they are well informed about how the company is performing. It is an ideal opportunity to speak together in a different environment and to be able to communicate messages that everyone receives at the same time, in the same way and from the same people.

Our people are encouraged to ask questions and to complete feedback forms so we can assess how effective the event has been. This is an opportunity to improve staff engagement, so that they feel connected and recognise that their contributions are valued.

Diversity – building our team

We are committed to providing a supportive and non-discriminatory working environment for all of our people. Our Dignity at Work Policy ensures everyone is treated equally and fairly.

We want to attract and encourage the best people – based on their capability and contribution – regardless of their background and ethnicity.

Flexible working arrangements can benefit our people and the business and we do our best to accommodate individual needs. Wherever possible, we provide training and development opportunities for anyone with disabilities.

Employees as at 31 March 2016	Male	Female
Directors	5	0
Senior Managers	4	2
Employees 178 (including part time)	133	45

Our future leaders

The recruitment of new and talented young people is of the utmost importance. Investing in our young people helps sustain and support the company's future.

We have four apprentices in our Treatment and Plant Maintenance departments and two in Networks, aiming to qualify as competent operators and technicians. Our apprentices learn from hands on experience and knowledgeable colleagues. Where appropriate, they are given a high level of responsibility.

The keenness and diligence of these young people is a welcome indicator for our future operations.

Employees as at 31 March 2015	Male	Female
Directors	5	0
Senior Managers	6	0
Employees 174 (including part time)	134	40

Our Environment and Community

We have a clear commitment to protecting the environment. Using water efficiently helps us deliver our long term plan to protect our natural resource. By reducing, reusing and recycling, we minimise our carbon footprint in water consumption, supply efficiency and organisational waste.

More is being done to help our customers become more water efficient. We are using a range of techniques to do this. These include offering free water saving devices, deploying water usage efficiency tools online and in contact centres for ongoing management and education; offering to install water meters and offering water saving advice, together with customer research and surveys to track progress and requirements.

We are striving for greater engagement within the communities in our supply area. This includes using innovative ways to reach all of our customers to ensure they are supported and listened to. We will partner and support local businesses, initiatives and charities to support sustainable community objectives.

As part of this engagement, we are sponsoring two local sports clubs – Wrexham Rugby Club Under 7s and Wrexham Swimming Club.

We are also focusing on reaching those who don't contact us. For example, we have secured key visibility points at Wrexham Hospital to promote our social tariff agenda. It has a footfall of more than 112,000 patients a year.

Educating our future customers

We are educating our customers of the future – our children – to learn the value of water and how to protect this vital natural resource. We are planning to expand our education programme and create a dedicated team and educational facility for onsite visits at one of our treatment works.

Top performer for developer services

Dee Valley Water continues to top a performance chart measuring how the 18 water companies in England and Wales are co-operating with and providing services for property developers.

According to the company performance data on meeting developer services targets, published by Water UK, Dee Valley was the only company to attain a perfect score for water supply in the last quarter of the year.

Its report measures how all the water companies performed in dealing with a broad range of activities essential for housing development against levels of service customers, developers and self-lay organisations can expect in relation to the provision of water services infrastructure.

Working in partnership with local suppliers

We are continually forming and developing long term relationships with both local and national suppliers of all sizes to procure a variety of goods and services. These range from day to day requirements through to complex services critical to the delivery of our organisational targets. Good working partnerships with suppliers are crucial.

While large national providers can offer advantageous economies of scale, we also choose to invest in our local community by working with many small local businesses and individual contractors that can equally deliver services that offer quality, safety and reliability gained from an understanding of our business needs. One example is the training we are receiving on daily vehicle safety from a local supplier.

We are committed to collaborative working partnerships from dedicated supply chains where we discuss challenges and opportunities and how we can work together to share best practice and continuous improvement. This approach will ensure that our customers are afforded the highest level of quality and service.

> We're sponsoring Wrexham Rugby Club and Wrexham Swimming Club.

Principal Risks and Uncertainties

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

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 all of the Group's activities including:

- Regulation & Compliance
- Customer Service
- Operational
- Health & Safety
- Financial

The risk indicators overlap the key performance indicators Ofwat requires water companies to publish annually, as described in this Annual Report. The accompanying table contains a summary of the principal risks and uncertainties of the Group.

Risk	What Does It Mean	Mitigation
Regulation & Compliance		
Ongoing regulatory reform and the potential increase in policy divergence between the English and Welsh governments.	Our operational environment is highly regulated. Our policies and procedures ensure compliance with the regulatory framework. But market reform and the potential for differences in policy between the two governments creates risks. Regulatory changes may increase costs of administration, reduce income and margin and lead to greater variability of returns.	We have developed strong relationships within the Welsh Government and take part in relevant consultations – particularly those which may impact policy and Regulation. We maintain close links with the supply area's Members of Parliament and Assembly Members and the business community. All are aware of Dee Valley's unique position as a cross-border water only supplier. We are active within our trade body and other forums and contribute to the debate about our industry's future. We liaise and engage with Government, our regulators and other stakeholders to ensure we understand and can contribute to the future direction of policy.
Implementation of the recommendations outlined by the Silk Commission with respect to alignment of political and regulatory boundaries.	As our water supply area is mainly in Wales, we are currently Governed by Welsh Government policy across our entire water supply area, some of which is in England. The Silk Commission recommended an alignment of political and regulatory boundaries, creating a risk that we could be forced to adopt Welsh Government policy for our Welsh customers and English Government policy for our English customers if these recommendations are adopted. This would effectively split the business. The cost of compliance with two policy regimes could be significant, increasing customer bills and leading to a customer loss of confidence and reputational damage.	As a Welsh company we are committed to working proactively with the Welsh Government to develop its water strategy for its people. We participate actively in the Wales Water Forum and have opened dialogue with local and national Welsh Assembly Members to develop this discussion to benefit customers. We believe that changes in regulatory practice should bring proven benefits to customers and the wider environment. We are engaging with the Welsh Government, Natural Resources Wales, the Drinking Water Inspectorate, the Environment Agency and Ofwat to ensure that the focus remains on benefit to customers as they consider possible implementation.
Failure to meet regulatory performance targets.	Ofwat has set the company some challenging operational performance targets for PR14. Delivery of the Legacy alternative scheme within the permitted timeframe is a significant example of this. Failure to complete the scheme in the agreed timeframe would lead to potentially significant financial penalties and a loss of credibility with key regulators.	Our review of processes, systems and equipment is ongoing and investments are being made to deliver significant improvements in the quality of product and service. We have a series of internal measures that enable us to proactively monitor performance and take prompt corrective action when and where necessary.
Customer Service		
Failure to meet the customer service standards expected by our customers.	Ofwat's regulatory processes place customers at the heart of the business. Failure to meet these higher standards will lead to customer dissatisfaction and SIM penalties imposed by Ofwat, all of which will damage the company's reputation.	We have re-shaped our customer service to ensure the customer is at our heart. We have also invested in training and new technology to enable us to better understand the needs of our customers and to overhaul all of our customer facing services. Our performance – as measured by Ofwat's SIM and independent surveys – has improved significantly in the year. We are committed to continuing this and achieving upper quartile performance in this AMP period.
Operational		
Failure to maintain a constant supply of water to part of the supply area.	Failure of certain important assets could cause widespread loss of supply to customers with the risk of regulatory sanction, loss of reputation and higher operating costs. Failure of assets could be through structural or equipment failure or extreme events, particularly flooding. There is no operational back-up for some assets.	Assets are managed through condition monitoring and maintenance. When appropriate, risk-based asset investment planning identifies assets for replacement, which is a continuing process. Planning is progressing for a flood protection scheme for a vulnerable river intake. Contingency plans provide for major failures. These include bringing in water from other parts of the supply area; providing emergency supplies and mutual aid agreements with other water companies.
There is a risk that recurrent discoloured water incidents could result in a failure to comply with the wholesomeness of water requirement in the Drinking Water Standards.	Water quality failures caused by an historical issue could result in regulatory sanction, adversely affect our reputation and cause an increase in our costs.	The Drinking Water Safety Plan addresses the management of risks throughout the supply system from catchment to customer. This ensures there are adequate mitigations in place for all risks, including discolouration in the form of operational procedures, processes, maintenance, monitoring and appropriately trained staff. Risk-based investment planning plays an important part by ensuring equipment performs effectively and emerging risks are addressed. There is a strategy in place to deal with the discoloured water problem specifically, with improvements seen in the current year and the Legacy alternative due to be delivered by December 2017.

Principal Risks and Uncertainties continued

Risk	What Does It Mean	Mitigation
Business interruption and/or data loss resulting from cyber threats..	Loss or corruption of computer systems or data is a real and growing threat and potentially, could have far reaching effects, particularly within our administrative and equipment operations.	The cyber threat is constantly evolving – as are our efforts to counter it. As a vital utility we take the threat very seriously and receive support and guidance at Government level and from other support structures. Our review of our existing systems and controls is underway and our people are being trained to be more security aware. As a precaution, we have robust incident response, business continuity and disaster recovery procedures in place and regularly test our ability to recover from systems failure. We also maintain insurance cover for loss and liability.
Health & Safety		
The nature of the activities we undertake creates a potential to cause harm to our employees, contractors and the general public.	Our work requires our employees and contractors to use equipment and carry out tasks which have the potential to cause serious harm. In addition, we undertake a lot of work in dynamic public places such as busy streets. We take every precaution to prevent injury, however the failure of a procedure or the breakdown of an asset could lead to injury.	We continually review our H&S strategies and working practices to look for improvements. Our assets are subject to regular monitoring and maintenance though proactive and reactive programmes of work. Our reservoirs are independently inspected and then maintained by our staff to ensure that they remain safe. We recognise that the key to a safer organisation is the behaviour of staff. As such, we encourage near miss reporting across the organisation as we believe this ensures we review incidents to address the root causes of incidents. We have commenced the development of a new management system that will improve behavioural safety across all business areas, and we have reviewed and improved our risk management system, including a new reporting system. Senior leaders drive this new system and carry out a number of audits on key risk areas each year.

Risk	What Does It Mean	Mitigation
Financial		
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 cash flow and income statement volatility.	An annual review of bad and doubtful debt provisioning is conducted by the Board and an assessment of appropriateness of the current provisioning is made. Following a review, the bad debt provision was increased last year to provide fully for all debts in excess of two years old and to provide for customers' debts based on historic non-payment. Furthermore the Group operates extensive debt management and payment plans for customers to allow for greater recovery.
There is a risk that the costs associated with managing the Defined Benefit Pension Scheme affect the 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 triennial valuation which, depending on economic conditions, can result in increased funding costs.	Deficit repair costs are forecast to be £0.5m per annum for AMP6 and ongoing contributions are around £0.6m. Ofwat has allowed in the FD an annual contribution of £0.2m for deficit repair but only until 31 March 2020 when this allowance will cease. Such significant values, plus potential future volatility, means that the pension scheme poses significant risk to operational cash flows.	The annual business planning process provides a platform for the Board to review financeability and affordability. Pension strategy and evaluation remains a key focus area for the Board.

Financial Review

Profit before tax for the year ended 31 March 2016 remains broadly consistent with the prior year. Whilst underlying performance has been adversely impacted by a reduction in revenue, this has been partially offset by lower operating expenses.

Overview

Following the agreement of a five year, £30 million revolving credit facility early in the year, the Group is well placed to deliver the investment plan agreed with Ofwat for the period to 2020. The facility provides cost effective funding to support the delivery of the largest capital investment plan in the Group's history.

Whilst capital delivery in the year ended 31 March 2016 was focused on preparation for the decommissioning of the Legacy treatment site, which has now commenced, and other key projects for Asset Management Plan 6 ('AMP6'), capital expenditure of £6.2 million was incurred in relation to the mains renewal programme and projects including investment at Oerog Springs.

The Group's financial performance was impacted by the PR14 final determination, which imposed a reduction in prices and therefore contributed to the downturn in revenue in the current year. However, this was mitigated by an improvement in operating expenses and financing costs.

Strong progress has been made against the Group's operational key performance indicators this year and this, alongside the financial certainty provided by the agreement of financing at favourable interest rates, ensures that the Group can progress confidently into the second year of AMP6. Capital investment in the year ended 31 March 2017 is forecast to exceed £10 million as work on the Legacy scheme progresses.

Financial Results

Profit from Operations

Profit from operations for the year ended 31 March 2016 was £6.6 million (2015: £7.5 million), with the impact of a reduction in revenue (£1.5 million) partially offset by a £0.7 million reduction in operating expenses.

Revenue for the year (£23.1 million; 2015: £24.6 million) was impacted by a 4% reduction in prices in this first year of AMP6, effective from 1 April 2015, and a reduction in consumption amongst certain large, non-household customers.

The reduction in operating expenses in comparison to the prior year was influenced by a reduction in the bad debt charge and an increase in the capitalisation of labour costs.

A review of the doubtful debt provisioning estimate in the prior year lead to a one-off increase in the provision to ensure that it covered all debts that were greater than two years old and to specifically provide for customers' debts based on historic default and non-payment. A consistent provisioning methodology has been applied in the current year, with the bad debt charge falling by £0.3 million year-on-year to a total of £0.5 million.

In the year ended 31 March 2016, the capitalisation of labour costs has increased due to the additional headcount required and recruited to enable the Group to deliver its largest ever capital investment programme.

The operating cost benefit arising from the above factors has been partially offset by investment to enhance the Group's Customer Service function. This investment will ensure that the Group continues to offer sector leading customer service, supported by an improved website and enhanced online payment options.

Taxation

A taxation credit of £0.4 million has arisen in the year (2015: £1.0 million charge), the variance primarily relating to a deferred tax credit which results from a reduction in the UK corporation rate from 20% to 19% (effective from 1 April 2017) and subsequently to 18% (effective from 1 April 2020).

Both of these amendments were substantively enacted on 18 November 2015 and the full impact of the reduction has been applied in calculating the tax position. The deferred tax liability at 31 March 2016 has been calculated based on the rate of 18% (2015: 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 £4.7 million is £1.2 million higher than the prior year (2015: £3.5 million).

Whilst profit from operations fell by £0.9 million, this was offset by a reduction in the non-cash loan indexation charge, linked to the lower rate of RPI inflation during the year (£0.7 million), and the deferred tax credit referred to above (£1.3 million).

Earnings per share for the year (100.5p) is consequently higher than the prior year equivalent (75.3p). However, after adjustment for the deferred tax credit, adjusted earnings per share is broadly consistent with the prior year at 73.5p.

Final Dividend

In the prior year the Group announced that the dividend policy for the period from 2015-2020 would be to maintain an annual dividend base of 62.5 pence per ordinary share, adjusted where appropriate for a share of any financial performance, whether from revenue or cost efficiency. The latter adjustment was to be assessed by the Board on an annual basis.

The Board has considered financial performance during the year ended 31 March 2016 and, following this assessment, has proposed a final dividend of 42.0 pence per ordinary share for the year ended 31 March 2016. Operating profit has been adversely impacted by the decline in revenue this year and cost efficiencies have yet to be embedded, with management focusing on investment in key functions such as Customer Services this year.

Together with the interim dividend of 20.5 pence per ordinary share, the total dividend for the year will therefore be consistent with the base position of 62.5 pence per ordinary share.

The final dividend is expected to be paid on 1 August 2016 to shareholders on the register at the close of business on 1 July 2016.

Balance Sheet

Group net assets increased by £2.9 million (9.8%) to £32.3 million during the year. The increase was due to the retained profit for the year of £4.7 million less dividends paid of £2.9 million, plus an actuarial gain, net of deferred taxation, on the defined benefit pension scheme of £1.1 million.

The net book value of Property, Plant and Equipment increased by £1.4 million to £97.5 million, with capital expenditure of £6.2 million offset by the depreciation charge for the period (£4.8 million). Contributions received in the year of £1.1 million (2015: £1.2 million) are recorded as deferred income (see note 17) and credited to the Income Statement over the life of the relevant asset. Whilst preparation for the commencement of the Legacy alternative project has continued, current year capex has focused on other projects including investment at Oerog Springs, Boughton WTP and the mains renewal programme.

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

A valuation of the Group's defined benefit surplus as at 31 March 2016 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 £9.7 million (2015: £7.9 million), influenced by a reduction in the value of the scheme's obligations as a result of an increase in corporate bond yields and the impact of lower price inflation.

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 refinanced the previous £9.0 million revolving credit facility, which had been committed until 31 March 2016. In order to secure future financing for the Group and to support the AMP6 investment plan, the Group entered into a five-year £30.0 million facility on 15 May 2015. This facility ensures committed funding for the Group through to 2020, with an option for a two year extension if required, providing flexible and cost effective financing. At 31 March 2016 this facility was undrawn (2015: £6.0 million drawn on the previous facility). The interest rate is fixed at the date of each drawdown.

Whilst the majority of the Group's borrowings are at a fixed rate, the Group holds a significant RPI linked long-term borrowing and is therefore exposed to movements in this index. The original loan of £35 million was drawn in 2002 and has a 30 year term. At 31 March 2016 the total outstanding liability had increased, with indexation, to £52.2 million (2015: £51.7 million).

Cash Flow

Net cash flow from operating activities was £12.0 million, £1.0 million lower than the prior year (£13.0 million), primarily due to the reduction in operating profit.

Drawings on the revolving credit facility reduced by £6.0 million year-on-year and re-financing fees totalled £0.3 million. These items, offset by a reduction in capital expenditure (down £1.1 million to £5.6 million) resulted in a £6.3 million fall in net cash 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.

Ian Plenderleith
Chief Executive

Governance

Board of Directors

Jon Schofield (55)

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

Philip Holder (67)

FCA, Senior Independent Non-executive Director

Appointed to the Board on 21 January 2014

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

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

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

Kevin Starling (52)

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

Ian Plenderleith (52)

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.

Corporate Governance Report

The Board remains committed to the highest standards of corporate governance and ensuring transparent, effective reporting. The Group is pleased to report its compliance throughout the period with the UK Corporate Governance Code as published by the Financial Reporting Council in September 2014 (Code).

Responsibilities of the Board

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

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

The Board delegates to senior management the responsibility for the day-to-day activities leading toward achievement of the Group's strategic direction. The Board has delegated to the Chief Executive the responsibility for running the affairs of the Group and to implement the policies and strategy set by the Board.

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 a meeting with Ofwat, continuing the Board's commitment to proactively engage with the regulator.

Board Membership

The Board comprises the Chairman and Non-executive Directors, all of whom are considered to be independent, together with the Chief Executive. Photographs of the members of the Board together with a brief description of their experience is contained on pages 42 and 43. Following the retirement of David Weir in July 2015, Philip Holder was appointed as Senior Independent Non-executive Director and has served in this position throughout the remainder of the period under review. Andrew Bickerton remained Finance Director throughout the period but subsequently resigned on 25 April 2016.

One-third of the Directors must retire by rotation each year and all Directors are subject to retirement and 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.

We are actively seeking a new Company Secretary but in the interim the Board has nominated someone to discharge the functions of Company Secretary pursuant to s274 of the Companies Act.

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 10 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 (3)	10 (10)
Philip Holder	10 (10)
Ian Plenderleith	10 (10)
Jon Schofield	10 (10)
Kevin Starling (1)	9 (9)
David Weir (2)	4 (4)

1 – Kevin Starling was appointed to the Board on 28 May 2015

2 – David Weir resigned from the Board on 31 July 2015

3 – Andrew Bickerton resigned from the Board on 25 April 2016

Board Committees

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

There are three permanent committees of the Board – the Audit, Nomination and Remuneration committees. A Report from the Chair of each committee is set out on pages 48 to 59 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 the 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 who, in turn, reports 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 and its committees (as relevant). 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, investor presentations and news releases.

Internal Control and Risk Management

The code requires the company to maintain a sound system of internal control to safeguard shareholders' investment and the company's assets. The Board must review the effectiveness of the system at least annually, covering all material controls, including financial, operational and compliance controls and risk management systems, and report to shareholders that it has done so. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and provides reasonable, not absolute, assurance against material misstatement or loss. In the year there have been no significant control issues.

The Board confirms that there is an ongoing process for identifying, assessing and managing the principal risks faced by the Group. The executive team is responsible for the identification and evaluation of principal 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 14 to 37.

Steps are being taken to embed internal control and risk management further into the operations of the businesses and to deal with areas of improvement which come to management's and the Boards attention. The process has been in place throughout the year and up to the date of approval of the Annual Report and Financial Statements. It is regularly reviewed by the Board and accords with the guidelines set out in the FRC's Internal Control: Guidance to Directors'.

The Board confirms that the actions it considers necessary have been or are being taken to remedy such failings and weaknesses which it has determined to be significant from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programmes that is considers are reasonable in the circumstances. The Directors acknowledge that they are responsible for the Groups system of internal control, for setting policy on internal control and for reviewing the effectiveness of internal control. The role of management is to implement Board policies on risk and control.

The Board confirms it has performed its annual review of the effectiveness of internal control. The Board has concluded that, as at 31 March 2016, the Groups systems of control over financial reporting were effective.

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 37 and the Financial Review on pages 40 and 41. The financial position of the Group including cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 40 and 41. 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.

During the year the Group refinanced the previous £9.0 million revolving credit facility, which had been committed until 31 March 2016. In order to secure future financing for the Group and to support the AMP6 investment plan, the Group entered into a five-year £30.0 million facility on 15 May 2015. This facility ensures committed funding for the Group through to 2020, with an option for a two year extension if required, providing flexible and cost effective financing. At 31 March 2016, this facility was undrawn (2015: £6.0 million drawn on previous facility).

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.

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a longer period than that required by the Going Concern assessment. For the purpose of this review, the Directors have assessed the Group's viability over the three-year period to March 2019. The Board conducted this review taking account of the Group's current position, future plans and the potential impact of the principal risks documented on pages 34 to 37.

Based on this review, the Directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019. This period was selected as:

- The Final Determination agreed with Ofwat provides the Group with a secure income stream over this three year period, indexed annually by RPI inflation;
- The Group's business plan covers this period in its entirety and includes the Group's cash flows and key financial metrics. The business plan has been sensitised to reflect the impact of severe but plausible scenarios, considering any potential mitigating actions available;
- The Group's key projects for AMP6 are expected to be delivered over this period, most notably the Legacy alternative scheme, which must be completed by December 2017; and
- Following agreement of a five year Revolving Credit Facility, the Group has funding in place throughout the period, facilitating the delivery of the AMP6 capital expenditure programme.

Whilst this period is shorter than the forecast period that the Board reviews as part of AMP6, this three-year forecast period gives management and the Board sufficient, realistic visibility of the future. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and has confirmed that there are none.

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;
- Review the effectiveness of the Group's internal controls and risk management systems and monitor and review the effectiveness of the Group's internal audit function;
- 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;
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- 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, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Consider management's response to any external audit recommendations; and
- Report to the Board on how it has discharged its responsibilities.

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

Membership

The Committee comprises three independent Non-executive Directors, Philip Holder, Jon Schofield 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 42 and 43.

Meetings

There were five scheduled meetings of the Committee during the year with full attendance at each meeting, reflecting the Committee's detailed governance over the Group's financial reporting processes and regular engagement with the external auditors. 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 Executive Directors, external audit engagement partner and others attend meetings from time to time as appropriate 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;
- Investigation of any concerns raised by management regarding the integrity of the financial reporting;
- Whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- Any correspondence from regulators in respect of our financial reporting.

In order to aid its review, the Committee considers reports from management and also the report from the external auditor in respect of the outcome of their annual audit 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 2016 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 confirmed their agreement with the methodology applied, which includes provision against current debts associated with customers that have a history of non-payment;
- 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 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 discussed the assumptions applied in the impairment assessment with management and the external auditors; and
- Going Concern – The Committee reviewed a report from management in respect of going concern and longer-term viability and also discussed the conclusions reached in this report with the external auditor.

Risk Management

The Group's risk management process and the way in which principal risks are managed is a key area of focus for the Committee. The Committee's work is driven primarily by the Group's assessment of principal risks and uncertainties, a summary of which is set out on pages 34 to 37. The Committee conducts 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 it allows independent challenge of management's assessment of risk and the actions being taken to mitigate risk.

During the year an assurance plan has been established. This plan includes an assessment of the relative significance of risks faced by the Group, outlining the level of audit or assurance that will be performed in respect of each of these risks in order to ensure that the risk is appropriately mitigated. In developing the plan, extensive consultation with key external and internal stakeholders was undertaken. This implementation of this plan will be co-ordinated by the newly established internal audit function, of which further details are provided below.

Internal Audit

The Committee is committed to delivering robust internal control and vigorous assurance processes. Key areas of review and discussion during the year included areas of improvement which were identified following the PR14 process and the assurance plan that we are required to publish annually in AMP6.

Following the Committee's recommendation in the prior year, an internal audit function was established in 2015-2016 and our assurance plan was published on 31 March 2016. External stakeholders were consulted on this plan in advance of publication and their feedback was used to refine its content. A full, risk-based internal audit programme has been developed for 2016-17 and the internal audit function will report its findings directly to the Committee.

External Auditor

The Committee is responsible for the appointment of the external auditor together with approving the level of its 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 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 outlined its 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 2016 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.

Philip Holder

On behalf of the Audit Committee, 9 June 2016

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.

> We top a chart measuring how the 18 water companies in England and Wales are co-operating with and providing services for property developers.

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 2015, the Committee kept the structure, size and composition of the Board under review, as well as the diversity of skills and experience. 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 43. David Weir subsequently retired on 31 July 2015 and was replaced as Senior Independent Director by Philip Holder. Andrew Bickerton resigned from the Board on 25 April 2016.

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 continue to keep the size, structure and composition of the Board and Board committees under review.

Jon Schofield

On behalf of the Nomination Committee, 9 June 2016

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 Directors and Non-executive Directors.

Annual Statement

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 Directors 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;
- Design policies with the long-term success of the group in mind;
- 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.

Key Decisions Reached by the Remuneration Committee

The key decisions reached by the Committee during the year were as follows:

- To re-confirm the remuneration policy of the Group. This policy remains unchanged on the prior year and is outlined on pages 54 to 57 of this report;
- To determine the total remuneration packages of the Executive Directors and Non-executive Directors. Executive Directors were awarded a 1% pay rise in the year, consistent with all other employees, and bonus payments totalling £59,000. These bonus payments were determined with reference to performance against the Group's key performance indicators, including the commitments agreed during the AMP6 determination process, and the Directors' personal objectives. The payments recognise the progress achieved against regulatory indicators during the year and the Group's consistent financial performance, despite the revenue challenges outlined in the Financial Review.
- To affirm the Board's commitment to sharing the benefit of financial outperformance with all employees through a company-wide bonus scheme. An appropriate means of delivering this is currently under consideration.

Membership

All Non-executive Directors are members of the Committee which is chaired by Non-Executive Director, Kevin Starling. 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 four scheduled meetings of the Committee during the year with full attendance at all meetings. 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 Report

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.	No change to the salary policy in the 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 prior year; no change in approach in the year.

The bonus award for the Executive Directors reflected performance against the Group's key performance indicators, including the Performance Commitments and Outcome Delivery Incentives approved by Ofwat, and their own personal objectives. The performance measures used to assess the Directors' bonus payments are aligned to the Group's strategy and set with reference to the delivery of key financial and non-financial targets. As in the prior year, the bonus award was capped at a maximum of 50% of base salary.

The annual bonus is currently available to the Executive Directors and eight other members of the Group's senior management team. The bonus available to these senior managers is capped at 15% of salary. Management are committed to sharing the benefit of financial outperformance with all employees, and are currently considering options to facilitate this. 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

The Committee's policy on other Directorships 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.

Pensions

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. Contributions to a defined contribution pension scheme in respect of Andrew Bickerton were made until his resignation on 25 April 2016. 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 contract for Ian Plenderleith is dated 26 August 2014. The service contract for Andrew Bickerton dated 6 May 2014 terminated on 25 April 2016 following his resignation.

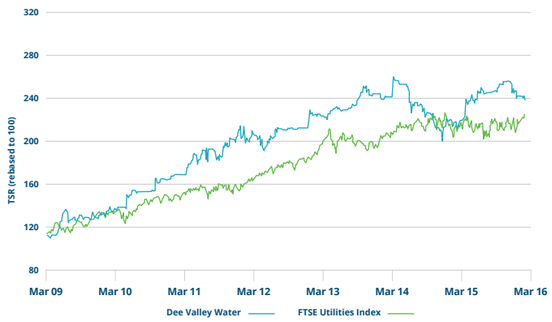
Non-executive Directors have letters of appointment, rather than service contracts, which provide for six months termination notice by either party. In the event of early termination, Non-executive Directors are not entitled to receive compensation for loss of office. The letter of appointment of each 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. Following David Weir's retirement in July 2015, all of the Group's Non-executive Directors have an appointment period in excess of a year.

Total Shareholder Return (TSR) Performance

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

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



Chief Executive Remuneration

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.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CEO remuneration (£000)	132 (1)	116 (2)	119 (2)	124 (2)	147 (2)	204 (3)	217(4)
% of maximum bonus awarded (%)	-	-	-	-	-	92	90

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 2015 and the bonus percentage awarded relates to Ian Plenderleith only.
4. Includes the emoluments of Ian Plenderleith only.

Total CEO remuneration (base salary, bonus and benefits in kind) has increased by 6%. The increase in average remuneration for all employees was 1%.

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 years ended 31 March 2015 and 2016.

Directors' Remuneration

2016	Base salary and fees £000	Bonus £000	Benefits in kind £000	Pensions £000	Total 2015/16 £000	Total 2014/15 £000
Andrew Bickerton (1)	101	-	6	15	122	135
Philip Holder	23	-	-	-	23	23
Norman Holladay (2)	-	-	-	-	-	38
Ian Plenderleith (3)	131	59	7	20	217	129
Jon Schofield	37	-	-	-	37	37
Graham Scott (4)	-	-	-	-	-	12
David Strahan (5)	-	-	-	-	-	79
Kevin Starling (6)	20	-	-	-	20	-
David Weir (7)	8	-	-	-	8	23
	320	59	13	35	427	476

2015	Base salary and fees £000	Bonus £000	Benefits in kind £000	Pensions £000	Total 2014/15 £000
Andrew Bickerton (1)	91	25	5	14	135
Philip Holder	23	-	-	-	23
Norman Holladay (2)	33	-	2	3	38
Ian Plenderleith (3)	78	35	4	12	129
Jon Schofield	37	-	-	-	37
Graham Scott (4)	12	-	-	-	12
David Strahan (5)	66	-	3	10	79
David Weir	23	-	-	-	23
	363	60	14	39	476

1. Andrew Bickerton was appointed a Director on: 6 May 2014 and subsequently resigned on 25 April 2016
2. Norman Holladay resigned as a Director on: 5 May 2014
3. Ian Plenderleith was appointed a Director on: 26 August 2014
4. Graham Scott resigned as a Director on: 1 August 2014
5. David Strahan resigned as a Director on: 26 August 2014
6. Kevin Starling was appointed as a Director on: 28 May 2015
7. David Weir resigned as a Director on: 31 July 2015

Directors' Pension Entitlements

During the year, the Group made total contributions of £35,000 into a defined contribution scheme in respect of Ian Plenderleith and Andrew Bickerton. Philip Holder, Jon Schofield, Kevin Starling 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:

	2015/16 £000	2014/15 £000	% change
Remuneration paid to or receivable by all employees	6,490	6,191	4.8
Distributions to shareholders by way of dividends	2,895	2,895	-

Statement of Voting Outcome at General Meeting

The below table outlines the number and percentage of votes received in respect of the Directors' Remuneration Report at the 2015 Annual General Meeting.

For (1)		Against		Withheld	
Number	%	Number	%	Number	%
1,741,512	99.71	4,525	0.26	559	0.03

1. Includes 13,964 (0.8%) votes awarded at the Chairman's discretion.

Directors' Share Interests

The Directors of the Company during the year and the prior year and their beneficial interests in the shares of the Company were as follows:

	Ordinary Shares	
	2016 No.	2015 No.
Andrew Bickerton	396	396
Philip Holder	-	-
Norman Holladay	-	100
Ian Plenderleith	-	-
Jon Schofield	1,000	1,000
Graham Scott	-	666
David Strahan	-	-
David Weir	1,666	1,666
Kevin Starling	-	-
Total	**3,062**	**3,828**

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 2016 and 10 June 2016.

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

Kevin Starling

On behalf of the Remuneration Committee, 9 June 2016

Directors' Report

This Directors' Report should be read in conjunction with the Strategic Report contained on pages 14 to 37 and the Corporate Governance, Audit, Nomination and Remuneration Committee reports on pages 44 to 59.

Principal Activities

The principal business of the Group is the provision of water services to customers in an area of 831 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 37 and Financial Review on pages 40 and 41, 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 1 August 2016.

Property, Plant and Equipment

Additions to property, plant and equipment, including infrastructure renewals, amounted to £6.2 million (2015: £6.8 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 42 and 43.

Philip Holder, Ian Plenderleith, Jon Schofield, Kevin Starling.

Kevin Starling was appointed Director on 28 May 2015. David Weir resigned as a Director on 31 July 2015, Andrew Bickerton resigned as a Director on 25 April 2016.

Philip Holder is to retire at the Annual General Meeting and will offer himself for re-election.

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

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 54 to 59.

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

Greenhouse Gas Emissions

Global GHG emissions data for period 1 April 2015 to 31 March 2016:

	2014-15	2015-16
Emissions from:	**Tonnes of CO2e**	**Tonnes of CO2e**
Combustion of fuel & operation of facilities	970	1,065
Electricity, heat, steam and cooling purchased for own use	7,723	7,511
Company's chosen intensity measurement:		
Emissions reported above normalised to kilogrammes of C02e per person supplied	32.25	31.87
Emissions reported above normalised to kilogrammes of C02e per 1 million litres of drinking water	377.75	371.31

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. 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.

We have used the "Workbook for estimating operational GHG emissions" version 10 which has been developed by UK Water Industry Research. The emissions factors used are Defra's Environmental Reporting Guidelines (published in May 2015, updated in June 2015). Process emissions specific to the water industry have been calculated using industry-specific conversion factors.

Substantial Interests

At 1 March 2016, the Company was aware of the following interests of 3% or more in its issued Ordinary Shares:

	Number of shares	%
Axa S.A.	1,368,048	33.1

Redemption of B Shares

During the financial year, the Company redeemed 55,625 (2015: 14,179) B shares, representing 0.4% (2015: 0.1%) of the original issued capital. The nominal value and consideration amounted to £127,938 (2015: £32,612). 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 106 and 107 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

Ian Plenderleith
Chief Executive, 9 June 2016

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company Financial Statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

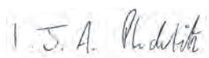
Responsibility statement

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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 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.

This responsibility statement was approved by the Board of Directors on 9 June and is signed on its behalf by:

Jon Schofield
Chairman
9 June 2016



Ian Plenderleith
Chief Executive Officer
9 June 2016

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 2016 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Going Concern

As required by the Listing Rules we have reviewed the Directors' Statement regarding the appropriateness of the going concern basis of accounting contained within note 1 in the Financial Statements and the Directors' Statement on the longer-term viability of the Group contained within the Corporate Governance Statement on page 47.

We have nothing material to add or draw attention to in relation to:

- The Directors' confirmation on page 50 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures on pages 34 to 37 that describe those risks and explain how they are being managed or mitigated;
- The Directors' statement in note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- The Directors' explanation on page 47 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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 The Group has a bad debt provision (see note 12) in 2016 for £2.7 million (2015: £2.4 million). 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. Gross debtors have increased by £0.3 million in aged categories over 2 years old which has resulted in an increased provision of £0.3 million. A consistent provisioning methodology (see note 1) has been applied in the current year.	We have: • Evaluated the design and implementation of management's controls around this risk, particularly around capturing the key data inputs to the model; • Reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in Dee Valley Group in the period using analytical procedures to understand the collection of previously aged debtors and to re-compute the ageing analysis and bad debt charge based on that information and compared to the charge booked by management. This work included agreeing a sample of the data used in managements calculation back to its source, being the billing system; and • Benchmarked the key components of the bad debt provision policy against water industry peers.
Potential impairment of goodwill and tangible assets The Group has a significant amount of goodwill (2016 and 2015: £5.4 million – see note 9) and tangible assets (2016: £97.5 million, 2015: £96.1 million – see note 10) on its balance sheet. The Group's assessment of impairment is a judgemental process which requires estimating the value in use and fair value less cost of disposal of the Group's tangible and intangible assets. The key estimation has been pinpointed to the premium rate used in the Regulated Capital Value model supporting the estimate of fair value less costs of disposal given this amount is higher than that determined in the value in use model (see page 76).	We have: • Evaluated 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 of fair value less costs of disposal to third party data and compared these values to the Group's assets net book value.
Revenue recognition risk in relation to the accuracy of the estimation of unbilled revenue The Group has unbilled revenue in 2016 for £1.4 million (2015: £1.6 million). 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 future consumption patterns whereas actual revenue should be recognised based on actual meter reading usage.	We have: • Evaluated 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; and • Agreed the accuracy of billing system data by tracing billed amounts to payment receipts.

There have been no significant changes to the risks identified compared to the prior year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 48.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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 £204,500 (2015: £225,500), which is 5% (2015: 5%) of pre-tax profit.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4,090 (2015: £4,510), 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 group-wide 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 certain 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the Audit of the Financial Statements

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

Jane Boardman BSc FCA

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

9 June 2016

Financial Statements

Group Income Statement
for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Revenue		23,149	24,599
Other operating income	2	2,300	2,459
Other operating expenses (net)	3	(18,875)	(19,605)
Profit from operations		6,574	7,453
Finance income	5	275	269
Finance expenses	5	(2,605)	(3,264)
Profit before tax		4,244	4,458
Taxation	6	411	(968)
Profit for the year		4,655	3,490
Basic and diluted earnings per ordinary share	8	100.5p	75.3p

All results arise from continuing operations.

Group Statement of Comprehensive Income
for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Profit for the year		4,655	3,490
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit pension scheme	22	1,264	1,698
Deferred tax charge on actuarial gain	6	(228)	(340)
Effect of change in corporation tax rate on accumulated actuarial gains		75	-
Other comprehensive income for the year		1,111	1,358
Total comprehensive income for the year net of tax		5,766	4,848

Group and Parent Company Balance Sheet
as at 31 March 2016

	Notes	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Assets					
Non-current assets					
Goodwill	9	5,381	5,381	-	-
Property, plant and equipment	10	97,521	96,131	-	-
Retirement benefit surplus	22	9,689	7,866	-	-
Investments	11	2	2	32,365	32,365
Current assets		112,593	109,380	32,365	32,365
Inventories – raw materials and consumables		373	341	-	-
Trade receivables	12	3,477	3,461	-	-
Other receivables	13	2,053	1,953	6,620	3,725
Cash and cash equivalents	14	3,099	8,737	-	-
		9,002	14,492	6,620	3,725
Total assets		121,595	123,872	38,985	36,090
Liabilities					
Current liabilities					
Interest-bearing loans and borrowings	15	1,263	7,391	1,263	1,391
Trade and other payables	16	12,403	11,924	5,630	2,556
Current income tax liabilities		164	347	-	-
		13,830	19,662	6,893	3,947
Non-current liabilities					
Interest-bearing loans and borrowings	15	52,297	51,772	-	-
Deferred income	17	9,880	8,980	-	-
Deferred tax	18	13,330	14,071	-	-
		75,507	74,823	-	-
Total liabilities		89,337	94,485	6,893	3,947
Net assets		32,258	29,387	32,092	32,143
Issued share capital	19	232	232	232	232
Other reserves	26	6,329	6,201	30,702	30,574
Retained earnings		25,697	22,954	1,158	1,337
Total equity		32,258	29,387	32,092	32,143

Approved by the Board of Directors on 9 June 2016 and signed on its behalf by:

Jon Schofield
Chairman

Ian J A Plenderleith
Chief Executive

Company registered in England and Wales with Company Number 04316684.

Group Statement of Changes in Equity

	Notes	Share capital £000	Capital redemption reserve £000	Other reserves £000	Fair value reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 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 1 April 2015		232	30,574	(32,316)	7,943	22,954	29,387
Profit		-	-	-	-	4,655	4,655
Actuarial gain (net of deferred tax) on defined benefit pension scheme		-	-	-	-	1,036	1,036
Effect of change in corporation tax rate on accumulated actuarial gains		-	-	-	-	75	75
Total comprehensive income for the year		-	-	-	-	5,766	5,766
Repayment of B shares	15	-	128	-	-	(128)	-
Dividends	20	-	-	-	-	(2,895)	(2,895)
Total contributions by, and distributions to, owners of the Company		-	128	-	-	(3,023)	(2,895)
Balance at 31 March 2016		232	30,702	(32,316)	7,943	25,697	32,258

Company Statement of Changes in Equity

	Notes	Share capital £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
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 1 April 2015		232	30,574	1,337	32,143
Profit		-	-	2,844	2,844
Total comprehensive income for the year		-	-	2,844	2,844
Repayment of B shares	15	-	128	(128)	-
Dividends	20	-	-	(2,895)	(2,895)
Total contributions by, and distributions to, owners of the Company		-	128	(3,023)	(2,895)
Balance at 31 March 2016		232	30,702	1,158	32,092

Group and Parent Company Cash Flow Statement

for the year ended 31 March 2016

	Notes	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Cash flows from operating activities					
Profit before tax		4,244	4,458	-	-
Adjustments for:					
Depreciation	10	4,790	4,505	-	-
(Profit)/loss on disposal of assets	3	(1)	154	-	-
Net finance costs	5	2,330	2,995	-	-
		11,363	12,112	-	-
(Increase)/decrease in inventories		(32)	14	-	-
Decrease/(increase) in trade and other receivables		175	(413)	(2,895)	-
Increase in trade and other payables		798	1,675	3,047	87
Increase in retirement benefit surplus		(292)	(354)	-	-
Cash generated from operating activities		12,012	13,034	152	87
Interest paid	5	(2,022)	(1,992)	(51)	(54)
Tax paid		(666)	(726)	-	-
Net cash from operating activities		9,324	10,316	101	33
Cash flows from investing activities					
Purchase of property, plant and equipment		(5,626)	(6,725)	-	-
Proceeds from sale of plant and equipment		1	54	-	-
Equity dividends received		-	-	2,895	2,895
Interest received	5	8	9	-	-
Net cash (used in)/ generated from investing activities		(5,617)	(6,662)	2,895	2,895
Cash flows from financing activities					
Repayment of B shares	15	(101)	(33)	(101)	(33)
Equity dividends paid	20	(2,895)	(2,895)	(2,895)	(2,895)
Repayment of short-term borrowings	15	(6,000)	-	-	-
Re-financing costs		(349)	-	-	-
Net cash used in financing activities		(9,345)	(2,928)	(2,996)	(2,928)
Net (decrease)/increase in cash and cash equivalents		(5,638)	726	-	-
Cash and cash equivalents at beginning of year	14	8,737	8,011	-	-
Cash and cash equivalents at end of year	14	3,099	8,737	-	-

Notes to the Financial Statements

for the year ended 31 March 2016

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.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IAS 1 (amendments) Disclosure Initiative
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs: Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued
- 2012-2014 Cycle Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Financial Statements of the Group in future periods with the exception of IFRS 9. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until a detailed review has been completed.

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.

During the year the Group refinanced the previous £9.0 million revolving credit facility, which had been committed until 31 March 2016. In order to secure future financing for the Group and to support the AMP6 investment plan, the Group entered into a five-year £30.0 million facility on 15 May 2015. This facility ensures committed funding for the Group through to 2020, with an option for a two year extension if required, providing flexible and cost effective financing. At 31 March 2016, this facility was undrawn (2015: £6.0 million drawn on previous facility).

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 2016

Carrying Value of Long-Life Assets

The carrying value of property, plant and equipment (PPE) at 31 March 2016 was £97.5 million. Additions to PPE during the year totalled £6.2 million and the depreciation charge for the year was £4.8 million. The estimated useful lives of PPE are based on management's judgement and experience and those lives used generally in the water industry. When management identifies that actual useful lives differ materially from estimated useful lives used to calculate depreciation, the charge is adjusted prospectively.

The Group is required to evaluate whether the carrying value of PPE may be impaired and not recoverable. The impairment review compares the carrying value of PPE to the higher of its value in use and its fair value, less costs of disposal. Two valuation methods were considered in calculating the fair value, less costs of disposal, which is the higher of the two methods. Firstly, a market valuation based on market capitalisation plus net debt (Enterprise Value). Secondly, consideration was given to the Regulated Capital Value (RCV) of the business, including the premiums to RCV noted on recent transactions in the sector. The Directors consider the carrying amount of PPE to be recoverable based on these assessments of fair value, less costs of disposal.

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 2016, the Group's gross trade receivables were £6.1 million and the provision for impairment amounted to £2.7 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.

The impairment review compares the carrying value of goodwill to the higher of its value in use and its fair value, less costs of disposal. Two valuation methods were considered in calculating the fair value, less costs of disposal, which is the higher of the two methods. Firstly, a market valuation based on market capitalisation plus net debt (Enterprise Value). Secondly, consideration was given to the Regulated Capital Value (RCV) of the business, including the premiums to RCV noted on recent transactions in the sector. The Directors consider the carrying amount of goodwill to be recoverable based on these assessments of fair value, less costs of disposal.

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 in respect of 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.

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 Financial Statements, 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 the billing and collection of payments on behalf of 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.

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 10 – 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	5 – 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.

Notes to the Financial Statements continued

for the year ended 31 March 2016

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 3) 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.

2 Other Operating Income

	2016 £000	2015 £000
Billing commission	2,062	2,222
Deferred contributions released	204	181
Other	34	56
	2,300	2,459

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)

	2016 £000	2015 £000
Raw materials and consumables used	807	765
Employee benefits expense	4,607	5,057
Other operating expenses	8,671	9,278
Depreciation	4,790	4,505
	18,875	19,605

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

	2016 £000	2015 £000
Auditor's remuneration:		
Audit of the Company's annual accounts and consolidation	13	23
Audit of the Company's subsidiaries	34	34
Total audit services	47	57
Other services pursuant to legislation	13	48
Tax services	-	-
Pension services	-	-
Other services	7	9
Total non-audit services	20	57
Total Auditor's remuneration	67	114
Hire of property, plant and equipment	415	340
(Profit)/loss on disposal of assets	(1)	154

Notes to the Financial Statements continued

for the year ended 31 March 2016

4 Employee Benefits Expense

	2016 £000	2015 £000
Wages and salaries	5,840	5,591
Social security costs	558	547
Pension costs – defined benefit scheme (note 22)	433	405
Pension costs – defined contribution schemes (note 22)	217	194
Other post-retirement benefits	2	1
	7,050	6,738
Less employee costs of own work capitalised (note 10)	(2,443)	(1,681)
	4,607	5,057
Directors' remuneration	427	476

The amounts above include remuneration in respect of Directors. Full disclosure of Directors' remuneration is included in the Remuneration Committee report on page 54.

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

	2016	2015
Water operations	44	43
Water administration	79	75
Services division	48	49
	171	167

During the year the Company had no employees (2015: None).

5 Finance Income and Finance Expenses

	2016 £000	2015 £000
Finance income:		
Demand deposits	8	9
Net expected return on pension scheme assets (note 22)	267	260
	275	269
Finance expenses:		
Loan interest	1,972	1,938
Loan indexation	525	1,272
Fixed dividend on B shares	50	54
Amortisation of deferred financing costs	58	-
	2,605	3,264

6 Taxation

	2016 £000	2015 £000
(a) Analysis of (credit)/charge in the year		
Current year tax		
Current tax expense – continuing operations	570	716
Adjustment in respect of prior years	(87)	(41)
Current tax charge	483	675
Deferred tax		
Accelerated capital allowances:		
Current year	212	130
Prior years	126	40
Effect of substantive enactment of change in rate of corporation tax	(1,250)	-
	(912)	170
Retirement benefits:		
Current year	101	123
Effect of substantive enactment of change in rate of corporation tax	(83)	-
	18	123
Deferred tax (credit)/charge	(894)	293
Total tax (credit)/charge	(411)	968
(b) Recognised in the Statement of Comprehensive Income		
Deferred tax attributable to the actuarial gain on defined benefit pension scheme	228	340
Effect of change in corporation tax rate on accumulated actuarial gains	(75)	-
	153	340
(c) Reconciliation of effective tax rate		
Profit before tax	4,244	4,458
Profit before tax multiplied by the standard rate of corporation tax of 20% (2015: 21%)	849	936
Expenditure not deductible for tax purposes	34	9
Adjustment for prior years:		
Current tax	(87)	(41)
Deferred tax	126	40
	39	(1)
Effect of substantive enactment of change in rate of corporation tax	(1,333)	-
Other tax adjustments	-	24
Total tax (credit)/charge	(411)	968

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and subsequently to 18% (effective from 1 April 2020) was announced in the July 2015 budget and substantively enacted on 18 November 2015. The full impact of this change has been reflected in the deferred tax charge for the period ended 31 March 2016. The deferred tax liability at 31 March 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date (2015: 20%).

The Company's wholly-owned subsidiary, Energy Supplies UK Limited (ESUK), had unutilised tax losses of £1,788,000 at 31 March 2016 (2015: £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.

Notes to the Financial Statements continued

for the year ended 31 March 2016

7 Profit after Taxation

The profit for the year dealt with in the Financial Statements of the Company was £2,844,000 (2015: £2,841,000).

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 (2015: 4,632,170).

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

	2016 £000	2015 £000
Continuing operations	4,655	3,490

9 Goodwill

	2016 £000	2015 £000
Goodwill on the acquisition of Chester Water Limited	5,381	5,381

Goodwill relates to the acquisition of Chester Water Limited in 1997 and is subject to an annual impairment review. When this review indicates that the carrying value of the goodwill 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 fair value, less cost of disposal. Firstly, a market valuation based on market capitalisation plus net debt (Enterprise Value). Secondly, consideration was given to the Regulated Capital Value (RCV) of the business, including the premiums to RCV noted on recent transactions in the sector. The Directors consider the carrying amount of goodwill to be recoverable based on these assessments of fair value, less costs of disposal.

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 2014	64,613	59,811	17,291	141,715
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 1 April 2015	67,959	61,848	18,316	148,123
Additions:				
Purchased goods and services	1,416	1,005	1,323	3,744
Employee costs of own work capitalised	555	1,560	328	2,443
Disposals	(31)	(7)	(7)	(45)
At 31 March 2016	69,899	64,406	19,960	154,265
Depreciation				
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 1 April 2015	22,970	16,480	12,542	51,992
Charge for the year	2,209	1,578	1,003	4,790
Disposals	(31)	-	(7)	(38)
At 31 March 2016	25,148	18,058	13,538	56,744
Net book value				
At 31 March 2016	43,796	46,348	7,377	97,521
At 31 March 2015	44,989	45,368	5,774	96,131
At 31 March 2014	43,604	44,850	5,627	94,081

As at 31 March 2016, the gross carrying value of property, plant and equipment that was fully depreciated was £17,444,000 (2015: £15,713,000).

The Company has no property, plant and equipment (2015: £Nil). The Company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2016 or 31 March 2015.

Notes to the Financial Statements continued

for the year ended 31 March 2016

11 Investments

	Group Other investments (unlisted) £000	Company Shares in subsidiary undertakings £000
Cost at 31 March 2016	2	32,365
Cost at 31 March 2015	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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade receivables	6,135	5,812	-	-
Impairment provision (note 25)	(2,658)	(2,351)	-	-
	3,477	3,461	-	-

13 Other Receivables

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Amounts owed by Group undertakings	-	-	6,620	3,725
Other receivables	500	200	-	-
Prepayments and accrued income	1,553	1,753	-	-
	2,053	1,953	6,620	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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Demand deposits	2,904	8,609	-	-
Cash at bank and in hand	195	128	-	-
	3,099	8,737	-	-

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

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Cash at bank and in hand	195	128	-	-
Demand deposits	2,904	8,609	-	-
Overdrafts	-	-	-	-
	3,099	8,737	-	-

15 Interest-bearing Loans and Borrowings

Current	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
B shares	1,263	1,391	1,263	1,391
Short term loans	-	6,000	-	-
	1,263	7,391	1,263	1,391

During the year, the Company redeemed 55,625 (2015: 14,179) B shares, representing 0.40% (2015: 0.10%) of the original issued capital. The nominal value and consideration amounted to £127,938 (2015: £32,612).

Notes to the Financial Statements continued

for the year ended 31 March 2016

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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
3.5% Irredeemable Consolidated Debenture Stock		99	99	-	-
3.635% Secured Index-linked Loan:					
Principal	2032	35,000	35,000	-	-
Indexation	2032	17,198	16.673	-	-
		52,297	51,772	-	-

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) Limited. In the event of default, the interest and capital payments are guaranteed by Assured Guaranty (Europe) Limited. 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 2016 £000	Group 2015 £000	Company 2016 £000	Company 2016 £000
Amounts owed to Group undertakings	-	-	5,630	2,556
Trade payables	10,836	10,182	-	-
Other taxes and social security	182	176	-	-
Other payables	80	71	-	-
Deferred income – third party contributions	204	204	-	-
Accruals	1,101	1,291	-	-
	12,403	11,924	5,630	2,556

Notes to the Financial Statements continued

for the year ended 31 March 2016

17 Deferred Income

Third party contributions	Group 2016 £000	Group 2015 £000
Current	204	204
Non-current	9,880	8,980
	10,084	9,184

18 Deferred Tax

	Group £000
Balance at 1 April 2015	14,071
Deferred tax movement for the year	(741)
Balance at 31 March 2016	13,330

Deferred tax liabilities are calculated at a rate of 18% (2015: 20%) and are attributable to the following:

	At 1 April 2015 £000	Recognised in income statement £000	Recognised in statement of comprehensive income £000	At 31 March 2016 £000
Accelerated capital allowances	12,498	(912)	-	11,586
Pension asset	1,573	18	153	1,744
	14,071	(894)	153	13,330

	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

19 Share Capital

Share Capital in Equity	Voting Ordinary Shares 2016 £000	Voting Ordinary Shares 2015 £000	Non-Voting Ordinary Shares 2016 £000	Non-Voting Ordinary Shares 2015 £000
At 31 March	207	207	25	25

	Issued and fully paid 2016	Issued and fully paid 2015
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 2016

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	
	2016	2015	2016	2015
Number of B shares	13,897,717	13,897,717	549,133	604,758
Nominal value of B shares	£31,964,749	£31,964,749	£1,263,009	£1,390,947

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:

	2016 Pence per share	2016 £000	2015 Pence per share	2015 £000
Ordinary shares				
Previous year final dividend	42.0	1,739	42.0	1,739
Current year interim dividend	20.5	848	20.5	848
Non-voting ordinary shares				
Previous year final dividend	42.0	207	42.0	207
Current year interim dividend	20.5	101	20.5	101
		2,895		2,895

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

	2016 Pence per share	2016 £000	2015 Pence per share	2015 £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	1,739
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		2,895

The final dividend for the year ended 31 March 2016 of £1,946,000 (equivalent to 42.0 pence per share) will be proposed for approval at the Annual General Meeting on 21 July 2016 and has not been provided for as a liability at 31 March 2016.

21 Contractual Obligations

	2016 £000	2015 £000
Capital expenditure contracted but not included in the Financial Statements	1,810	1,564

Notes to the Financial Statements continued

for the year ended 31 March 2016

22 Pension Schemes

The Group offers stakeholder pension schemes. For the year ended 31 March 2016 employer contributions to such schemes amounted to £217,000 (2015: £194,000).

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 17 years.

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

Contributions are based on funding valuations typically carried out every three years; the next formal actuarial valuation is due to be carried out at 31 March 2017. Over the year to 31 March 2016, employer contributions of £848,000 (2015: £884,000) were paid to the Section. The estimated amount of total employer contributions expected to be paid to the Section during the year ended 31 March 2017 is £850,000.

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

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:

	2016 £000	2015 £000	2014 £000
Fair value of Section assets	60,168	61,241	52,585
Present value of defined benefit obligation	(50,479)	(53,375)	(47,031)
Net asset recognised in the balance sheet	9,689	7,866	5,554

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

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

	2016 £000	2015 £000
Employer's part of current service cost	433	405
Section expenses	123	125
Net interest credit	(267)	(260)
Total profit and loss charge	289	270

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

	2016 £000	2015 £000
Net actuarial (gains)/losses in the year due to:		
- Changes in financial assumptions	(2,124)	6,060
- Changes in demographic assumptions	-	(268)
- Experience adjustments on benefit obligations	(1,008)	403
Actuarial loss/(gain) on assets relative to interest on assets	1,868	(7,893)
Gain to recognise in other comprehensive income	(1,264)	(1,698)

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

	2016 £000	2015 £000
Opening defined benefit obligation	53,375	47,031
Employer's part of current service cost	433	405
Interest cost	1,676	1,972
Contributions from scheme members	122	117
Actuarial (gain)/loss	(3,132)	6,195
Benefits paid	(1,995)	(2,345)
Closing defined benefit obligation	50,479	53,375

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

	2016 £000	2015 £000
Opening fair value of Section assets	61,241	52,585
Expected return on Section assets	1,943	2,232
Actuarial (loss)/gain	(1,868)	7,893
Contributions by the employer	848	884
Contributions by Section members	122	117
Benefits paid	(1,995)	(2,345)
Expenses	(123)	(125)
Closing fair value of Section assets	60,168	61,241

Notes to the Financial Statements continued

for the year ended 31 March 2016

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

	2016	2015
Equity instruments	25%	28%
Diversified growth funds	8%	9%
Debt instruments	-	54%
Liability driven investment funds	57%	-
Emerging markets multi-asset funds	5%	4%
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. liability driven investments, which respond to factors such as changes in interest rates) and return-seeking assets (e.g. equities and other diversified assets) with the allocation to lower risk assets gradually increased so that by March 2035, 100% of the Section's assets are invested in lower risk assets.

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

Assumptions (per annum)	2016	2015	2014
Retail Prices Index inflation	3.1%	3.2%	3.6%
Consumer Prices Index inflation	2.1%	2.2%	2.6%
Discount rate	3.4%	3.2%	4.3%
Pension increases in payment			
• Uncapped CPI	2.2%	2.2%	2.6%
• CPI capped at 5% per annum	2.2%	2.2%	2.6%
Pensionable salary increases (capped at 2% per annum)	1.8%	1.8%	1.9%
Life expectancy of a male aged 60 at the balance sheet date	27.8 years	27.7 years	27.4 years
Life expectancy of a female aged 60 at the balance sheet date	29.7 years	29.6 years	29.7 years
Life expectancy of a male aged 60, twenty five years after the balance sheet date	30.8 years	30.6 years	29.9 years
Life expectancy of a female aged 60, twenty five years after the balance sheet date	32.2 years	32.1 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 2016.

Key financial assumptions	Assumption adopted	Sensitivity	Indicative change in liabilities %	£m
Discount rate	3.4% p.a.	+/- 0.5%	-7%/+8%	-3.7/+4.1
Consumer Prices Index (CPI) inflation	2.1% p.a.	+/-0.5%	+7%/-6%	+3.4/-3.0
Life expectancy:				
Current male pensioner aged 60 in 2016	27.8 years			
Current female pensioner aged 60 in 2016	29.7 years			
Future male pensioner aged 60 in 2041	30.8 years			
Future female pensioner aged 60 in 2041	32.2 years			
Sensitivity		+1 year	3%	1.5

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.

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	(1,263)	-	(1,263)	-	3.8	-
Irredeemable consolidated debenture stock	(99)	-	(99)	-	3.5	-
Index-linked loan to 2032 (note 15)	(52,198)	-	-	(52,198)	3.635[1]	16yrs
Short term loan	-	-	-	-	1.60	-
Cash at bank	195	195	-	-	-	-
Demand deposits	2,904	-	2,904	-	0.31	-
Net debt at 31 March 2016	(50,461)	195	1,542	(52,198)		

[1] Plus RPI

Notes to the Financial Statements continued

for the year ended 31 March 2016

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 2016, the Group held an undrawn revolving credit facility of £30.0 million. This facility has a five year term and is committed until 2020. For further details, see Note 1 to the Financial Statements (page 75).

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 54 to 59. During the year, the Company received dividends of £2,895,000 (2015: £2,895,000) 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 £76.7 million (2015: £79.1 million) compared to a book value of £52.2 million (2015: £51.7 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:

	2016 Gross £000	2016 Impairment £000	2016 Net £000	2015 Gross £000	2015 Impairment £000	2015 Net £000
Up to 1 year	3,673	(460)	3,213	3,890	(757)	3,133
Up to 2 years	1,161	(897)	264	976	(702)	274
Up to 3 years	614	(614)	-	447	(396)	51
Over 3 years	687	(687)	-	499	(496)	3
Trade receivables (note 12)	6,135	(2,658)	3,477	5,812	(2,351)	3,461

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 2014	
Provided during the year	1,641
Written off during the year	966
	(256)
At 1 April 2015	2,351
Provided during the year	497
Written off during the year	(190)
At 31 March 2016	2,658

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

Notes to the Financial Statements continued

for the year ended 31 March 2016

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 2016, the Group held an undrawn revolving credit facility of £30.0 million. This facility has a five year term and is committed until 2020. For further details, see Note 1 to the Financial Statements (page 75).

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

As at 31 March 2016	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	52,198	(117,892)	(949)	(968)	(2,013)	(6,423)	(107,539)
Short term loans	-	-	-	-	-	-	-
B shares	1,263	(1,263)	(1,263)	-	-	-	-
Irredeemable debenture stock	99	(100)	(2)	(2)	(4)	(12)	(80)
Trade and other payables	12,403	(12,403)	(12,403)	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-
	65,963	(131,658)	(14,617)	(970)	(2,017)	(6,435)	(107,619)

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)

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:

	2016 £000	2015 £000
Fixed rate instruments		
Financial assets	2,904	8,609
Financial liabilities	(1,362)	(7,490)
	1,542	1,119
Variable rate instruments		
Financial liabilities	(52,198)	(51,673)

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 2016	(547)	524
31 March 2015	(535)	510

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 2016 was £76.0 million (2015: £71.2 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 106 and 107 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 and are most likely to promote the success of the Company. 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 9 June 2016 amounted to 1,000 shares (0.024% 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 (company registration number 04316684) will be held on 21 July 2016 at the Ramada Wrexham, Ellice Way, Wrexham, LL13 7YH at 10:30am. The business of the meeting will be:

Ordinary Business

1. To receive and adopt the Directors' Report and audited Financial Statements for the Company for the year ended 31 March 2016 together with the Independent Auditor's report thereon.
2. To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy on pages 54 to 55 of the Directors' Remuneration Report), for the year ended 31 March 2016.
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 Philip Holder who, being required to retire by rotation, offers himself for re-election.
5. 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

6. To pass as an Ordinary Resolution:

a. 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:

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

ii. 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 (i) above) in connection with an offer by way of a rights issue:

A. to Ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

B. to holders of other equity securities as required by the rights of those securities or as the Board otherwise or considers necessary;

C. 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 2017, 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 23 July 2015.

7. To pass as a Special Resolution:

a. 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 7 above as if Section 561 of the Act did not apply to any such allotment and so that:

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

ii. 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 2017 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:

A. to the allotment of equity securities in connection with any rights issue; and

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

8. To pass as a Special Resolution:

a. 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:

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

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

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

A. 5 pence per Ordinary Share; and

B. 5 pence per Non-Voting Ordinary Share;

iv. 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);

v. the authority hereby conferred shall expire on 31 July 2017 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2017 unless previously renewed, varied or revoked by the Company in general meeting; and

vi. 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

Ian Plenderleith
Chief Executive
9 June 2016

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 close of business on 19 July 2016, (or, in the event of any adjournment, close of business on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

3. As at 9 June 2016 (being the last business day prior to the publication of this Notice) the Company's total issued share capital is 4,632,170 shares consisting of 4,138,902 Ordinary Shares, carrying one vote each and 493,268 Non-Voting Ordinary shares. Therefore, the total voting rights in the Company as at 9 June 2016 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. A corporation which is a shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
13. 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.
14. 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.
15. 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.
16. 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.
17. 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.
18. 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.
19. 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.
20. Capita Asset Services maintain the Company's share register. They also provide a telephone helpline service on 0871 664 0300 (calls cost 12 pence per minute plus network extras. Lines are open 9.00a.m. to 5.30p.m., Monday to Friday). If you are calling from overseas, the helpline number is +44 371 664 0300. If you have any queries about voting or about your shareholding, please contact Capita Asset Services.
21. Members have the right to ask questions at the meeting in accordance with section 319A of the 2006 Act.
22. 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.
23. 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 5.00p.m. on 9 June 2016, 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.
24. 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' Report and audited Financial Statements

Pursuant to section 437 of the Companies Act 2006 (CA 2006), the Board of Directors propose a resolution receiving and adopting the Directors' Report and audited Financial Statements for the Company for the financial year ended 31 March 2016 together with Independent Auditor's report thereon.

Resolution 2
Directors' Remuneration Report

Pursuant to section 439 of the CA 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 2016. 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 54 to 57 of the Report, is subject to a binding vote by shareholders at least every three years. The policy was approved at the 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 2016 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 1 July 2016 . Subject to approval by the Ordinary shareholders at the Annual General Meeting, the final dividend will be paid on 1 August 2016. An interim dividend of 20.5 pence per Ordinary Share and Non-Voting Share was paid on 5 January 2016. This gives a total dividend of 62.5 pence per Ordinary Share and Non-Voting Share for the year ended 31 March 2016.

Resolution 4
Re-election of Director

Philip Holder is the Director retiring by rotation this year and he offers himself 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 Director standing for re-election appear on page 42 of this Annual Report.

Resolution 5
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 5 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 6
Authority to issue shares

The purpose of resolution 6 is to renew the Directors' power to allot shares.

Paragraph (i) of resolution 6 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 9 June 2016 , the latest practicable date prior to publication of this Notice. In line with guidance issued by the Investment Association, paragraph (ii) 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 (i) of this resolution. This amount (before any reduction) represents approximately two thirds of the issued Ordinary Share capital of the Company as at 9 June 2016 , the latest practicable date prior to publication of this Notice. The authorities sought under paragraphs (i) and (ii) of resolution 6 will expire at the conclusion of the Annual General Meeting of the Company held in 2017. 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 7
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 8
Authority to purchase Ordinary Sharesn

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 2017 or on 31 July 2017, if earlier.

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

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

Dee Valley Group
Your local water company

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

Registered in England and Wales
Registered number 04316684

LSE Stock Code: DVW

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