ROBUST PERFORMANCE

Income statement

Earnings per share, group revenue, costs and other important financial information.

Further details are provided on page 96

Balance sheet

The group's balance sheet at 31 March 2015.

Further details are provided on page 99

Notes

Accounting policies, segmental information and other helpful guidance.

Further details are provided on page 101

Independent auditor's report to the members of Severn Trent Plc

Opinion on financial statements of Severn Trent Plc

In our opinion:

the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; 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 Consolidated income statement, the Consolidated and Parent Company statements of comprehensive income, the Consolidated and Parent Company balance sheets, the Consolidated cash flow statement, the Consolidated and Parent company statements of changes in equity and the related Consolidated notes 1 to 45 and Parent Company notes 1 to 16. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' Report on page 89 that the group is a going concern. We confirm that:

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

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

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited (£122.5 million) (note 4)	
A proportion of Severn Trent Water Limited's customers do not or cannot pay their bills which results in the need for provisions to be made for non payment of the customer balance. There is significant judgement involved in calculating the bad debt provision, particularly regarding the estimation of future cash collection. Provisions are made against Severn Trent Water Limited's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories.	We 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 Severn Trent Water Limited in the period using data analytics to understand the collection of previously aged debtors and to recompute the ageing analysis. We also tested the key controls relating to the production of the data used in the bad debt model and agreed a sample of this data back to its source, being the billing system.
Revenue recognition risk in relation to the estimation of unbilled revenue in Severn Trent Water Limited (£192.5 million) (note 4)	
For water and waste 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 judgement because the estimated usage is based upon historical data and assumptions around consumption patterns.	We challenged the validity of management's estimate of current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques. In addition, we used data analytics to recompute the total level of unbilled revenue for the current year in Severn Trent Water Limited as well as testing the operating effectiveness of controls relating to the key data inputs to the model and agreed a sample of this data back to its source.
Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited (note 7)	
Severn Trent Water Limited has a substantial capital programme (fixed asset additions in the year £423.8 million) which has been agreed with Ofwat and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year (£134.8 million) in which it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental.	We assessed the group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the group's capital programme during the year. This includes consideration of the allocation of costs between capital and operating expenditure. In addition, for a sample of capital projects, we assessed the application of the capitalisation policy to the costs incurred by agreement to third party invoices and obtained explanations and further support for any significant changes in capital expenditure from budget.
Determining the amount of the group's retirement benefit obligations (£468.9 million deficit) (note 28)	
This is a key area of judgement because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners.	With support from the pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 28, specifically regarding the discount rate, inflation rate and mortality assumptions with reference to comparable market and other third party data.
Determination of current and deferred tax balances (£32.7 million) (note 13)	
Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions.	With support from the tax specialists within our audit team, we considered the likely outcomes of uncertain tax positions and reviewed correspondence with the relevant tax authorities to assess the appropriateness of the tax balances that have been recorded in the balance sheet.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 63.

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

Independent auditor's report to the members of Severn Trent Plc continued

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 £18 million (2014: £18 million), which is approximately 6.0% (2014: approximately 7.0%) of pre-tax profit before exceptional items and other adjustments including the fair value movements in financial instruments. As in 2014, these items are excluded to focus on the group's underlying trading performance, consistent with the group's internal and external reporting. We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £750,000, 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 judgements 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. Based on that assessment, we focused our group audit scope on the consolidation at the parent company level and the group's two business segments being Severn Trent Water Limited and Severn Trent Services. Severn Trent Water Limited was subject to a full statutory audit using component materiality of £15 million and it accounts for over 90% (2014: over 90%) of the group's net operating assets and operating profit. The extent of our testing on Severn Trent Services was based on our assessment of the risks of material misstatement and the materiality of the segment's global business operations, principally in the UK and the US. The materiality of each component being lower than that of the group, with the highest materiality (£12 million) applied to the US component. At the parent company level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The group audit team follows a programme of planned visits to the auditors of each of the significant components of the group not audited by the group team. This primarily relates to the Severn Trent Services audit team in the US. The Senior Statutory Auditor or another senior member of the group team visits the Severn Trent Services audit team in the US at least once every two years. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and • the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Carl D Hughes MA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

21 May 2015

Consolidated income statement

For the year ended 31 March 2015

	Notes	2015 £m	2014 Restated £m
Turnover	5, 6	**1,801.3**	1,756.7
Operating costs before exceptional items	7	**(1,261.0)**	(1,232.9)
Exceptional operating costs	8	**(18.7)**	(15.2)
Total operating costs	7	**(1,279.7)**	(1,248.1)
Profit before interest, tax and exceptional items	5	**540.3**	523.8
Exceptional items before interest and tax	8	**(18.7)**	(15.2)
Profit before interest and tax		**521.6**	508.6
Finance income	10	**81.7**	80.8
Finance costs	11	**(321.7)**	(328.7)
Net finance costs		**(240.0)**	(247.9)
(Losses)/gains on financial instruments	12	**(133.5)**	58.0
Share of results of associates and joint ventures		**0.1**	0.2
Profit before tax, (losses)/gains on financial instruments and exceptional items		**300.4**	276.1
Exceptional items before tax	8	**(18.7)**	(15.2)
(Losses)/gains on financial instruments	12	**(133.5)**	58.0
Profit on ordinary activities before taxation		**148.2**	318.9
Current tax excluding exceptional credit	13	**(37.8)**	(55.8)
Deferred tax excluding exceptional credit	13	**5.1**	(21.5)
Exceptional tax credit	13	**–**	230.2
Total taxation on profit on ordinary activities	13	**(32.7)**	152.9
Profit for the year from continuing operations		**115.5**	471.8
Profit/(loss) for the year from discontinued operations	38	**4.7**	(36.9)
Profit for the year		**120.2**	434.9
Attributable to:			
Owners of the company		**119.1**	433.8
Non-controlling interests		**1.1**	1.1
		120.2	434.9
Earnings per share (pence)			
From continuing operations			
Basic	15	**48.3**	198.5
Diluted	15	**48.1**	197.6
From continuing and discontinued operations			
Basic	15	**49.9**	182.1
Diluted	15	**49.6**	181.3

Consolidated statement of comprehensive income

For the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	**120.2**	434.9
Other comprehensive loss		
Items that will not be reclassified to the income statement:		
Net actuarial (loss)/gain on defined benefit pension schemes	**(143.4)**	3.7
Tax on net actuarial loss/gain	**28.8**	(0.8)
Deferred tax arising on change of rate	**–**	(12.3)
	(114.6)	(9.4)
Items that may be reclassified to the income statement:		
(Loss)/gain on cash flow hedges	**(13.8)**	15.1
Deferred tax on loss/gain on cash flow hedges	**2.8**	(3.0)
Amounts on cash flow hedges transferred to the income statement in the year	**23.6**	8.1
Deferred tax on transfers to income statement	**(4.7)**	(1.6)
Exchange movement on translation of overseas results and net assets	**8.9**	(9.7)
	16.8	8.9
Other comprehensive loss for the year	**(97.8)**	(0.5)
Total comprehensive income for the year	**22.4**	434.4
Attributable to:		
Owners of the company	**19.6**	434.3
Non-controlling interests	**2.8**	0.1
	22.4	434.4

Consolidated statement of changes in equity

For the year ended 31 March 2015

	Equity attributable to owners of the company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 April 2013	233.3	89.7	72.3	437.9	833.2	10.8	844.0
Profit for the period	–	–	–	433.8	433.8	1.1	434.9
Gains on cash flow hedges	–	–	15.1	–	15.1	–	15.1
Deferred tax on gains on cash flow hedges	–	–	(3.0)	–	(3.0)	–	(3.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.1	–	8.1	–	8.1
Deferred tax on transfers to the income statement	–	–	(1.6)	–	(1.6)	–	(1.6)
Exchange movement on translation of overseas results and net assets	–	–	(8.7)	–	(8.7)	(1.0)	(9.7)
Actuarial gains	–	–	–	3.7	3.7	–	3.7
Tax on actuarial gains	–	–	–	(0.8)	(0.8)	–	(0.8)
Deferred tax arising from rate change	–	–	–	(12.3)	(12.3)	–	(12.3)
Total comprehensive income for the period	–	–	9.9	424.4	434.3	0.1	434.4
Share options and LTIPs							
– proceeds from shares issued	0.6	4.5	–	–	5.1	–	5.1
– value of employees' services	–	–	–	5.8	5.8	–	5.8
– own shares purchased	–	–	–	(2.8)	(2.8)	–	(2.8)
Current tax on share based payments	–	–	–	1.0	1.0	–	1.0
Adjustment arising from change in non-controlling interest	–	–	–	(13.7)	(13.7)	2.2	(11.5)
Dividends paid	–	–	–	(185.3)	(185.3)	(0.6)	(185.9)
At 31 March 2014	233.9	94.2	82.2	667.3	1,077.6	12.5	1,090.1
Profit for the period	–	–	–	119.1	119.1	1.1	120.2
Losses on cash flow hedges	–	–	(13.8)	–	(13.8)	–	(13.8)
Deferred tax on losses on cash flow hedges	–	–	2.8	–	2.8	–	2.8
Amounts on cash flow hedges transferred to the income statement	–	–	23.6	–	23.6	–	23.6
Deferred tax on transfers to the income statement	–	–	(4.7)	–	(4.7)	–	(4.7)
Exchange movement on translation of overseas results and net assets	–	–	7.2	–	7.2	1.7	8.9
Actuarial losses	–	–	–	(143.4)	(143.4)	–	(143.4)
Tax on actuarial losses	–	–	–	28.8	28.8	–	28.8
Total comprehensive income for the period	–	–	15.1	4.5	19.6	2.8	22.4
Share options and LTIPs							
– proceeds from shares issued	0.7	6.0	–	–	6.7	–	6.7
– value of employees' services	–	–	–	7.7	7.7	–	7.7
– own shares purchased	–	–	–	(5.9)	(5.9)	–	(5.9)
Current tax on share based payments	–	–	–	0.7	0.7	–	0.7
Deferred tax on share based payments	–	–	–	(0.1)	(0.1)	–	(0.1)
Share buy back	–	–	–	(100.0)	(100.0)	–	(100.0)
Share cancellation	(0.9)	–	0.9	–	–	–	–
Transfer	–	–	–	0.5	0.5	(0.5)	–
Dividends paid	–	–	–	(196.9)	(196.9)	(1.4)	(198.3)
At 31 March 2015	**233.7**	**100.2**	**98.2**	**377.8**	**809.9**	**13.4**	**823.3**

Consolidated balance sheet

At 31 March 2015

	Note	2015 £m	2014 £m
Non-current assets			
Goodwill	16	**14.3**	14.8
Other intangible assets	17	**66.7**	80.2
Property, plant and equipment	18	**7,239.8**	7,023.5
Interests in joint ventures and associates	19	**4.6**	5.2
Derivative financial assets	20	**13.5**	72.4
Available for sale financial assets	20	**0.1**	0.1
		7,339.0	7,196.2
Current assets			
Inventory		**16.7**	27.2
Trade and other receivables	21	**492.0**	513.2
Current tax receivable		**11.2**	16.5
Derivative financial assets	20	**13.5**	12.9
Cash and cash equivalents	22	**176.7**	123.2
Assets held for sale	38	**107.9**	–
		818.0	693.0
Total assets		**8,157.0**	7,889.2
Current liabilities			
Borrowings	23	**(463.0)**	(206.1)
Derivative financial liabilities	25	**(32.2)**	(24.8)
Trade and other payables	26	**(494.0)**	(412.7)
Provisions for liabilities and charges	29	**(15.9)**	(12.1)
Liabilities associated with assets held for sale	38	**(35.3)**	–
		(1,040.4)	(655.7)
Non-current liabilities			
Borrowings	23	**(4,463.7)**	(4,416.0)
Derivative financial liabilities	25	**(175.1)**	(206.2)
Trade and other payables	26	**(542.0)**	(492.4)
Deferred tax	27	**(625.1)**	(654.0)
Retirement benefit obligations	28	**(468.9)**	(348.3)
Provisions for liabilities and charges	29	**(18.5)**	(26.5)
		(6,293.3)	(6,143.4)
Total liabilities		**(7,333.7)**	(6,799.1)
Net assets		**823.3**	1,090.1
Equity			
Called up share capital	30	**233.7**	233.9
Share premium account	31	**100.2**	94.2
Other reserves	32	**98.2**	82.2
Retained earnings		**377.8**	667.3
Equity attributable to owners of the company		**809.9**	1,077.6
Non-controlling interests		**13.4**	12.5
Total equity		**823.3**	1,090.1

Signed on behalf of the board who approved the accounts on 21 May 2015.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company Number: 2366619

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Consolidated cash flow statement

For the year ended 31 March 2015

	Note	2015 £m	2014 £m
Cash generated from operations	39	**760.1**	730.2
Tax (paid)/received		**(28.6)**	27.2
Net cash generated from operating activities		**731.5**	757.4
Investing activities			
Interest received		**1.8**	6.5
Acquisition of non-controlling interests		**–**	(11.4)
Proceeds on disposal of property, plant and equipment and intangible assets		**11.6**	10.3
Purchases of intangible assets		**(17.7)**	(13.9)
Purchases of property, plant and equipment		**(446.2)**	(490.6)
Contributions and grants received		**36.2**	30.3
Net cash used in investing activities		**(414.3)**	(468.8)
Financing activities			
Interest paid		**(213.1)**	(206.9)
Payments to close out interest rate swaps		**(139.2)**	–
Interest element of finance lease payments		**(6.9)**	(4.2)
Dividends paid to owners of the company		**(196.9)**	(185.3)
Dividends paid to non-controlling interests		**(1.4)**	(0.6)
Repayments of borrowings		**(334.2)**	(172.4)
Repayments of obligations under finance leases		**(21.2)**	(0.4)
New loans raised		**685.0**	0.7
Issue of shares		**6.7**	5.1
Share buy back		**(17.5)**	–
Purchase of own shares		**(5.9)**	(2.8)
Net cash used in financing activities		**(244.6)**	(566.8)
Increase/(decrease) in cash and cash equivalents		**72.6**	(278.2)
Net cash and cash equivalents at beginning of period		**123.2**	403.2
Effect of foreign exchange rates		**0.2**	(1.8)
Transferred to assets held for sale	38	**(19.3)**	–
Net cash and cash equivalents at end of period		**176.7**	123.2
Net cash and cash equivalents comprise:			
Cash at bank and in hand		**24.9**	46.4
Short term deposits		**151.8**	76.8
Net cash and cash equivalents at end of period		**176.7**	123.2

The increase in cash and cash equivalents is reconciled to the movement in net debt in note 39.

Notes to the group financial statements

For the year ended 31 March 2015

1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the annual report and accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the group and the parent company have been prepared on the going concern basis (see Directors' report on page 89) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value.

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2015.

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006. The company meets the definition of a qualifying entity as defined in FRS 100 'Financial Reporting Standard 100', accordingly the company has elected to apply FRS 101 'Reduced Disclosure Framework.

Therefore the recognition and measurement requirements of EU adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income.

Severn Trent Plc is a partner in Severn Trent Limited Partnership ("the partnership"), which is registered in Scotland. As the partnership is included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the group and the parent company are set out below and have been applied consistently. Differences in the accounting policies applied in the consolidated and the parent company financial statements are described below.

(iii) Prior year restatement

Prior year figures in the consolidated income statement and related notes have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details see note 38.

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries, joint ventures and associated undertakings. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the group has the power to control a subsidiary.

Joint venture undertakings are accounted for on an equity basis where the group exercised joint control under a contractual arrangement.

Associates are accounted for on an equity basis where the group holding is 20% or more or the group has the power to exercise significant influence.

Non-controlling interests in the net assets of subsidiaries are identified separately from the group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date.

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not included within the group financial statements.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer or the goods to which the sale relates have either been despatched to the customer or, where they are held on the customer's behalf, title has passed to the customer.

Turnover includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

In respect of long term contracts, turnover is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

Notes to the group financial statements continued

2 Accounting policies (continued)

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred taxation is measured on an undiscounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired.

Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates is included in investments in associates. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves. Purchased goodwill arising on acquisitions after 31 March 1998 is treated as an intangible fixed asset.

Goodwill is tested for impairment in accordance with the policy set out in note 2l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

g) Other intangible non-current assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the historical cost model is applied.

Finite life intangible assets are amortised on a straight line basis over their estimated useful economic lives as follows:

	Years
Software	3-10
Other assets	2-20

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Intangible assets are reviewed for impairment where indicators of impairment exist, (see 2l).

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

Costs incurred in bidding and preparing for contracts are expensed as incurred except where it is probable that the contract will be awarded, in which case they are recognised as a prepayment which is written off to the income statement over the life of the contract.

The group assesses that it is probable that a contract will be awarded when preferred bidder or equivalent status has been achieved and there are no significant impediments to the award of the contract.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like for like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover. Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

Where assets take a substantial period of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

2 Accounting policies (continued)

i) Property, plant and equipment (continued)

Property, plant and equipment is depreciated to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80-150
Sewers	150-200
Other assets	
Buildings	30-80
Fixed plant and equipment	20-40
Vehicles and mobile plant	2-15

j) Leased assets

Leases where the group obtains assets which transfer substantially all the risks and rewards of ownership to the group are treated as finance leases. The lower of the fair value of the leased asset or the present value of the minimum lease payments is capitalised as an asset with a corresponding liability representing the obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the finance charge being written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

Leases where substantially all the risks and rewards of ownership remain with the lessor are classified as operating leases. Rental costs arising under operating leases are expensed on a straight line basis over the term of the lease. Leases of land are normally treated as operating leases, unless ownership is transferred to the group at the end of the lease.

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to operating costs over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable.

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the group's cost of capital adjusted for the risk profiles of individual businesses.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost.

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as held for trading or available for sale are measured at fair value, with gains or losses recognised in profit and loss or equity respectively. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in reserves is taken to the profit and loss account.

n) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads.

o) Trade receivables

Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the group's historical collection experience for receivables of similar age.

p) Service concession agreements

Where the group has an unconditional right to receive cash from a government body in exchange for constructing or upgrading a public sector asset, the amounts receivable are recognised as a financial asset in prepayments and accrued income.

Costs of constructing or upgrading the public sector asset are recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract.

Notes to the group financial statements continued

2 Accounting policies (continued)

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net deficit.

Changes in the retirement benefit obligation arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions.

Such changes are classified as remeasurements and are charged or credited to equity and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating group companies. Therefore, the parent recognises a charge in the profit and loss account which is equal to the contributions payable in the year. The net defined benefit cost is recognised by the sponsoring employer, Severn Trent Water Limited.

(ii) Defined contribution scheme

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions in the group's captive insurance subsidiary are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares

Shares held by the Severn Trent Employee Share Ownership Trust which have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2u).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date.

Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments.

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34a. The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs.

Derivatives not designated as hedging instruments

Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments

The group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations.

At the inception of each hedge relationship, the group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in fair values or cash flows (as appropriate) of the hedged item.

The group continues to test and document the effectiveness of the hedge on an ongoing basis.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

2 Accounting policies (continued)

u) Derivative financial instruments (continued)

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. If the hedging instrument is terminated, the gains and losses previously recognised in equity are transferred to the income statement. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

v) Share based payments

The group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

x) Net debt

Net debt comprises borrowings, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not) and net cash and cash equivalents.

y) Foreign currency

The results of overseas subsidiary and associated undertakings are translated into sterling, the presentational currency of the group, using average rates of exchange ruling during the year.

The net investments in overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences arising are treated as movements in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in equity since 1 April 2004 relating to that entity is recognised in the income statement under the transitional rule of IFRS 1.

Foreign currency denominated assets and liabilities of the company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the income statement.

Notes to the group financial statements continued

2 Accounting policies (continued)

z) Discontinued operations and assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and fair value less costs to sell. Depreciation is not charged on such assets.

Where a group of assets which comprises operations that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the group (a component), has been disposed of or classified as held for sale, and it:

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale;

then the component is classified as a discontinued operation.

3 New accounting policies and future requirements

The group has adopted IFRS 10, IFRS 11 and IFRS 12 with effect from 1 April 2014. These have not had a material impact on the results or net assets of the group or company.

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

IFRS 9 "Financial Instruments" is likely to affect the measurement and disclosure of financial instruments. This Standard has not yet been adopted by the EU.

IFRS 15 "Revenue from contracts with customers" will affect the measurement and recognition of revenue with effect from 1 April 2018. The impact on the results or net assets of the group or company of the changes to the standard has not yet been quantified.

4 Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the group's accounting policies, the group is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The more significant judgements were:

a) Tax provisions

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

b) Provisions for other liabilities and charges

Assessing the financial outcome of uncertain commercial and legal positions requires judgements to be made regarding the relative merits of each party's case and the extent to which any claim against the group is likely to be successful. The assessments made are based on advice from the group's internal counsel and, where appropriate, independent legal advice.

The key accounting estimates were:

a) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the group's experience of similar assets. Details are set out in note 2i).

b) Retirement benefit obligations

Determining the amount of the group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 28 to the financial statements.

c) Unbilled revenue

Severn Trent Water raises bills and recognises revenue in accordance with its right to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and waste water customers with water meters, the amount recognised depends on the volume supplied including an estimate of the sales value of units supplied between the date of the last meter read and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing to the end of the financial year. The estimated usage is based on historical data, judgement and assumptions.

d) Provision for impairment of trade receivables

Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in a particular ageing category. The actual amounts collected could differ from the estimated level of recovery which could impact operating results.

e) Fair value of derivatives

Determining the fair value of derivatives where quoted prices are not available requires estimates to be made of the future expected cash flows and an appropriate discount rate which reflects the credit risk of the counterparties. The valuation techniques and key inputs used are described in note 34.

5 Segmental analysis

The group has two reportable segments: Severn Trent Water and Severn Trent Services. The key factor determining the identification of reportable segments is the regulatory environment in which the businesses operate. Severn Trent Water is subject to economic regulation by Ofwat and operates under a licence to provide water and sewerage services within a defined geographical region in England and Wales. Severn Trent Services is not subject to economic regulation and operates in markets in the USA, Europe and Asia. Interests in joint ventures and associates are not material and are not included in the segmental reports reviewed by STEC.

The Severn Trent Executive Committee (STEC) is considered to be the group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Severn Trent Water's operations are described on pages 18 to 29 of the Strategic Review and those of Severn Trent Services on pages 32 to 35.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with group accounting policies. These are eliminated on consolidation.

The group has a large and diverse customer base and there is no significant reliance on any single customer.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT (profit before interest, tax and exceptional items). A segmental analysis of sales and underlying PBIT is presented below.

The results from the Water Purification business have been excluded from the Severn Trent Services segment, in both the current and prior year, as it has been classified as a discontinued operation. See note 38.

a) Segmental results

	2015		2014	
	Severn Trent Water £m	**Severn Trent Services £m**	Severn Trent Water £m	Severn Trent Services Restated £m
External sales	**1,579.1**	**216.2**	1,542.6	209.9
Inter-segment sales	**2.1**	**0.1**	2.2	0.3
Total sales	**1,581.2**	**216.3**	1,544.8	210.2
Profit before interest, tax and exceptional items	**539.0**	**9.7**	518.6	13.3
Exceptional items	**(20.6)**	**1.9**	8.2	(2.3)
Profit before interest and tax	**518.4**	**11.6**	526.8	11.0
Profit before interest, tax and exceptional items is stated after:				
Amortisation of intangible assets	**22.2**	**1.0**	28.0	0.9
Depreciation of property, plant and equipment	**276.7**	**3.5**	267.5	3.2
Profit on disposal of fixed assets	**(0.4)**	**(0.1)**	(0.3)	(0.2)

The reportable segments' revenue is reconciled to group turnover as follows:

	2015 £m	2014 Restated £m
Severn Trent Water	**1,581.2**	1,544.8
Severn Trent Services	**216.3**	210.2
Other	**15.8**	13.1
Inter-segment sales	**(12.0)**	(11.4)
Group turnover	**1,801.3**	1,756.7

Notes to the group financial statements continued

5 Segmental analysis (continued)

a) Segmental results (continued)

Segmental underlying PBIT is reconciled to the group's profit before tax and discontinued operations as follows:

	2015 £m	2014 Restated £m
Underlying PBIT		
– Severn Trent Water	**539.0**	518.6
– Severn Trent Services	**9.7**	13.3
– Corporate and other costs	**(12.1)**	(11.5)
Consolidation adjustments	**3.7**	3.4
Group underlying PBIT	**540.3**	523.8
Exceptional items allocated to segments		
– Severn Trent Water	**(20.6)**	8.2
– Severn Trent Services	**1.9**	(2.3)
– Corporate and other	**–**	(21.1)
Share of results of associates and joint ventures	**0.1**	0.2
Net finance costs	**(240.0)**	(247.9)
(Losses)/gains on financial instruments	**(133.5)**	58.0
Profit before tax and discontinued operations	**148.2**	318.9

The group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

b) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed which includes the following components:

	2015		2014	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Operating assets	**7,679.9**	**100.9**	7,442.2	172.8
Goodwill	**1.3**	**14.3**	1.3	14.8
Interests in joint ventures and associates	**0.1**	**4.5**	0.1	5.0
Segment assets	**7,681.3**	**119.7**	7,443.6	192.6
Segment operating liabilities	**(1,350.1)**	**(58.8)**	(1,155.7)	(92.2)
Capital employed	**6,331.2**	**60.9**	6,287.9	100.4

Operating assets comprise other intangible assets, property, plant and equipment, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

Capital employed does not include assets held for sale or liabilities associated with assets held for sale.

5 Segmental analysis (continued)

b) Segmental capital employed (continued)

Additions to other intangible assets and property, plant and equipment were as follows:

	2015		2014	
	Severn Trent Water £m	**Severn Trent Services £m**	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	**15.4**	**1.0**	8.2	5.5
Property, plant and equipment	**481.3**	**2.7**	519.6	6.9

The reportable segments' assets are reconciled to the group's total assets as follows:

	Note	**2015 £m**	2014 £m
Segment assets			
– Severn Trent Water		**7,681.3**	7,443.6
– Severn Trent Services		**119.7**	192.6
Corporate assets		**78.6**	68.2
Other financial assets		**203.8**	208.6
Current tax receivable		**11.2**	16.5
Assets held for sale	38	**107.9**	–
Consolidation adjustments		**(45.5)**	(40.3)
Total assets		**8,157.0**	7,889.2

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the group's total liabilities as follows:

	Note	**2015 £m**	2014 £m
Segment liabilities			
– Severn Trent Water		**(1,350.1)**	(1,155.7)
– Severn Trent Services		**(58.8)**	(92.2)
Corporate liabilities		**(149.1)**	(60.1)
Other financial liabilities		**(5,134.0)**	(4,853.1)
Deferred tax		**(625.1)**	(654.0)
Liabilities associated with assets held for sale	38	**(35.3)**	–
Consolidation adjustments		**18.7**	16.0
Total liabilities		**(7,333.7)**	(6,799.1)

The consolidation adjustments comprise elimination of intra-group creditors.

Notes to the group financial statements continued

5 Segmental analysis (continued)

c) Geographical areas

The group's sales were derived from the following countries:

	2015 £m	2014 Restated £m
UK	**1,649.4**	1,610.9
USA	**129.3**	120.1
Other	**22.6**	25.7
	1,801.3	1,756.7

The group's non-current assets (excluding financial instruments, deferred tax assets and post employment benefit assets) were located in the following countries:

	2015 £m	2014 £m
UK	**7,299.2**	7,084.8
USA	**25.2**	36.1
Other	**1.1**	2.9
	7,325.5	7,123.8

6 Revenue

	2015 £m	2014 Restated £m
Regulated water and sewerage services	**1,570.5**	1,534.5
Other services	**187.3**	180.0
Service concession arrangements (note 41)	**43.5**	42.2
Total turnover	**1,801.3**	1,756.7
Interest receivable (note 10)	**1.6**	4.8
	1,802.9	1,761.5

7 Operating costs

	2015			2014 Restated		
	Before exceptional costs £m	**Exceptional costs £m**	**Total £m**	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	**276.7**	**13.5**	**290.2**	267.4	2.2	269.6
Social security costs	**20.0**	**0.1**	**20.1**	20.0	–	20.0
Pension costs	**32.4**	**17.9**	**50.3**	32.0	–	32.0
Share based payments	**7.7**	**–**	**7.7**	6.2	–	6.2
Total employee costs	**336.8**	**31.5**	**368.3**	325.6	2.2	327.8
Power	**68.8**	**–**	**68.8**	70.9	–	70.9
Carbon Reduction Commitment	**7.3**	**–**	**7.3**	5.9	–	5.9
Raw materials and consumables	**75.7**	**–**	**75.7**	72.8	–	72.8
Rates	**74.1**	**–**	**74.1**	75.6	–	75.6
Charge for bad and doubtful debts	**30.1**	**(6.3)**	**23.8**	31.4	–	31.4
Service charges	**32.6**	**–**	**32.6**	31.6	–	31.6
Depreciation of property, plant and equipment	**280.4**	**–**	**280.4**	268.8	–	268.8
Amortisation and impairment of intangible fixed assets	**23.2**	**0.2**	**23.4**	28.9	–	28.9
Hired and contracted services	**222.8**	**0.7**	**223.5**	208.7	18.7	227.4
Operating leases rentals						
– land and buildings	**1.4**	**0.1**	**1.5**	2.0	–	2.0
– other	**1.2**	**–**	**1.2**	1.5	–	1.5
Hire of plant and machinery	**0.3**	**–**	**0.3**	3.3	–	3.3
Research and development expenditure	**4.6**	**–**	**4.6**	4.1	–	4.1
Profit on disposal of property, plant and equipment	**(0.9)**	**(7.7)**	**(8.6)**	(0.4)	(8.2)	(8.6)
Foreign exchange (gains)/losses	**(0.1)**	**–**	**(0.1)**	0.6	–	0.6
Infrastructure maintenance expenditure	**134.8**	**–**	**134.8**	140.3	–	140.3
Ofwat license fees	**5.3**	**–**	**5.3**	3.7	–	3.7
Other operating costs	**65.1**	**0.2**	**65.3**	59.7	2.5	62.2
	1,363.5	**18.7**	**1,382.2**	1,335.0	15.2	1,350.2
Release from deferred income	**(10.1)**	**–**	**(10.1)**	(9.5)	–	(9.5)
Own work capitalised	**(92.4)**	**–**	**(92.4)**	(92.6)	–	(92.6)
	1,261.0	**18.7**	**1,279.7**	1,232.9	15.2	1,248.1

Further details of exceptional costs are given in note 8.

During the year the following fees were charged by the auditors:

	2015 £m	2014 £m
Fees payable to the company's auditors for		
– the audit of the company's annual accounts	**0.2**	0.1
– the audit of the company's subsidiary accounts	**0.4**	0.5
Total audit fees	**0.6**	0.6
Fees payable to the company's auditors and their associates for other services to the group		
– audit related assurance services	**0.1**	0.1
– other services relating to taxation	**0.1**	0.1
– other assurance services	**0.4**	0.4
Total non-audit fees	**0.6**	0.6

Details of directors' remuneration are set out in the Directors' Remuneration report on pages 69 to 85.

Other assurance services include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water Limited's regulatory reporting requirements to Ofwat. In the current year, the balance includes fees in connection with PR14.

Details of the group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee Report on pages 63 to 65. No services were provided pursuant to contingent fee arrangements.

Notes to the group financial statements continued

8 Exceptional items before tax

	2015 £m	2014 Restated £m
Severn Trent Water		
Restructuring costs	**28.3**	–
Profit on disposal of fixed assets	**(7.7)**	(8.2)
	20.6	(8.2)
Severn Trent Services		
Restructuring costs	**4.4**	2.3
Release of bad debt provision	**(6.3)**	–
	(1.9)	2.3
Corporate and Other		
Professional fees related to LongRiver proposal	**–**	18.7
Provision for terminated operations and disposals	**–**	2.4
	–	21.1
Total exceptional operating items before tax	**18.7**	15.2

Exceptional tax is disclosed in note 13.

9 Employee numbers

Average number of employees (including executive directors) during the year:

	2015			2014		
	Continuing operations Number	Discontinued operations Number	Total Number	Continuing operations Number	Discontinued operations Number	Total Number
By type of business						
Severn Trent Water	**5,532**	**–**	**5,532**	5,634	–	5,634
Severn Trent Services	**1,888**	**419**	**2,307**	1,895	444	2,339
Corporate and Other	**22**	**–**	**22**	19	–	19
	7,442	**419**	**7,861**	7,548	444	7,992

10 Finance income

	2015 £m	2014 £m
Interest income earned on:		
Bank deposits	**0.6**	1.8
Other financial income	**1.0**	3.0
Total interest receivable	**1.6**	4.8
Interest income on defined benefit scheme assets	**80.1**	76.0
	81.7	80.8

11 Finance costs

	2015 £m	2014 £m
Interest on bank loans and overdrafts	**17.1**	22.0
Interest on other loans	**201.8**	205.0
Interest on finance leases	**6.9**	7.7
Total borrowing costs	**225.8**	234.7
Other financial expenses	**1.4**	2.3
Interest cost on defined benefit scheme obligations	**94.5**	91.7
	321.7	328.7

Borrowing costs of £19.8 million (2014: £13.8 million) incurred funding eligible capital projects have been capitalised at an interest rate of 4.89% (2014: 5.11%). Tax relief of £4.2 million (2014: £3.2 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £4.0 million (2014: £2.8 million).

12 (Losses)/gains on financial instruments

	2015 £m	2014 £m
Loss on cross currency swaps used as hedging instruments in fair value hedges	**(2.6)**	(26.5)
Gain arising on adjustment for foreign currency debt in fair value hedges	**–**	21.9
Exchange gain on other loans	**73.3**	24.2
Loss on cash flow hedges transferred from equity	**(23.6)**	(8.1)
Hedge ineffectiveness on cash flow hedges	**2.8**	2.0
(Loss)/gain arising on swaps where hedge accounting is not applied	**(183.4)**	44.5
	(133.5)	58.0

The group's hedge accounting arrangements are described in note 36.

13 Taxation

a) Analysis of tax charge/(credit) in the year

	2015			2014 Restated
	Total £m	Before exceptional tax £m	Exceptional tax £m	Total £m
Current tax				
Current year at 21% (2014: 23%)	**46.4**	46.5	–	46.5
Prior years at 23% (2014: 24%)	**(8.6)**	9.3	(59.2)	(49.9)
Total current tax	**37.8**	55.8	(59.2)	(3.4)
Deferred tax				
Origination and reversal of temporary differences – current year	**(11.3)**	30.2	–	30.2
Origination and reversal of temporary differences – prior year	**6.2**	(8.7)	(56.2)	(64.9)
Exceptional credit arising from rate change	**–**	–	(114.8)	(114.8)
Total deferred tax	**(5.1)**	21.5	(171.0)	(149.5)
	32.7	77.3	(230.2)	(152.9)

The current tax charge was £37.8 million (2014: £55.8 million before exceptional tax). This includes a credit of £8.6 million (2014: charge of £9.3 million) arising from adjustments to prior year tax computations.

In the prior year an exceptional current tax credit of £59.2 million was recognised, reflecting the anticipated refund of overpayment of tax in prior periods. This was following an agreement with HMRC that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery. This also resulted in an exceptional deferred tax credit of £56.2 million.

The Finance Act 2013 was enacted in the prior year which implemented a reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015. This resulted in an additional exceptional deferred tax credit of £114.8 million in the income statement and a deferred tax charge of £12.3 million in reserves.

b) Factors affecting the tax charge/(credit) in the year

The tax expense for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 Restated £m
Profit on ordinary activities before tax from continuing operations	**148.2**	318.9
Tax at the standard rate of corporation tax in the UK 21% (2014: 23%)	**31.1**	73.3
Tax effect of expenditure not deductible in determining taxable profits	**4.0**	6.9
Current year impact of rate change	**–**	(3.7)
Effect of different rates in overseas jurisdictions	**–**	0.2
Adjustments in respect of prior years	**(2.4)**	(114.8)
Exceptional deferred tax credit arising from rate change	**–**	(114.8)
Total tax charge/(credit)	**32.7**	(152.9)

Notes to the group financial statements continued

13 Taxation (continued)

c) Tax (credited)/charged directly to equity

In addition to the amount charged/(credited) to the income statement, the following amounts of tax have been (credited)/charged directly to equity:

	2015 £m	2014 £m
Current tax		
Tax on share based payments	**(0.7)**	(1.0)
Tax on pension contributions in excess of income statement charge	**(3.0)**	–
Total current tax credited to equity	**(3.7)**	(1.0)
Deferred tax		
Tax on actuarial gain/loss	**(25.8)**	0.8
Tax on cash flow hedges	**(2.8)**	3.0
Tax on share based payments	**0.1**	–
Tax on transfers to the income statement account	**4.7**	1.6
Effect of change in tax rate	**–**	12.3
Total deferred tax (credited)/charged to equity	**(23.8)**	17.7

14 Dividends

Amounts recognised as distributions to owners of the company in the period:

	2015		2014	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2014 (2013)	**48.24**	**115.5**	45.51	108.6
Interim dividend for the year ended 31 March 2015 (2014)	**33.96**	**81.4**	32.16	76.7
Total dividends	**82.20**	**196.9**	77.67	185.3
Proposed final dividend for the year ended 31 March 2015	**50.94**			

The proposed final dividend is subject to approval by shareholders at the AGM and have not been included as a liability in these financial statements.

15 Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

Basic and diluted earnings per share from continuing and discontinued operations are calculated on the basis of profit from continuing and discontinued operations attributable to the owners of the company.

The calculation of basic and diluted earnings per share is based on the following data:

Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2015 £m	2014 £m
Profit for the period attributable to owners of the company	119.1	433.8
Adjusted for (profit)/loss from discontinued operations (see note 38)	(3.7)	39.1
Profit for the period from continuing operations attributable to owners of the company	**115.4**	**472.9**

Number of shares

	2015 m	2014 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	238.8	238.2
Effect of dilutive potential ordinary shares		
– share options and LTIPs	1.1	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.9**	**239.3**

b) Adjusted earnings per share

	2015 pence	2014 pence
Adjusted basic earnings per share	107.2	92.5
Adjusted diluted earnings per share	106.7	92.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, exceptional tax, losses/gains on financial instruments, current tax related to losses/gains on financial instruments, exceptional items and current tax related to exceptional items. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

Adjustments to earnings

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2015 £m	2014 Restated £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**115.4**	**472.9**
Adjustments for		
– exceptional items before tax	18.7	15.2
– current tax related to exceptional items	(4.7)	(0.9)
– loss/(gain) on financial instruments	133.5	(58.0)
– current tax related to loss/gain on financial instruments	(1.8)	(0.1)
– deferred tax excluding exceptional charge	(5.1)	21.5
– exceptional tax	–	(230.2)
Earnings for the purpose of adjusted basic and diluted earnings per share	**256.0**	**220.4**

Notes to the group financial statements continued

16 Goodwill

	2015 £m	2014 £m
Cost		
At 1 April	**42.9**	45.2
Transferred to assets held for sale (see note 38)	**(26.5)**	–
Exchange adjustments	**1.3**	(2.3)
At 31 March	**17.7**	42.9
Impairment		
At 1 April	**(28.1)**	(3.5)
Impairment charge in the year	**–**	(24.7)
Transferred to assets held for sale (see note 38)	**24.7**	–
Exchange adjustments	**–**	0.1
At 31 March	**(3.4)**	(28.1)
Net book value		
At 31 March	**14.3**	14.8

Goodwill impairment tests

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment. All of the group's goodwill is in the Severn Trent Services segment.

A summary of the goodwill allocation by CGU is presented below. Goodwill in the group's Water Purification business is included in assets held for sale at 31 March 2015, see note 38.

	2015 £m	2014 £m
Water Purification US	**–**	1.4
Operating Services US	**12.5**	11.2
Services Italy	**1.8**	2.2
	14.3	14.8

The group has reviewed the carrying value of goodwill, including that within the Water Purification US CGU, for impairment in accordance with the policy stated in note 2l.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a five year period. The key assumptions underlying these budgets are revenue growth and margin. Management of each CGU determines assumptions based on past experience, current market trends and expectations of future developments.

Cash flows beyond the five year period are extrapolated using an estimated nominal growth rate. The growth rate does not exceed the long term average growth rate for the economy in which the CGU operates and are consistent with the forecasts included in industry reports.

The assumptions used in relation to growth rates beyond the five year period and discount rates were:

	Nominal growth rate		Post tax discount rate		Pre-tax discount rate	
	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
Operating Services US	**3.0**	3.5	**6.0**	6.8	**7.6**	9.1
Services Italy	**1.8**	2.5	**4.6**	6.5	**5.5**	8.8

Specific discount rates for the CGUs are not available and hence a post tax discount rate reflecting risks relating to the CGU has been estimated and used to calculate the value in use of the CGU from its post tax cash flow projections. The equivalent pre-tax discount rate is disclosed above.

Changes in the growth rate outside the five year period or in the discount rate applied to the cash flows may cause a CGU's carrying value to exceed its recoverable amount. However, in the opinion of the directors, the changes in growth rate or discount rate that would be required to reduce the recoverable amount of the CGUs below their carrying value are not reasonably possible. Therefore no sensitivity analysis has been presented.

17 Other intangible assets

	Computer software		Capitalised development costs and patents £m	Total £m
	Internally generated £m	Purchased £m		
Cost				
At 1 April 2013	127.8	188.7	28.2	344.7
Additions	4.6	8.4	0.8	13.8
Disposals	–	(74.7)	(5.0)	(79.7)
Reclassifications	43.9	(43.9)	–	–
Exchange adjustments	(0.2)	(0.5)	(1.4)	(2.1)
At 1 April 2014	176.1	78.0	22.6	276.7
Additions	5.7	11.5	0.5	17.7
Disposals	(0.2)	(21.6)	–	(21.8)
Reclassifications	–	–	(0.4)	(0.4)
Transfers to assets held for sale (see note 38)	–	(4.9)	(10.3)	(15.2)
Exchange adjustments	(0.2)	0.4	1.1	1.3
At 31 March 2015	**181.4**	**63.4**	**13.5**	**258.3**
Amortisation				
At 1 April 2013	(118.9)	(108.3)	(18.2)	(245.4)
Amortisation for the year	(13.9)	(14.5)	(0.9)	(29.3)
Impairment arising from exceptional item	(2.4)	–	–	(2.4)
Disposals	–	74.7	5.1	79.8
Reclassifications	(5.1)	5.1	–	–
Exchange adjustments	0.1	0.3	0.4	0.8
At 1 April 2014	(140.2)	(42.7)	(13.6)	(196.5)
Amortisation for the year	(10.8)	(11.6)	(1.6)	(24.0)
Impairment arising from exceptional item	(0.2)	–	–	(0.2)
Disposals	0.2	21.5	–	21.7
Transfers to assets held for sale (see note 38)	–	3.7	4.3	8.0
Exchange adjustments	0.1	(0.3)	(0.4)	(0.6)
At 31 March 2015	**(150.9)**	**(29.4)**	**(11.3)**	**(191.6)**
Net book value				
At 31 March 2015	**30.5**	**34.0**	**2.2**	**66.7**
At 31 March 2014	35.9	35.3	9.0	80.2

Notes to the group financial statements continued

18 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Total £m
Cost					
At 1 April 2013	2,786.2	4,413.6	3,601.3	62.0	10,863.1
Additions	136.5	127.0	266.4	6.7	536.6
Disposals	(4.9)	(0.3)	(12.9)	(4.2)	(22.3)
Exchange adjustments	(0.7)	–	(2.8)	(1.4)	(4.9)
At 1 April 2014	2,917.1	4,540.3	3,852.0	63.1	11,372.5
Additions	130.3	152.9	214.0	7.3	504.5
Disposals	(10.1)	(0.1)	(76.9)	(6.5)	(93.6)
Transfer to assets held for sale (see note 38)	(6.1)	–	(15.1)	(0.3)	(21.5)
Exchange adjustments	0.2	–	1.9	1.9	4.0
At 31 March 2015	**3,031.4**	**4,693.1**	**3,975.9**	**65.5**	**11,765.9**
Depreciation					
At 1 April 2013	(918.7)	(1,151.2)	(1,995.2)	(38.0)	(4,103.1)
Charge for the year	(64.1)	(30.9)	(168.4)	(6.6)	(270.0)
Disposals	3.7	–	12.8	3.8	20.3
Exchange adjustments	0.2	–	2.5	1.1	3.8
At 1 April 2014	(978.9)	(1,182.1)	(2,148.3)	(39.7)	(4,349.0)
Charge for the year	(68.5)	(32.0)	(174.3)	(6.8)	(281.6)
Disposals	8.2	–	76.9	5.5	90.6
Transfer to assets held for sale (see note 38)	4.2	–	12.0	0.3	16.5
Exchange adjustments	–	–	(1.4)	(1.2)	(2.6)
At 31 March 2015	**(1,035.0)**	**(1,214.1)**	**(2,235.1)**	**(41.9)**	**(4,526.1)**
Net book value					
At 31 March 2015	**1,996.4**	**3,479.0**	**1,740.8**	**23.6**	**7,239.8**
At 31 March 2014	1,938.2	3,358.2	1,703.7	23.4	7,023.5

The carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2015	**118.7**	**26.6**	**145.3**
At 31 March 2014	119.6	38.5	158.1

Property, plant and equipment includes £561.1 million (2014: £604.1 million) in respect of assets in the course of construction for which no depreciation is charged.

19 Interests in joint ventures and associates

Particulars of the group's principal joint venture undertakings at 31 March 2015 were:

Name		Country of incorporation	Proportion of ownership interest
Cognica Limited	Joint venture	Great Britain	50%
Jackson Water Partnership	Joint venture	USA	70%
Servizio Idrico S.c.p.a (SII)	Associate	Italy	25%

The partnership agreement for the Jackson Water Partnership requires that certain key decisions require the unanimous consent of the partners and consequently the partnership has been accounted for as a joint venture.

The results and net assets of principal joint ventures and associates are shown below:

	Interest in joint ventures		Interest in associates		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Group's share of carrying value	0.2	0.3	4.4	4.9	4.6	5.2
Group's share of profit and comprehensive income	–	–	0.1	0.2	0.1	0.2

All results are from continuing operations in both the current and preceding year.

As at 31 March 2015 and 2014 the joint ventures and associates did not have any significant contingent liabilities to which the group was exposed and the group did not have any significant contingent liabilities in relation to its interests in joint ventures or associates. The group had no capital commitments in relation to its interests in the joint ventures or associates at 31 March 2015 or 2014.

The group has given certain guarantees in respect of the associate's borrowings. The guarantees are limited to €5.1 million (2014: €5.1 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

20 Categories of financial assets

	2015 £m	2014 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	–	39.5
Interest rate swaps – not hedge accounted	4.2	12.1
Foreign exchange forward contracts – not hedge accounted	0.2	0.1
	4.4	51.7
Derivatives designated as hedging instruments		
Cross currency swaps – fair value hedges	22.6	33.6
	22.6	33.6
Total derivative financial assets	27.0	85.3
Available for sale investments carried at fair value		
Unquoted shares	0.1	0.1
Loans and receivables (including cash and cash equivalents)		
Trade receivables	172.5	195.6
Short term deposits	151.8	76.8
Cash at bank in hand	24.9	46.4
Total loans and receivables	349.2	318.8
Total financial assets	376.3	404.2
Disclosed in the balance sheet as:		
Non-current assets		
Derivative financial assets	13.5	72.4
Available for sale financial assets	0.1	0.1
	13.6	72.5
Current assets		
Derivative financial assets	13.5	12.9
Cash and cash equivalents	176.7	123.2
Trade receivables (see note 21)	172.5	195.6
	362.7	331.7
	376.3	404.2

Notes to the group financial statements continued

21 Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**297.5**	316.4
Less doubtful debt provision	**(125.0)**	(120.8)
Net trade receivables	**172.5**	195.6
Other amounts receivable	**42.0**	27.9
Prepayments and accrued income	**277.5**	289.7
	492.0	513.2

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Prepayments and accrued income include £24.4 million (2014: £24.8 million) in respect of amounts due from customers for contract work and £33.2 million (2014: £34.4 million) which is recoverable after more than one year.

Doubtful debts provision

Movements on the doubtful debts provision were as follows:

	2015 £m	2014 £m
At 1 April	**120.8**	138.0
Charge for bad and doubtful debts	**28.1**	32.1
Amounts written off during the year	**(22.4)**	(25.7)
Amounts recovered during the year	**–**	0.2
Reclassification	**–**	(23.1)
Exchange adjustments	**–**	(0.7)
Transfer to discontinued operations	**(1.5)**	–
At 31 March	**125.0**	120.8

The reclassification in the prior year arose on the re-financing of the amounts receivable from the group's associate company, SII, which were reclassified to other debtors.

The aged analysis of receivables that are specifically provided for is as follows:

	2015 £m	2014 £m
Up to 90 days	**2.2**	0.6
91-365 days	**4.8**	3.3
1-2 years	**6.7**	7.6
2-3 years	**6.3**	5.3
More than 3 years	**8.0**	7.3
	28.0	24.1

A collective provision is recorded against assets which are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	2015 £m	2014 £m
Up to 90 days	**44.0**	49.7
91-365 days	**65.1**	69.1
1-2 years	**29.6**	29.7
2-3 years	**13.7**	12.0
More than 3 years	**9.4**	7.8
	161.8	168.3

21 Trade and other receivables (continued)

Doubtful debts provision (continued)

The amounts above are reconciled to gross and net debtors in the table below:

	2015			2014		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not Due	**107.7**	**–**	**107.7**	124.0	–	124.0
Overdue not specifically provided	**161.8**	**(97.0)**	**64.8**	168.3	(97.9)	70.4
Overdue and specifically provided	**28.0**	**(28.0)**	**–**	24.1	(22.9)	1.2
	297.5	**(125.0)**	**172.5**	316.4	(120.8)	195.6

Credit risk

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Severn Trent Water, which represents 88% of group turnover and 76% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and sewerage services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables and the credit quality of its customer base reflects the wealth and prosperity of all of the commercial businesses and domestic households within its region. None of the other business units are individually significant to the group.

22 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	**24.9**	46.4
Short term deposits	**151.8**	76.8
	176.7	123.2

Of the £151.8 million (2014: £76.8 million) of short term bank deposits, £36.7 million (2014: £43.8 million) is held as security deposits for insurance obligations and is not available for use by the group. In addition, £6.0 million (2014: £7.4 million) is restricted for use on the Ministry of Defence contract and is not available for use by the group.

23 Borrowings

	2015 £m	2014 £m
Bank loans	**1,279.2**	594.9
Other loans	**3,467.5**	3,826.0
Finance leases	**180.0**	201.2
	4,926.7	4,622.1
Disclosed in the balance sheet as:		
Current liabilities	**463.0**	206.1
Non-current liabilities	**4,463.7**	4,416.0
	4,926.7	4,622.1

Notes to the group financial statements continued

24 Finance leases

Obligations under finance leases are as follows:

	2015 £m	2014 £m
Gross obligations under finance leases	232.1	260.5
Less future finance charges	(52.1)	(59.3)
Present value of lease obligations	180.0	201.2

A maturity analysis of gross obligations under finance leases is presented in note 35. Net obligations under finance leases fall due as follows:

	2015 £m	2014 £m
Within 1 year	38.6	21.3
1-2 years	25.9	38.6
3-5 years	7.9	30.5
After more than 5 years	107.6	110.8
Included in non-current liabilities	141.4	179.9
	180.0	201.2

The remaining terms of finance leases ranged from 1 to 17 years at 31 March 2015. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.36% (2014: 5.36%). The lease obligations are secured against the related assets.

There were no contingent rents, escalation clauses or material renewal or purchase options. The terms of the finance leases do not impose restriction on dividend payments, additional debt or further leasing.

25 Categories of financial liabilities

	2015 £m	2014 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	25.2	21.7
Interest rate swaps – not hedge accounted	170.6	158.9
Foreign exchange forward contracts – not hedge accounted	0.2	0.3
	196.0	180.9
Derivatives designated as hedging instruments		
Interest rate swaps – cash flow hedges	10.5	47.2
Energy swaps – cash flow hedges	0.8	2.9
	11.3	50.1
Total derivative financial liabilities	207.3	231.0
Other financial liabilities		
Borrowings (see note 23)	4,926.7	4,622.1
Trade payables (see note 26)	32.7	31.8
Total other financial liabilities	4,959.4	4,653.9
Total financial liabilities	5,166.7	4,884.9
Disclosed in the balance sheet as:		
Non-current liabilities		
Derivative financial liabilities	175.1	206.2
Borrowings	4,463.7	4,416.0
	4,638.8	4,622.2
Current liabilities		
Derivative financial liabilities	32.2	24.8
Borrowings	463.0	206.1
Trade payables	32.7	31.8
	527.9	262.7
	5,166.7	4,884.9

26 Trade and other payables

	2015 £m	2014 £m
Current liabilities		
Trade payables	**32.7**	31.8
Social security and other taxes	**5.8**	6.3
Other payables	**22.0**	22.9
Deferred income	**10.0**	9.2
Accruals	**423.5**	342.5
	494.0	412.7
Non-current liabilities		
Deferred income	**538.0**	482.7
Accruals	**4.0**	9.7
	542.0	492.4

27 Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2013	891.5	(88.2)	(62.7)	45.2	785.8
Reclassification	52.6	–	–	(52.6)	–
Credit to income	(60.7)	6.3	12.2	7.5	(34.7)
Credit to income arising from rate change	(123.1)	3.8	3.8	0.7	(114.8)
Charge to equity	–	0.8	4.6	–	5.4
Charge to equity arising from rate change	–	7.7	4.3	0.3	12.3
At 1 April 2014	760.3	(69.6)	(37.8)	1.1	654.0
Credit to income	13.3	1.7	(25.0)	4.9	(5.1)
Credit to equity	–	(25.8)	1.9	0.1	(23.8)
At 31 March 2015	**773.6**	**(93.7)**	**(60.9)**	**6.1**	**625.1**

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

	2015 £m	2014 £m
Deferred tax asset	**(154.6)**	(121.7)
Deferred tax liability	**779.7**	775.7
	625.1	654.0

Notes to the group financial statements continued

28 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The group operates a number of defined benefit pension schemes in the UK which closed to future accrual on 31 March 2015. The defined benefit pension schemes cover increases in accrued benefits arising from inflation and future pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated as a proportion (varying between 1/30 and 1/80 for each year of service) of their salary for the final year of employment with the group or, if higher, the average of the highest three consecutive years' salary in the last ten years of employment.

The UK defined benefit pension schemes and the date of their last formal actuarial valuation are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension scheme (STPS)*	31 March 2013
Severn Trent Mirror Image Pension Scheme	31 March 2013

* The STPS is by far the largest of the group's UK defined benefit schemes.

(ii) Amount included in the balance sheet arising from the group's obligations under defined benefit pension schemes

	2015 £m	2014 £m
Fair value of scheme assets		
Equities	**999.5**	870.6
Gilts	**327.2**	270.5
Corporate bonds	**450.8**	388.8
Property	**159.3**	148.4
Hedge funds	**60.9**	56.9
Cash	**89.1**	88.4
Total fair value of assets	**2,086.8**	1,823.6
Present value of the defined benefit obligations – funded schemes	**(2,545.7)**	(2,162.5)
	(458.9)	(338.9)
Present value of the defined benefit obligations – unfunded schemes	**(10.0)**	(9.4)
Liability recognised in the balance sheet	**(468.9)**	(348.3)

The equities, gilts, corporate bonds and hedge funds have quoted prices in active markets.

Movements in the fair value of the scheme assets were as follows:

	2015 £m	2014 £m
Fair value at 1 April	**1,823.6**	1,724.3
Interest income on scheme assets	**80.1**	76.0
Contributions from the sponsoring companies	**81.0**	73.0
Contributions from scheme members	**4.8**	5.1
Return on plan assets (excluding amounts included in finance income)	**193.4**	24.9
Scheme administration costs	**(2.9)**	(3.0)
Benefits paid	**(93.2)**	(76.7)
Fair value at 31 March	**2,086.8**	1,823.6

28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the group's obligations under defined benefit pension schemes (continued)

Movements in the present value of the defined benefit obligations were as follows:

	2015 £m	2014 £m
Present value at 1 April	2,171.9	2,108.0
Service cost	22.8	22.4
Past service cost	18.1	0.1
Interest cost	94.5	91.7
Contributions from scheme members	4.8	5.1
Actuarial gains arising from changes in demographic assumptions	–	(15.7)
Actuarial losses arising from changes in financial assumptions	366.2	37.0
Actuarial gains arising from experience adjustments	(29.4)	–
Benefits paid	(93.2)	(76.7)
Present value at 31 March	2,555.7	2,171.9

Of which:

	2015 £m	2014 £m
Amounts relating to funded schemes	2,545.7	2,162.5
Amounts relating to unfunded schemes	10.0	9.4
Present value at 31 March	2,555.7	2,171.9

The group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £10.0 million (2014: £9.4 million) is included as an unfunded scheme within the retirement benefit obligation.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2015 £m	2014 £m
Amounts charged to operating costs		
Current service cost	(22.8)	(22.4)
Past service cost	(18.1)	(0.1)
Scheme administration costs	(2.9)	(3.0)
	(43.8)	(25.5)
Amounts charged to finance costs		
Interest cost	(94.5)	(91.7)
Amounts credited to finance income		
Interest income on scheme assets	80.1	76.0
Total amount charged to the income statement	(58.2)	(41.2)

The actual return on scheme assets was a gain of £270.6 million (2014: gain of £97.2 million).

Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a net loss of £459.1 million (2014: £315.7 million).

(iv) Actuarial risk factors

The schemes typically expose the company to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Notes to the group financial statements continued

28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(iv) Actuarial risk factors (continued)

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI. The group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Longevity risk

The group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major assumptions used in the valuation of the STPS (also the approximate weighted average of assumptions used for the valuations of all group schemes) were as follows:

	2015 %	2014 %
Price inflation	**3.0**	3.3
Discount rate	**3.3**	4.4
Salary increases	**n/a**	3.0
Pension increases in payment	**3.0**	3.3
Pension increases in deferment	**3.0**	3.3

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts. The discount rate is set by reference to AA rated sterling 18 year corporate bonds.

No salary assumption is required in the current year because the scheme closed to future accrual on 31 March 2015.

The mortality assumptions are based on those used in the triennial valuation of the STPS as at 31 March 2013. The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows:

	2015		2014	
	Men	**Women**	Men	Women
Mortality table used	**'SAPS' S1NMA_L**	**S1NFA_L**	'SAPS' S1NMA_L	S1NFA_L
Mortality table compared with standard table	**116%**	**92%**	116%	92%
Future improvement per annum	**1%**	**1%**	1%	1%
Remaining life expectancy for members currently aged 65 (years)	**21.4**	**24.5**	21.3	24.4
Remaining life expectancy at age 65 for members currently aged 45 (years)	**22.7**	**26.1**	22.6	26.0

The calculation of the scheme liabilities is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation and mortality. The following table summarises the estimated impact on scheme liabilities from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £50 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £45 million
Mortality	Increase in life expectancy by 1 year	Increase by £75 million

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

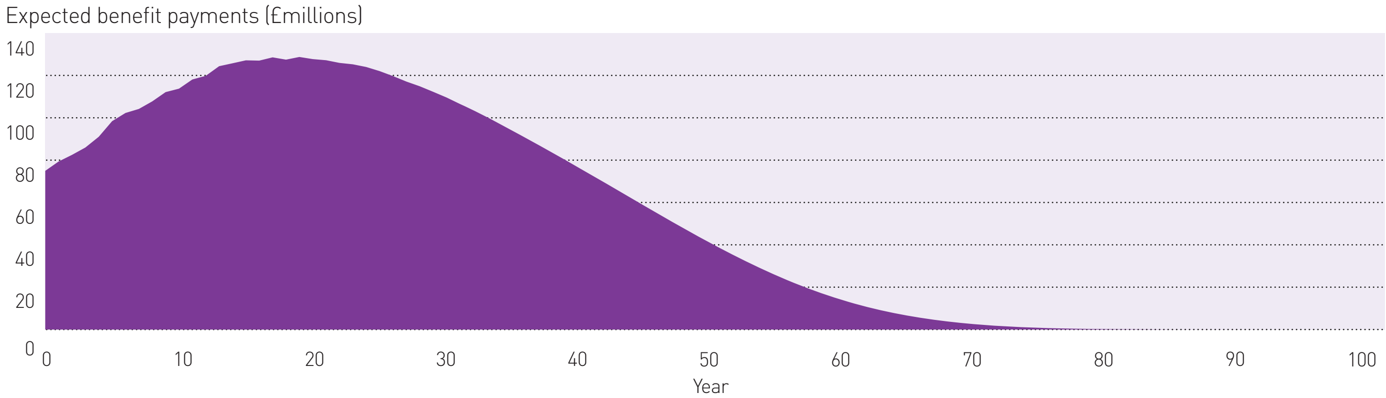
28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(vi) Effect on future cash flows

Contribution rates are set in consultation with the trustees for each scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 18 years (2014: 18 years). The expected cash flows payable from the scheme are presented in the graph below:



Following the completion of the triennial valuation of both schemes, future lump sum deficit contributions have been agreed with the Trustee. In respect of the shortfall, a cash contribution of £35 million was made in the current year, a further £15 million contribution will be made in the year to 31 March 2016, followed by £12 million per annum to 31 March 2025. An annual contribution of £8.2 million will also be made through an asset backing funding arrangement for at least 12 years from 31 March 2015.

b) Defined contribution pension schemes

The group also operates defined contribution arrangements for certain of its UK employees.

The Severn Trent Pension Scheme, Choices section was replaced by the Severn Trent Group Personal Pension from 1 April 2015 and all members of other pension schemes were transferred. This scheme has been open since 1 April 2012 and new employees were automatically enrolled from this date.

The total cost charged to operating costs of £9.4 million (2014: £9.5 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2015, contributions amounting to £1.0 million (2014: £0.7 million) in respect of the current reporting period were owed to the schemes.

29 Provisions

	Restructuring £m	Insurance £m	Onerous contracts £m	Terminated operations and disposals £m	Other £m	Total £m
At 1 April 2014	3.7	23.1	2.1	6.4	3.3	38.6
Charged/(released) to income statement	11.6	6.4	0.3	0.4	1.3	20.0
Utilisation of provision	(12.4)	(7.6)	(1.1)	(3.5)	(1.4)	(26.0)
Unwinding of discount	–	–	0.1	–	0.1	0.2
Reclassifications	–	–	–	–	3.4	3.4
Transfer to liabilities held for sale (see note 38)	–	–	(0.4)	–	(1.1)	(1.5)
Exchange differences	(0.2)	–	–	–	(0.1)	(0.3)
At 31 March 2015	**2.7**	**21.9**	**1.0**	**3.3**	**5.5**	**34.4**

	2015 £m	2014 £m
Disclosed in the balance sheet as:		
Current liabilities	**15.9**	12.1
Non-current liabilities	**18.5**	26.5
	34.4	38.6

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes. The associated outflows are estimated to arise over the next twelve months from the balance sheet date.

Notes to the group financial statements continued

29 Provisions (continued)

Derwent Insurance Limited, a captive insurance company, is a wholly owned subsidiary of the group. Provisions for claims are made as set out in note 2. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

The onerous contract provision relates to specific contractual liabilities either assumed with businesses acquired or arising in existing group businesses, where estimated future costs are not expected to be recovered in revenues or other economic benefits. The associated outflows are estimated to occur over a period of ten years from the balance sheet date.

Provisions relating to terminated operations and disposals include amounts that it is probable will be paid in respect of claims arising from services performed by these businesses. The associated outflows are estimated to occur over a period of five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to six years from the balance sheet date.

30 Share capital

	2015 £m	2014 £m
Total issued and fully paid share capital		
238,683,513 ordinary shares of 97 17/19p (2014: 238,942,647)	**233.7**	233.9

On 13 February 2015 the group entered into an irrevocable, non-discretionary arrangement to enable market purchases of ordinary shares of 97 17/19 pence each up to an amount of £110 million during the period commencing on 16 February 2015 and ending no later than 23 November 2015.

By 31 March 2015 966,578 shares had been repurchased and cancelled under the programme.

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19p		
At 1 April 2013	238,365,734	233.3
Shares issued under the Employee Sharesave Scheme	576,913	0.6
At 1 April 2014	238,942,647	233.9
Shares issued under the Employee Sharesave Scheme	707,444	0.7
Shares repurchased and cancelled	(966,578)	(0.9)
At 31 March 2015	**238,683,513**	**233.7**

31 Share premium

	2015 £m	2014 £m
At 1 April	**94.2**	89.7
Share premium arising on shares issued under the Employee Sharesave Scheme	**6.0**	4.5
At 31 March	**100.2**	94.2

32 Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2013	156.1	28.9	(112.7)	72.3
Total comprehensive income for the year	–	(8.7)	18.6	9.9
At 1 April 2014	156.1	20.2	(94.1)	82.2
Total comprehensive income for the year	–	7.2	7.9	15.1
Purchase of own shares	0.9	–	–	0.9
At 31 March 2015	**157.0**	**27.4**	**(86.2)**	**98.2**

The capital redemption reserve as at 1 April 2014 arose on the redemption of B shares. The movement in the current year arose from the repurchase and cancellation of own shares, as outlined in note 30.

The translation reserve arises from exchange differences on translation of the results and financial position of foreign subsidiaries.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IAS 39 and the transition rules of IFRS 1.

33 Capital management

The group's principal objectives in managing capital are:

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise counterparty credit exposure risk;
- to provide the group with an appropriate degree of certainty as to its foreign exchange exposure;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The group seeks to achieve a balance of long term funding or commitment of funds across a range of funding sources at the best possible economic cost. The group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

Whilst the group does not have a specific gearing target and seeks to maintain gearing at a level consistent with its capital management objectives described above, the board has decided to move towards a net debt/RCV gearing ratio of around 62.5%, which is in line with Ofwat's notional assumption for AMP6. As part of this move, on 13 February 2015 the group announced that it had entered into an irrevocable, non-discretionary arrangement to enable market purchases of ordinary shares up to an amount of £110 million.

The group took a number of financing steps in readiness for AMP6, aimed at reducing short term refinancing risk and increasing exposure to currently low floating interest rates. These steps included:

- Entering into a new £530 million, floating rate, nine year facility with the European Investment Bank. At 31 March 2015, £200 million of the facility had been drawn, with the balance drawn down in April 2015.
- On 31 March 2015 the group purchased €182.6 million of its €700 million Eurobond which is due for repayment in March 2016. On the same date the equivalent amount of the corresponding swap, paying fixed rate 6.325%, was cancelled.
- In March 2015 the group cancelled floating to fixed interest rate swaps with a notional principal amount of £275 million, for a cash payment of £139.2 million. The average fixed rate interest on the swaps was 5.2%. The cash payment was charged against the fair value liability on the balance sheet, and £11 million that had been recognised in reserves was recycled through the income statement.
- On 19 March 2015 the group amended and extended the revolving credit facility which was due to mature in October 2018. The new £900 million facility has a period of five years, with two one year extension options exercisable with lender consent. At 31 March 2015 £485 million of the facility was drawn.

The group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The board has decided to set the 2015/16 dividend at 80.66p, a reduction of 5% compared to the total dividend for 2014/15 of 84.90p. Our policy will then be to grow the dividend annually at no less than RPI until March 2020. This replaces the previous dividend policy of RPI+3% which ran until March 2015.

	2015 £m	2014 £m
Cash and short term deposits	**176.7**	123.2
Bank loans	**(1,279.2)**	(594.9)
Other loans	**(3,467.5)**	(3,826.0)
Obligations under finance leases	**(180.0)**	(201.2)
Cross currency swaps	**(2.6)**	51.4
Net debt	**(4,752.6)**	(4,447.5)
Equity attributable to the owners of the company	**(809.9)**	(1,077.6)
Total capital	**(5,562.5)**	(5,525.1)

Notes to the group financial statements continued

34 Fair values of financial instruments

a) Fair value measurements

The valuation techniques that the group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. All of the group's valuation techniques are level 2.

	2015 £m	2014 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	22.6	73.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(25.2)	(21.7)	The currency cash flows are translated at the spot rate.
Interest rate swaps			Discounted cash flow
Assets	4.2	12.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(181.1)	(206.1)	
Energy swaps			Discounted cash flow
Assets	–	–	Future cash flows are estimated based on forward electricity prices from observable indices at the year end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(0.8)	(2.9)	
Foreign currency forward contracts			Discounted cash flow
Assets	0.2	0.1	Future cash flows are estimated based on observable forward exchange rates at the year end and contract forward rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(0.2)	(0.3)	

b) Comparison of fair value of financial instruments with their carrying amounts

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables approximate their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2015 Carrying value £m	2015 Fair value £m	2014 Carrying value £m	2014 Fair value £m
Floating rate debt				
Bank loans	984.3	970.3	300.0	293.0
Currency bonds	84.3	84.3	215.6	217.4
	1,068.6	1,054.6	515.6	510.4
Fixed rate debt				
Bank loans	188.5	204.4	189.7	201.1
Sterling bonds	1,855.3	2,268.4	1,902.9	2,108.1
Currency bonds	370.8	391.3	571.5	627.3
Other loans	2.0	2.0	1.7	1.7
Finance leases	180.0	190.7	201.2	197.7
	2,596.6	3,056.8	2,867.0	3,135.9
Index-linked debt				
Bank loans	106.4	123.0	105.2	114.7
Sterling bonds	1,155.1	1,585.1	1,134.3	1,213.3
	1,261.5	1,708.1	1,239.5	1,328.0
	4,926.7	5,819.5	4,622.1	4,974.3

Fixed rate sterling and currency bonds are valued using market prices.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds.

Fair values of the other debt instruments are also calculated using discounted cash flow models.

35 Risks arising from financial instruments

The group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the group's financial performance or position.

Financial risks are managed by a central treasury department (Group Treasury) under policies approved by the board of directors. The board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the group's exposure to changes in market interest rates. Further details are set out in sections a) (i) and note 36 b) below.

Cross currency swaps are held to mitigate the group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) below.

Energy swaps are held to mitigate the group's exposure to changes in electricity prices. Further details are provided in note 36 b) below.

Severn Trent Water, the group's most significant business unit, operates in a regulatory environment where its prices are linked to inflation measured by RPI. In order to mitigate the risks to cash flow and earnings arising from fluctuations in RPI, the group holds debt instruments where the principal repayable and interest cost is linked to RPI.

a) Market risk

The group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the group has taken to manage them are described below.

(i) Interest rate risk

The group's income and its operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long term borrowings.

Borrowings issued at variable rates expose the group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the group to the risk of interest costs above the market rate when interest rates decrease.

The group's policy is to maintain 45% to 90% of its interest bearing liabilities in fixed rate instruments. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2015 £m	2014 £m
Net debt (see note 39)	**4,752.6**	4,447.5
Cash and cash equivalents	**176.7**	123.2
Cross currency swaps included in net debt at fair value	**(2.6)**	51.4
Fair value hedge accounting adjustments	**(19.1)**	(26.8)
Exchange on currency debt	**22.6**	(18.6)
Interest bearing financial liabilities	**4,930.2**	4,576.7

Notes to the group financial statements continued

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from variable rates to fixed rates. The group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

The following tables show analyses of the group's interest bearing financial liabilities by type of interest. Debt raised in foreign currencies has been included at the sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates. Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of interest rate swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest.

2015	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(984.3)	(188.5)	(106.4)	(1,279.2)
Other loans	(62.2)	(2,253.7)	(1,155.1)	(3,471.0)
Finance leases	–	(180.0)	–	(180.0)
	(1,046.5)	(2,622.2)	(1,261.5)	(4,930.2)
Impact of interest rate swaps not matched against specific debt instruments	541.4	(541.4)	–	–
Interest bearing financial liabilities	**(505.1)**	**(3,163.6)**	**(1,261.5)**	**(4,930.2)**
Proportion of interest bearing financial liabilities that are fixed		**64%**		
Weighted average interest rate of fixed rate debt		**5.66%**		
Weighted average period for which interest is fixed (years)		**9.7**		

2014	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(300.0)	(189.7)	(105.2)	(594.9)
Other loans	(205.7)	(2,440.6)	(1,134.3)	(3,780.6)
Finance leases	–	(201.2)	–	(201.2)
	(505.7)	(2,831.5)	(1,239.5)	(4,576.7)
Impact of interest rate swaps not matched against specific debt instruments	591.4	(591.4)	–	–
Interest bearing financial liabilities	85.7	(3,422.9)	(1,239.5)	(4,576.7)
Proportion of interest bearing financial liabilities that are fixed		75%		
Weighted average interest rate of fixed rate debt		5.68%		
Weighted average period for which interest is fixed (years)		10.7		

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate swaps not hedge accounted

The group has a number of interest rate swaps which are not accounted for as cash flow hedges. Economically these swaps act to fix the interest cost of debt within the group which is denominated as floating rate, but they do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a charge of £108.0 million (2014: credit of £66.7 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2015 %	2014 %	2015 £m	2014 £m	2015 £m	2014 £m
Pay fixed rate interest						
Within 1 year	**6.32**	–	**(225.0)**	–	**(6.3)**	–
1-2 years	**–**	6.32	**–**	(225.0)	**–**	(18.2)
2-5 years	**–**	–	**–**	–	**–**	–
5-10 years	**5.06**	4.98	**(450.0)**	(225.0)	**(129.5)**	(42.4)
10-20 years	**5.45**	5.37	**(66.4)**	(216.4)	**(34.9)**	(63.0)
20-30 years	**–**	5.10	**–**	(125.0)	**–**	(35.3)
	5.47	5.44	**(741.4)**	(791.4)	**(170.7)**	(158.9)
Receive fixed rate interest						
Within 1 year	**5.18**	–	**200.0**	–	**4.2**	–
1-2 years	**–**	5.18	**–**	200.0	**–**	12.1
	5.18	5.18	**200.0**	200.0	**4.2**	12.1
			(541.4)	(591.4)	**(166.5)**	(146.8)

Interest rate sensitivity analysis

The sensitivity after tax of the group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2015		2014	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	**56.9**	**(63.4)**	73.3	(83.7)
Cash flow	**2.6**	**(2.6)**	(1.6)	1.6
Equity	**56.9**	**(63.4)**	97.8	(111.0)

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the group's business does not involve significant exposure to foreign exchange transactions. Although the group operates internationally and its net investments in foreign operations are subject to exchange risk, substantially all of the group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the group's results to changes in exchange rates is not material.

Certain of the group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency.

In order to meet its objective of accessing a broad range of sources of finance, the group has raised debt denominated in currencies other than sterling. In order to mitigate the group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR. The terms of the receivable leg of the swap closely match the terms of the underlying debt hence the swaps are expected to be effective hedges.

Notes to the group financial statements continued

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(ii) Exchange rate risk (continued)

The group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the group's exposure to exchange rate risk in relation to its currency borrowings.

2015	Euro €m	US Dollar $m	Japanese Yen ¥Bn	Czech Krona CZKm
Borrowings by currency	(540.0)	(50.0)	(5.0)	–
Cross currency swaps – hedge accounted	19.9	50.0	5.0	–
Cross currency swaps – not hedge accounted	517.4	–	–	–
Net currency exposure	**(2.7)**	**–**	**–**	**–**

2014	Euro €m	US Dollar $m	Japanese Yen ¥Bn	Czech Krona CZKm
Borrowings by currency	(722.9)	(52.7)	(24.5)	(620.0)
Cross currency swaps – hedge accounted	19.9	50.0	14.5	620.0
Cross currency swaps – not hedge accounted	700.0	–	10.0	–
Net currency exposure	(3.0)	(2.7)	–	–

b) Credit risk

Operationally the group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited, whose operating licence obliges it to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 21.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the board. The group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis

At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2015 £m	2014 £m	**2015 £m**	2014 £m
AAA	**20.0**	20.0	**1.2**	1.2
Double A range	**100.0**	100.0	**22.1**	24.2
Single A range	**600.0**	600.0	**128.5**	51.4
	720.0	720.0	**151.8**	76.8

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
Rating	**2015 £m**	2014 £m
Double A range	**11.5**	16.7
Single A range	**15.5**	68.6
	27.0	85.3

35 Risks arising from financial instruments (continued)

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and the ability to close out market positions. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

During the year the group agreed two new facilities; a £530 million committed facility, of which £200 million was drawn at the 31 March 2015, which will mature in September 2023, and a £900 million revolving credit facility, of which £485 million was drawn at the 31 March 2015, which will mature in March 2020.

At the balance sheet date the group had committed undrawn borrowing facilities expiring as follows:

	2015 £m	2014 £m
2-5 years	**415.0**	500.0
After more than five years	**330.0**	–
	745.0	500.0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the group can be required to pay and represents the undiscounted cash flows including principal and interest.

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2015 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(60.6)	(549.4)	(25.2)	(32.7)	**(667.9)**
1 – 2 years	(161.2)	(132.8)	(25.5)	–	**(319.5)**
2 – 5 years	(667.8)	(680.4)	(78.7)	–	**(1,426.9)**
5 – 10 years	(243.0)	(842.7)	(431.6)	–	**(1,517.3)**
10 – 15 years	(50.7)	(1,192.0)	(344.4)	–	**(1,587.1)**
15 – 20 years	–	(91.5)	(123.2)	–	**(214.7)**
20 – 25 years	–	(60.9)	(149.4)	–	**(210.3)**
25 – 30 years	–	(274.4)	(178.8)	–	**(453.2)**
30 – 35 years	–	–	(213.2)	–	**(213.2)**
35 – 40 years	–	–	(650.0)	–	**(650.0)**
40 – 45 years	–	–	(3,252.7)	–	**(3,252.7)**
45 – 50 years	–	–	(28.9)	–	**(28.9)**
50 – 55 years	–	–	(445.1)	–	**(445.1)**
	(1,183.3)	**(3,824.1)**	**(5,946.7)**	**(32.7)**	**(10,986.8)**

Undiscounted amounts receivable:	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	172.5	176.7	**349.2**

Notes to the group financial statements continued

35 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

(ii) Cash flows from non-derivative financial instruments (continued)

2014 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(142.6)	(220.2)	(23.8)	(31.8)	(418.4)
1 – 2 years	(54.8)	(721.3)	(24.4)	–	(800.5)
2 – 5 years	(316.5)	(737.3)	(77.4)	–	(1,131.2)
5 – 10 years	(26.3)	(877.1)	(373.3)	–	(1,276.7)
10 – 15 years	(43.5)	(788.0)	(424.6)	–	(1,256.1)
15 – 20 years	(16.8)	(558.3)	(124.0)	–	(699.1)
20 – 25 years	–	(60.9)	(151.2)	–	(212.1)
25 – 30 years	–	(286.6)	(183.6)	–	(470.2)
30 – 35 years	–	–	(222.4)	–	(222.4)
35 – 40 years	–	–	(740.6)	–	(740.6)
40 – 45 years	–	–	(3,573.5)	–	(3,573.5)
45 – 50 years	–	–	(33.7)	–	(33.7)
50 – 55 years	–	–	(545.5)	–	(545.5)
	(600.5)	(4,249.7)	(6,498.0)	(31.8)	(11,380.0)

Undiscounted amounts receivable:	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	195.6	123.2	318.8

Index-linked debt includes loans with maturities up to 52 years. The principal is revalued at fixed intervals and is linked to movements in the Retail Price Index. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

	Derivative liabilities				Derivative assets			
			Cross currency swaps			Cross currency swaps		
2015	**Interest rate swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Interest rate swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	(29.9)	(0.5)	396.6	(421.7)	4.2	52.5	(42.7)	(41.5)
1 – 2 years	(60.6)	(0.1)	–	–	–	0.9	(0.3)	(60.1)
2 – 5 years	(60.6)	(0.2)	–	–	–	2.8	(1.2)	(59.2)
5 – 10 years	(78.9)	–	–	–	–	5.0	(2.4)	(76.3)
10 – 15 years	(17.0)	–	–	–	–	32.0	(21.2)	(6.2)
15 – 20 years	(2.9)	–	–	–	–	–	–	(2.9)
	(249.9)	**(0.8)**	**396.6**	**(421.7)**	**4.2**	**93.2**	**(67.8)**	**(246.2)**

35 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

(iii) Cash flows from derivative financial instruments (continued)

2014	Derivative liabilities: Interest rate swaps £m	Energy swaps £m	Cross currency swaps: Cash receipts £m	Cross currency swaps: Cash payments £m	Derivative assets: Interest rate swaps £m	Cross currency swaps: Cash receipts £m	Cross currency swaps: Cash payments £m	Total £m
Within 1 year	(40.6)	(3.0)	60.0	(82.0)	8.5	109.0	(97.4)	(45.5)
1 – 2 years	(38.4)	–	–	–	3.5	664.2	(613.4)	15.9
2 – 5 years	(67.0)	–	–	–	–	3.1	(1.7)	(65.6)
5 – 10 years	(63.3)	–	–	–	–	5.5	(4.0)	(61.8)
10 – 15 years	(28.4)	–	–	–	–	21.5	(14.3)	(21.2)
15 – 20 years	(18.2)	–	–	–	–	16.8	(8.7)	(10.1)
20 – 25 years	(0.7)	–	–	–	–	–	–	(0.7)
	(256.6)	(3.0)	60.0	(82.0)	12.0	820.1	(739.5)	(189.0)

d) Inflation risk

The group's principal operating subsidiary, Severn Trent Water, operates in a regulatory environment where its prices are linked to inflation measured by RPI. Its operating profits and cash flows are therefore exposed to changes in RPI. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in RPI during the life of the debt instrument (index-linked debt). The amount of index-linked debt at the balance sheet date is shown in section a) (i) interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) cash flows from non-derivative financial instruments.

Inflation rate sensitivity analysis

The finance cost of the group's index-linked debt instruments varies with changes in RPI rather than interest rates. The sensitivity at 31 March of the group's profit and equity to changes in RPI is set out in the following table. This analysis relates to financial instruments only and excludes any RPI impact on Severn Trent Water's revenues and Regulated Capital Value, or accounting for defined benefit pension schemes.

	2015 +1.0% £m	**2015 -1.0% £m**	2014 +1.0% £m	2014 -1.0% £m
Profit or loss	**(10.0)**	**10.0**	(9.5)	9.5
Equity	**(10.0)**	**10.0**	(9.5)	9.5

36 Hedge accounting

The group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IAS 39 are met.

a) Fair value hedges

The group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the group's exposure to exchange rate fluctuations. The terms of the receivable leg of the swap closely match the terms of the underlying debt hence the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount 2015 £m	Notional principal amount 2014 £m	**Fair value 2015 £m**	Fair value 2014 £m
US dollar	**27.0**	27.0	**7.3**	4.7
Euro	**11.4**	11.4	**8.0**	8.4
Yen	**23.8**	71.4	**7.3**	15.9
Czech krona	**–**	14.7	**–**	4.6
	62.2	124.5	**22.6**	33.6

Notes to the group financial statements continued

36 Hedge accounting (continued)

b) Cash flow hedges

The group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

At the beginning of AMP5 the group entered into a number of interest rate contracts with future start dates during the regulatory period to hedge the interest rate risk on the anticipated borrowings requirements of Severn Trent Water. These swaps were accounted for as cash flow hedges. During the year interest rate swaps with notional principal value £225 million reached their start dates. Hedge accounting has been discontinued for these contracts as it has not been possible to match the swaps against specific debt instruments. These instruments are now included in note 35 a).

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2015 %**	2014 %	**2015 £m**	2014 £m	**2015 £m**	2014 £m
10-20 years	**5.18%**	5.14%	**42.3**	264.7	**(10.5)**	(47.2)

The group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2018.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2015 £/MWh**	2014 £/MWh	**2015 MWh**	2014 MWh	**2015 £m**	2014 £m
Less than 1 year	**54.4**	62.9	**70,272**	174,720	**(0.5)**	(2.9)
1-2 years	**49.8**	–	**21,960**	–	**(0.1)**	–
2-5 years	**46.7**	–	**162,000**	–	**(0.2)**	–
			254,232	174,720	**(0.8)**	(2.9)

37 Share based payments

The group operates a number of share based remuneration schemes for employees. During the period, the group recognised total expenses of £7.7 million (2014: £6.2 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £19.74 (2014: £18.12).

At 31 March 2015, there were no options exercisable (2014: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans (LTIPs)

Under the terms of the LTIPs, conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period. Awards have been previously made on different bases to Severn Trent Plc and Severn Trent Water employees (the LTIP) and to Severn Trent Services employees (the Services LTIP).

Awards outstanding

Awards made under the LTIP

These awards are subject to Severn Trent Water's achievement of Return on Regulated Capital Value in excess of the level included in the Severn Trent Water AMP5 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2014: 100%).

Awards made under the Services LTIP

Awards are subject to achievement of turnover and profit targets over the three year period from the financial year that the awards were granted. It has been assumed that performance against the 2012 Services LTIP non-market conditions will be 0% (2014: 25%) and 2013 Services LTIP will be 0% (2014: 75%).

37 Share based payments (continued)

a) Long Term Incentive Plans (LTIPs) (continued)

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards	
	LTIP	Services LTIP
Outstanding at 1 April 2013	321,024	89,872
Granted during the year	88,996	38,902
Vested during the year	(67,302)	–
Lapsed during the year	(66,586)	(37,512)
Outstanding at 1 April 2014	276,132	91,262
Granted during the year	309,770	–
Vested during the year	(138,560)	–
Lapsed during the year	(14,224)	(26,738)
Outstanding at 31 March 2015	**433,118**	**64,524**

Details of LTIP and Services LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal date of vesting	2015	2014
July 2011	2014	**–**	127,777
July 2012	2015	**152,713**	115,809
July 2013	2016	**166,840**	123,808
July 2014	2017	**178,089**	–
		497,642	367,394

Details of the basis of the LTIP schemes are set out in the remuneration report on page 73.

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the board may grant the right to purchase ordinary shares in the company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2013	2,834,486	1,027p
Granted during the year	660,391	1,331p
Forfeited during the year	(32,527)	1,151p
Cancelled during the year	(58,850)	1,184p
Exercised during the year	(576,913)	874p
Lapsed during the year	(25,713)	1,077p
Outstanding at 1 April 2014	2,800,874	1,125p
Granted during the year	1,048,625	1,584p
Forfeited during the year	(55,907)	1,072p
Cancelled during the year	(62,552)	1,300p
Exercised during the year	(707,444)	944p
Lapsed during the year	(4,465)	1,072p
Outstanding at 31 March 2015	**3,019,131**	**1,321p**

Notes to the group financial statements continued

37 Share based payments (continued)

b) Employee Sharesave Scheme (continued)

Sharesave options outstanding at 31 March were as follows:

			Number of share options	
Date of grant	Normal date of exercise	Option price	2015	2014
January 2007	2014	1,172p	–	11,273
January 2009	2014	862p	–	496,233
January 2010	2015	808p	**298,082**	308,501
January 2011	2014 or 2016	1,137p	**114,830**	293,633
January 2012	2015 or 2017	1,177p	**454,530**	481,830
January 2013	2016 or 2018	1,241p	**512,522**	551,862
January 2014	2017 or 2019	1,331p	**596,837**	657,542
January 2015	2018 or 2020	1,584p	**1,042,330**	–
			3,019,131	2,800,874

c) Share Incentive Plan (SIP)

Under the SIP the board may grant share awards to employees of group companies. During the year the board has announced that it will make awards under the SIP based on performance against Severn Trent Water's targets for its Key Performance Indicators. Eligible employees will be entitled to shares to a maximum value of £750. It is expected that these awards will be made in August 2015. SIP shares vest with the employee on the date of grant.

d) Share Matching Plan (SMP)

Under the Share Matching Plan members of STEC receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus scheme. Matching shares may be awarded at a maximum ratio of one matching share for every deferred share and are subject to a three year vesting period. No matching shares have been awarded in the current year.

Matching shares are subject to total shareholder return over three years measured relative to the companies ranked 51-150 by market capitalisation in the FTSE Index (excluding investment trusts).

The number of shares subject to an award will increase to reflect dividends paid through the performance period on the basis of such notional dividends being reinvested at the then prevailing share price. Awards will normally vest as soon as the Remuneration Committee determines that the performance conditions have been met provided that the participant remains in employment at the end of the performance period.

Awards outstanding

	Number of awards
Outstanding at 1 April 2013	57,383
Granted during the year	33,803
Cancelled during the year	(4,569)
Vested during the year	(16,179)
Outstanding at 1 April 2014	70,438
Cancelled during the year	(8,305)
Vested during the year	(11,463)
Outstanding at 31 March 2015	**50,670**

Details of share matching awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal date of vesting	2015	2014
May 2011	May 2014	–	18,611
May 2012	May 2015	**18,024**	18,024
May 2013	May 2016	**32,646**	33,803
		50,670	70,438

37 Share based payments (continued)

e) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are set out below:

	2015			2014		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date	**1,918p**	**2,000p**	**2,000p**	1,696p	1,694p	1,694p
Option life (years)	**3**	**3.5**	**5.5**	3	3.5	5.5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility	**18.2%**	**18.2%**	**18.2%**	18.2%	18.2%	18.2%
Expected dividend yield	**4.4%**	**4.2%**	**4.2%**	4.7%	4.7%	4.7%
Risk free rate	**n/a**	**0.7%**	**1.1%**	n/a	0.9%	1.8%
Fair value per share	**1,679p**	**326p**	**311p**	1,471p	280p	278p

Expected volatility is measured over the three years prior to the date of grant of the awards or share options. Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

38 Discontinued operations

On 23 January 2015 the board approved a process to dispose of the group's Water Purification business which formed part of the Severn Trent Services segment. These operations were classified as discontinued and as a disposal group held for sale as at 31 March 2015. The results of discontinued operations are disclosed separately in the income statement and the assets and liabilities of the disposal group are presented separately in the balance sheet.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The proceeds of disposal are expected to exceed the carrying value of the group's share of the disposal group's net assets and hence no impairment loss has been recognised on the classification of these operations as held for sale.

The results of the discontinued operations were as follows:

	2015 £m	2014 £m
Turnover	**108.2**	100.0
Operating costs before exceptional items	**(103.3)**	(107.0)
Exceptional operating items	**–**	(29.2)
Total operating costs	**(103.3)**	(136.2)
Profit/(loss) before interest and tax	**4.9**	(36.2)
Finance costs	**–**	–
Profit/(loss) before tax	**4.9**	(36.2)
Attributable tax expense	**(0.2)**	(0.7)
Profit/(loss) for the year	**4.7**	(36.9)
Attributable to:		
Owners of the company	**3.7**	(39.1)
Non-controlling interests	**1.0**	2.2
	4.7	(36.9)

Notes to the group financial statements continued

38 Discontinued operations (continued)

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2015 £m
Goodwill	1.8
Other intangible assets	7.2
Property, plant and equipment	5.0
Inventories	17.3
Trade and other receivables	57.3
Cash and bank balances	19.3
Total assets classified as held for sale	107.9
Trade and other payables	(33.6)
Tax liabilities	(0.2)
Provisions for liabilities and charges	(1.5)
Total liabilities associated with assets held for sale	(35.3)
Net assets of disposal group	72.6

Cash flows arising from the disposal group were as follows:

	2015 £m	2014 £m
Net cash flows attributable to:		
– operating activities	1.8	(8.3)
– investing activities	(2.1)	(4.3)
– financing activities	3.6	12.9
	3.3	0.3

Basic and diluted earnings per share from discontinued operations are as follows:

	2015			2014		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	3.7	238.8	1.5	(39.1)	238.2	(16.4)
Diluted earnings per share	3.7	239.9	1.5	(39.1)	239.3	(16.3)

39 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2015 £m	2014 £m
Profit before interest and tax from continuing operations	**521.6**	508.6
Profit/(loss) before interest and tax from discontinued operations	**4.9**	(36.2)
Profit before interest and tax	**526.5**	472.4
Depreciation of property, plant and equipment	**281.6**	270.0
Amortisation of intangible assets	**24.2**	29.3
Impairment	**0.2**	29.5
Pension service cost	**40.9**	22.5
Defined benefit pension scheme administration costs	**2.9**	3.0
Pension contributions	**(81.0)**	(73.0)
Share based payments charge	**7.7**	6.2
Profit on sale of property, plant and equipment and intangible assets	**(8.6)**	(8.6)
Deferred income movement	**(10.1)**	(9.5)
Provisions charged to the income statement	**20.0**	11.0
Utilisation of provisions for liabilities and charges	**(26.0)**	(13.8)
Operating cash flows before movements in working capital	**778.3**	739.0
(Increase)/decrease in inventory	**(5.7)**	4.4
Increase in amounts receivable	**(32.5)**	(17.2)
Increase in amounts payable	**20.0**	4.0
Cash generated from operations	**760.1**	730.2
Tax (paid)/received	**(28.6)**	27.2
Net cash generated from operating activities	**731.5**	757.4

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2014: nil). Assets transferred from developers at no cost were recognised at their fair value of £29.8 million (2014: £24.7 million).

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

	2015 £m	2014 £m
Restructuring costs	**(25.4)**	(4.3)
Disposal of fixed assets	**9.4**	9.4
Disposal of subsidiaries	**(3.5)**	–
Settlement of customer contractual disputes	**–**	(1.9)
Obligations arising from disposal of businesses	**–**	(1.6)
Professional fees relating to LongRiver proposal	**–**	(18.7)
	(19.5)	(17.1)

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	As at 1 April 2014 £m	Cash flow £m	Fair value adjustments £m	RPI uplift on index-linked debt £m	Foreign exchange £m	Other non-cash movements £m	**As at 31 March 2015 £m**
Net cash and cash equivalents	123.2	72.6	–	–	0.2	(19.3)[1]	**176.7**
Bank loans	(594.9)	(683.0)	–	(1.3)	–	–	**(1,279.2)**
Other loans	(3,826.0)	332.2	–	(20.7)	73.3	(26.3)	**(3,467.5)**
Finance leases	(201.2)	21.2	–	–	–	–	**(180.0)**
Cross currency swaps	51.4	–	(78.1)	–	–	24.1	**(2.6)**
Net debt	(4,447.5)	(257.0)	(78.1)	(22.0)	73.5	(21.5)	**(4,752.6)**

1. Other non-cash movements on cash and cash equivalents represent amounts transferred to assets held for sale (see note 38).

Notes to the group financial statements continued

40 Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

The group has given certain guarantees in respect of the borrowings of its associate, Servizio Idrico Integrato S.c.p.a. The guarantees are limited to €5.1 million (2014: €5.1 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

41 Service concession arrangements

The group's contract to provide water and waste water services to the Ministry of Defence (MoD) is a service concession arrangement under the definition set out in IFRIC 12. The group acts as the service provider under the MoD Project Aquatrine Package C – a 25 year contract spanning 1,295 sites across England covering the Eastern sea border and from Lancashire in the North West to West Sussex on the South Coast.

Under the contract the group maintains and upgrades the MoD infrastructure assets and provides operating services for water and waste water. Both the operating services and maintenance and upgrade services are charged under a volumetric tariff, along with standard charges, which are adjusted with inflation as agreed in the contract.

Since the group has an unconditional right to receive cash in exchange for the maintenance and upgrade services, the amounts receivable are recognised as a financial asset within prepayments and accrued income. At 31 March 2015 the amounts receivable were £24.4 million (2014: £24.8 million).

There have been no significant changes to the arrangement during the year.

42 Financial and other commitments

a) Investment expenditure commitments

	2015 £m	2014 £m
Contracted for but not provided in the financial statements	**75.2**	158.5

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and sewerage services.

b) Leasing commitments

At the balance sheet date the group had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Within 1 year	**3.4**	3.4
2-5 years	**6.3**	7.2
After more than 5 years	**6.4**	5.9
	16.1	16.5

Operating lease payments represent rentals payable by the group for certain of its office properties, plant and equipment.

43 Post balance sheet events

Dividends

Following the year end the board of directors has proposed a final dividend of 50.94 pence per share. Further details of this are shown in note 14.

Discontinued operations

On 12 May 2015 the group entered into a binding agreement to sell its Water Purification business to Industrie De Nora. The proceeds of disposal are expected to exceed the carrying value of the group's share of the disposal group's net assets and hence no impairment loss has been recognised on the classification of these operations as held for sale. Further details of this are shown in note 38.

44 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the group and its associates and joint ventures are disclosed below.

	Sale of services		Amounts due from related parties	
	2015 £m	2014 £m	**2015 £m**	2014 £m
SII	**5.5**	5.8	**14.1**	17.1

The related parties are associates and joint ventures in which the group has a participating interest. The retirement benefit schemes operated by the group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year.

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 75 to 84.

	2015 £m	2014 £m
Short term employee benefits	**6.1**	6.3
Post employment benefits	**0.2**	0.4
Termination benefits	**0.2**	–
Share based payments	**4.0**	1.4
	10.5	8.1

45 Subsidiary undertakings

Principal subsidiary undertakings

Details of the principal operating subsidiaries as at 21 May 2015 are given below. A complete list of subsidiary undertakings is available on request to the company and will be filed with the next Annual Return.

Country of incorporation and main operation is Great Britain and registration is in England and Wales unless otherwise stated.

All subsidiary undertakings are wholly owned and all shareholdings are in ordinary shares.

All subsidiary undertakings have been included in the consolidation.

Name	Country of incorporation	Principal activity
Derwent Insurance Limited	Gibraltar	Provision of insurance services to other group companies
Severn Trent Environmental Services Inc.	USA	Operation of water and sewerage infrastructure
Severn Trent Property Solutions Limited	Great Britain	Provision of residential and commercial property searches
Severn Trent Select Limited	Great Britain	Provision of licensed water and sewerage services
Severn Trent Services Defence Limited	Great Britain	Provision of water and sewerage services to the Ministry of Defence
Severn Trent Services Operations UK Limited	Great Britain	Operation of water and sewerage infrastructure
Severn Trent Water Limited	Great Britain	Provision of regulated water and sewerage services

Notes to the group financial statements continued

45 Subsidiary undertakings (continued)

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2015 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

	Company number
City Analytical Services Limited	2050581
East Worcester Water Limited	2757948
Gunthorpe Fields Limited	4240764
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Corporate Holdings Limited	4395566
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent Financing and Investments Limited	6312635
Severn Trent General Partnership	SC416614
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services Purification Limited	2409826
Severn Trent Systems Limited	2394552
Severn Trent Utility Services Limited	4125386
Severn Trent Wind Power Limited	7742177