

SEVERN TRENT PLC_AR15

PARENT ACCOUNTS
SEVERN TRENT FINANCING
AND INVESTMENTS LTD
6312635

Severn Trent Plc
Annual Report and Accounts 2015

SATURDAY



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28/11/2015
COMPANIES HOUSE

Cover

SEVERN TRENT PLC _AR15

Group turnover

£1,801.3m

2014 £1,756.7m (restated)***

Group underlying profit before tax*

£300.4m

2014 £276.1m (restated)***

Group profit before tax

£148.2m

2014 £318.9m (restated)***

Dividend per share

84.90p

2014 80.40p

Earnings per share**

107.2p

2014 92.5p (restated)***

* Before tax, exceptional items and gains/losses on financial instruments

** Before deferred tax, exceptional items and gains/losses on financial instruments

*** Restated to classify Water Purification as a discontinued operation

- Good financial performance
 - Adjusted EPS up 15.9% year on year
 - Underlying group PBIT £540.3 million, up 3.2% year on year
 - Reported group PBIT up 2.6% year on year
- Focus on operational improvement
 - Improved or stable performance on 12 out of 14 Ofwat KPIs year on year
 - Achieved target of 10% reduction in leakage over AMP5
- Invested a further £547.4 million to complete AMP5 programme of £2.6 billion RCV1 £7.7 billion at April 2015
- Customer bills remain the lowest in Britain at £329 for 2015/16
- Severn Trent Services re-focused – disposal of Water Purification business (US\$81.2 million)
- Industry leader in renewable energy – self generation equivalent to 28% of Severn Trent Water's energy needs
- Reported group PBT £148.2 million, reflecting fair value losses on financial instruments
- Well positioned for AMP6
 - Largest investment programme ever – £3.32 billion capital investment
 - New organisational structure and management team
 - £300 million of £372 million target efficiencies already locked in

Cover

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- Focused on outperformance
- 2015/16 dividend 80.66 pence, followed by annual growth of no less than RPI until 2020

1 Regulatory Capital Value

2 At 2012/2013 prices

Cautionary statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates, the impact of legal or other proceedings against or which affect the group, and changes in interest and exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Subject to compliance with applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so.

Nothing in this document should be regarded as a profits forecast.

This document is not an offer to sell, exchange or transfer any securities of Severn Trent Plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the US absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).

What we do

Severn Trent provides clean water and waste water services in the UK and internationally through our regulated and non-regulated businesses – Severn Trent Water and Severn Trent Services.

Regulated – Severn Trent Water

Wholesale water and waste operations

Retail services

Further details are provided on page 18

About us

One of the largest of the 10 regulated water and sewerage companies in England and Wales. We provide high quality services to more than 3.3 million households and businesses in the Midlands and mid-Wales.

Where we operate

Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from mid-Wales to the East Midlands.

Key facts

Turnover

£1,581.2m

(2014: £1,544.8m)

Profit*

£539.0m

(2014: £518.6m)

* Before interest, tax and exceptional items

Households and businesses serviced

3.3m

Litres of drinking water supplied each day

1.8bn

Litres of waste water collected per day

1.4bn

Employees

5,181

(as at 31 March 2015)

Non-regulated – Severn Trent Services

UK Operating Services

US Operating Services

Renewable Energy

Further details are provided on page 32

About us

UK Operating Services (incl Italy and Ireland)

UK Operating Services provides contract services to municipal and industrial clients and the UK Ministry of Defence (MOD) for design, build and operation of water and waste water treatment facilities and networks. Retail services are also provided to UK businesses.

US Operating Services

US Operating Services provides contract services to community, municipal and industrial clients for the operation and maintenance of water and waste water treatment facilities and networks.

Where we operate

Severn Trent Services includes our core non-regulated businesses operating in the UK, Americas and Europe.

Key facts

Turnover

£216.3m

(2014 £210.2m**)

Profit*

£9.7m

(2014 £13.3m (restated))**

* Before interest, tax and exceptional items

** Restated to classify Water Purification as a discontinued operation

Employees

1,853

(as at 31 March 2015)

Renewable Energy

Severn Trent's non-regulated business already generates renewable energy from wind turbines, hydro power and anaerobic digestion (AD) of crops. We have now expanded into the food waste AD market, and have plans to add solar technology as our fifth source of energy generation.

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At Severn Trent our role is to serve our communities and build a lasting water legacy

Our challenge is to not only care for our water system, but to build upon it, to meet the changing needs of our community and environment

To do this, we continually invest in renewing and improving upon the legacy that we have, by creating new ways to deliver fresh, clean water to our customers' taps, before returning it safely to the environment

We innovate so that we create a greener, cleaner water future for us all. We are investing in new technology to create energy from waste and flexible water and waste water systems for communities and businesses around the world

We care for your water, so that you can have peace of mind that it will always be there.

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Chairman's statement

Andrew Duff, Chairman

This has been an important year for Severn Trent. We have completed the final year of our AMP5 investment period in our regulated business and agreed a business plan with our customers and regulators for the next five years. At the same time, under the leadership of our new Chief Executive, Liv Garfield, and her team we have taken great strides in transforming our business to meet the challenges and opportunities of our evolving water sector.

Continued delivery

Looking back, the final year of AMP5 has again delivered significant value for our customers and our shareholders

Total group revenue rose by 2.5% to £1,801.3 million, while underlying group profit before tax was 3.2% higher at £540.3 million. This resulted in adjusted earnings per share of 107.2 pence, up 15.9% from 92.5 pence.

For 2014/15, your board is proposing a final dividend of 50.94 pence to be paid on 24 July 2015. This will result in a total dividend for the financial year of 84.90 pence, representing growth of 5.6%. Since the start of AMP5, we've delivered a total shareholder return of 125.4%, well ahead of the 42.4% return from the FTSE 100.

For many people, being able to afford our services is key and so we're pleased to have had the lowest average combined water and sewerage bills in Britain for the last six years, a position which is set to continue at least to 2020. Our average bill in 2014/15 was £333, which is lower in real terms than at the start of AMP5.

As well as good value, our customers have also benefited from an improved level of operational performance. Over the last 12 months, we have further improved our ranking and performance in Ofwat's measure of customer service performance, the Service Incentive Mechanism (SIM), and I am confident that our rate of improvement will see us climb further over the coming years. We have also produced very good environmental performance with continuing strong results in leakage and significant reductions in the number of pollution incidents.

These efforts are reflected in rising customer satisfaction scores. This is an important indicator for us as we continue our journey to put customers at the heart of everything we do.

Performance has improved over the last five years and I am confident we will continue to deliver further improvements in our operational and customer service performance into AMP6.

Underlying group PBIT* £540.3m <small>* Before exceptional items</small>	Dividend +5.6%	Dividend 84.90p
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The next five years

The last year has been necessarily dominated by our PR14 process, as we prepared and submitted our business plan for the next five years, and accepted Ofwat's Final Determination. It has been the culmination of over 18 months of work, which has benefited significantly from input from our customers and a wide range of other important stakeholders. This engagement has been an innovation in this price review and has helped us to better evaluate risk, quality and cost through the eyes of our customers.

Throughout, we have had a constructive dialogue with Ofwat and the outcome is a challenging settlement, but nonetheless a fair deal for our customers. We are undertaking one of our largest ever investment programmes with a total AMP6 expenditure of £6.6 billion, most of which will directly benefit our customers and the Midlands' economy. By 2020 the average annual Severn Trent Water bill will be £60 below the industry average.

Severn Trent Water has always had a good record on social tariffs for those customers who are struggling to pay. We plan to do even more in AMP6, with up to four times more people benefiting from our new special tariff scheme

In accepting Ofwat's Final Determination, we have also committed to some stretching operational targets, through our Outcome Delivery Incentives (ODIs), and achieving operational efficiencies over the next five years. We also took the opportunity to assess the implications for our capital structure and dividend policy. After careful consideration, we decided to reduce the dividend by 5% in the coming financial year, with a policy of growth in subsequent years by no less than the Retail Prices Index (RPI) each year to 2020. We also announced that we would commence a share repurchase programme of up to £110 million of ordinary shares. This programme was considered a low risk method of returning capital to shareholders, satisfying future share awards and moving gearing in Severn Trent Water towards the 62.5% net debt/Regulated Capital Value (RCV) notional level used by Ofwat in the price review.

Severn Trent has one of the fastest growing RCVs in our sector and we are confident that we can continue our track record of delivering sustainable growth for our shareholders into the longer term. Our focus on operational excellence, and continuous innovation in the delivery of excellent customer service, gives us confidence that we can earn additional rewards through our new ODIs.

Board changes

Delivering for the future depends on many things, but the most important success factor is our people.

Leadership starts at the very top and at the beginning of the year we appointed Liv Garfield to be our Chief Executive to lead the next stage of your company's journey. Liv has identified that the commitment and skills of our people will be critical.

With this in mind she has created space for our managers to lead and empowered them to take accountability and to innovate. Delivering operational improvement, steering the price review process and at the same time building the organisational structure and culture necessary for success over the next five years has been quite an achievement in her first year.

During the year we also bade farewell to two board members who have made an enormous contribution to the success of Severn Trent in recent years, our Chief Financial Officer, Michael McKeon, and Richard Davey, who has served as Senior Independent Director and Chairman of our Remuneration Committee. I would like to place on record my personal thanks and that of your board for their distinguished contribution and service. At the same time, I'm delighted to welcome our new Chief Financial Officer, James Bowling.

Our changing sector

In transforming our business and preparing for a future in a changing sector, we are indebted to our people.

It is they who identified the need for change and throughout the changes we have made over the last year, they have unfailingly accepted the need to transform our business. The board and I are grateful to each and every one of them for all that they do and for the commitment they have shown.

Our sector is quietly evolving and the future is a world of increased competition and further opportunities in non-regulated water markets. We believe that the renewable energy market has growth potential for us and have made a significant financial commitment to increase our own energy generation. With our focus on operational excellence and our established track record of environmental guardianship and technical innovation, you can be confident that Severn Trent is well positioned to benefit from growth in these future markets.

As we conclude the final year of AMP5, we can look back on five years of continuous improvement. Looking forward to AMP6, we believe we've put the foundations in place to deliver continued long term sustainable growth for our shareholders and real benefits for our customers and the communities in which they live and work.

Andrew Duff, Chairman

Chief Executive's review

Liv Garfield, Chief Executive

It's the end of my first year as Chief Executive of Severn Trent and I have enjoyed every minute of the challenge of getting our business in the best possible shape for the next five years.

We are now facing the future with confidence, despite one of the toughest price settlements in our history

When I took up my role in 2014, I was clear that in order to create the most trusted company in our sector we needed to focus on transforming our culture, driving operational excellence and putting customers at the heart of what we do. It's what successful businesses do, it's what we all want and it creates value for our customers and our shareholders

The changes we have made over the last year have built those foundations, and I have been out to meet everyone in our business personally, to listen to their views and share our vision of the kind of awesome company we want to create. It's been a huge journey condensed down into a single year, but I genuinely believe that creating the right culture is how we'll get the whole organisation aligned as one and ready to deliver for the future

Performance in 2014/15

Our performance over the last year has demonstrated where we are strong and the areas where we need to drive improvement

Looking at our improvement areas first, no one in our business is in any doubt that water quality is a key focus area for us. We've made progress in the year, but our performance hasn't been as good as we would like it to be. So we have put together a seven point improvement plan and reprioritised £35 million of investment to replace and refurbish water quality assets nearing the end of their life, which will also provide a greater degree of resilience in both our networks and to our water treatment works. We will also put significant focus on investing in the professional expertise of our people and developing our process analytics to improve the reliability and availability of our assets

Lowest average combined bill 2014/15 £333	Leakage over AMP5 -10%	Efficiencies identified £300m
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The other area where we think we can do better is around 12 hour interruptions to water supply to our customers. We are good at managing three hour interruptions, but we are not as sharp as we could be on the bigger, more complex events. We've done a lot of work over the last year to improve on that and we will continue to invest and use better technology to help our teams to improve our service for customers

On waste water services, we are very good at the majority of measures, but if there's one area where we can do a better job, it's around sewer blockages and we have set the bar very high for the next few years

Aside from these matters, there are also many highlights from the last year, where we are pleased with our performance.

Leakage performance has been very good over recent years and we have hit our target of a 10% reduction over AMP5. We've set ourselves tough targets and we're challenging ourselves to improve further. We remain confident about our continuing performance where we are strong and on many of our waste water measures we are already upper quartile in the industry

We've been recognised by the Environment Agency as the only 4* rated company in 2014 across the entire sector for environmental performance. We're also proud of our focus on and commitment to catchment management and we are one of the few companies to have put in serious investment in the coming five year period

"Together with the lowest average bills in Britain, our customers increasingly feel that they are receiving good value for money, which is an encouraging sign that we are getting the balance right."

We have also improved our customer service performance. During the year we created approximately 100 new frontline roles and have focused on resolving customer issues faster. Together with the lowest average bills in Britain, our customers increasingly feel that they are receiving good value for money, which is an encouraging sign that we are getting the balance right, although, of course, there is much more for us to do.

All of this makes us confident that Severn Trent will be one of the winners in the new world of ODIs from 1 April 2015, and in areas where we aren't currently doing as well as we would like, we have an opportunity to improve and then earn rewards.

A year of transformation

My fundamental belief is that successful organisations are customer focused ones, so we are focusing on operational excellence and embedding the customer in all that we do.

The strategy we have put in place over the last year is designed to deliver an outstanding customer experience, the best value service and environmental leadership. In doing so we will create long term value for all our stakeholders, our customers, our communities, our employees and our investors.

This is the bigger vision and the bigger context which is driving our thinking as we look forward to the future.

We want to be in the best possible shape to deliver our strategy so we made the decision over the year to create a different organisational structure and put in place a new management team. No one else in our sector has a structure like this and we believe it will give us an edge in an increasingly competitive world.

We've chosen to bring together our water and waste water businesses into one Wholesale Operations business. This change will simplify our structure, speed up decision making and make us more efficient and agile as a business, enabling us to drive the operational excellence and innovation we're looking for. Our new Managing Director for our Wholesale Operations business is Emma FitzGerald who will, I am sure, bring her experience, passion and drive to deliver a great customer service through operational excellence.

The second structural change we've made is to create a Chief Customer Officer role, bringing together our IS function, our contact centres and transformation teams. Our industry needs to fully embrace digital technology to become more efficient and to deliver what our customers expect. Bringing everything together in one place creates a sense of a joined up business for our customers and allows us to fulfil our digital ambition. Sarah Bentley, who has previously looked after digital for Accenture, has joined as our new Chief Customer Officer.

In Severn Trent Business Services we have reorganised and brought together our non-regulated businesses, Operating Services US, Operating Services UK, including non-household retail and renewable energy, each with a very good management team in place and a clear future. With the sale of the Water Purification business the management team will be able to focus on creating value from these core businesses in water and waste services and renewable energy. Our new non-regulated businesses are led by Andy Smith who has extensive experience in the water sector having been the Severn Trent Water, Water Services Director for seven years.

"The changes we've made will create a more dynamic, empowered culture, where the customer is very much at the heart of our business."

To ensure we have the very best engineering expertise, we have created a Chief Engineering Officer function, led by Martin Kane. Martin's team will give us assurance that we are challenging ourselves to create the very best engineering solutions. We've got one of the biggest investment programmes we've ever had over the next five years and we need to ensure we have the right assurance that we are choosing the most cost-effective solutions. The Chief Engineering Officer function will also assist in bringing innovation to life within our business.

The final structural change we made during the year was the creation of a Chief Commercial Officer function, led by Helen Miles. We have a big agenda over the next five years and we want to drive significant efficiencies. We know what the drivers are and we now have a plan in place to deliver them, which has already identified over £200 million of AMP6 savings from the supply chain.

In addition to these structural changes, our Chief Financial Officer, Michael McKeon, has decided after nine years with Severn Trent to retire. I would like to sincerely thank Michael for his help in my first year in the role. He's been a superstar. I'm also delighted to have been joined by James Bowling as our new Chief Financial Officer, who I know will be excellent.

In transforming our business, we've also made difficult but important organisational changes, including significant reductions in our cost base and de-layering of management levels. These changes were tough, but will deliver over £100 million of savings for AMP6 whilst allowing more space for our managers to lead.

So together with £200 million of supply chain and other efficiencies that we have already identified, this now equates to £300 million already locked in, as at the date of this report, for the coming five year period, which is a significant way towards the £372 million target agreed in our Final Determination.

The changes we've made will also create a more dynamic, empowered culture, where the customer is very much at the heart of our business.

Our business plan for AMP6 promises better value, better services and a cleaner environment. I believe that with the changes that we have put in place we are well placed to deliver our commitments.

1. Water quality is a key focus area for Severn Trent. £35 million of investment has been re-prioritised to replace and refurbish water quality assets.
2. Severn Trent has been recognised by the Environment Agency as the only 4* rated company in 2014 across the entire sector for environmental performance.

How we create sustainable growth

- Embed customers at the heart of all we do
- Drive operational excellence and continuous innovation
- Invest responsibly
- Change the market for the better
- Create an awesome place to work

Sustainable growth

Our strategy is to invest responsibly in sustainable growth. In our UK regulated business, our £6.6 billion AMP6 expenditure includes one of our biggest investment programmes and gives us a fantastic opportunity to outperform and grow our regulated asset base.

We also have an opportunity to earn additional rewards over the five years by performing well on our ODIs. There are bound to be good and bad years on various measures, but in aggregate we are confident that we're positioned to do well. As an industry and as a company we have lobbied hard for incentives and we're looking forward to the challenge.

Severn Trent has always been known for environmental leadership and we also see a positive future in green energy. We have announced over £190 million of new investment in renewable energy over the next five year period and in particular in anaerobic digestion and solar technologies.

This will take our self-generation of renewable energy from the equivalent of 28% of Severn Trent Water's gross energy consumption over 2014/15 to around 50% by 2020, providing efficient green energy and a long term hedge against volatile energy prices. Severn Trent remains the sector leader in this area.

Looking forward

I'm delighted to be part of Severn Trent and very excited about how Severn Trent and our people can play a part in changing our market for the better.

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The future is a world where there will be more competition in the water sector and we are already seeing the start of a gentle disaggregation of the value chain. New markets are opening, including the retail non-household market in 2017. We want to be an active part of that, and we would also love to see a competitive market for sludge trading and water trading, as we believe they present opportunities for competition in the sector and value for our customers.

We've put in place the building blocks to ensure that Severn Trent is a leader in our sector: the lowest bills for customers, strategically well positioned in sludge, retail competition and water resources, a standard setter in renewables, and the right people, leadership and organisational structure to deliver.

So this has been a year of transformation, but for us there is always more to do, more efficiency to be found, more success to be had. It's the aggregation of small, marginal gains every year that you should expect from us and that will translate into long term shareholder value.

We've done some good work over the last 12 months and we know where we need to improve. It's the start of a brand new regulatory period and we feel we're building from a good place.

Liv Garfield, Chief Executive

WATCH NOW

Watch a video of Liv on our new online Annual Report and Accounts

www.severntrent.com/AR2015

Our strategic framework

Our purpose	To serve our communities and build a lasting water legacy.	
Our vision	By 2020 to be the most trusted water company	
Our strategy	Severn Trent are transforming service today, driving growth, and shaping our industry for tomorrow – for the mutual benefit of our customers, communities and investors.	
How we do it	Embed customers at the heart of all we do What we mean by this We'll improve the way in which customers engage with us through improved insight and understanding of what's important to them	Drive operational excellence and continuous innovation What we mean by this We'll build a smart water and waste water network, develop our business intelligence and simplify our cross business processes
Our market segments	Wholesale operations and engineering What we mean by this Regulated water and waste water infrastructure and non infrastructure assets	Household customer services What we mean by this Customer services for household customers in the UK
Our values	We put our customers first What we mean by this We're here for our customers 24/7 We want to create a relationship based on empathy and respect	We are passionate about what we do What we mean by this We're passionate about the work we do and our expertise We go the extra mile for customers and team mates

delivering an outstanding customer experience, the best value service and environmental leadership		
Invest responsibly for sustainable growth What we mean by this We'll develop an effective strategy which optimises our regulated asset base, whilst creating new growth opportunities for the future	Change the market for the better What we mean by this We'll embrace market opening in the UK and explore opportunities for growth in new water markets worldwide	Create an awesome place to work What we mean by this We'll create a culture of empowerment and accountability with a focus on skills, talent and career development
Business retail and operating services What we mean by this Customer and operating services for our business customers in the UK and overseas	Green energy What we mean by this Renewable energy generation including gas to grid, food waste biodigestion, wind and solar power	New water markets What we mean by this Opportunities in sludge trading, water trading and upstream competition
We act with integrity What we mean by this We strive to do the right thing by being transparent and honest in all that we do We want to create a better future for all	We protect our environment What we mean by this We're committed to a cleaner, greener future, protecting and improving our environment for generations to come	We are inspired to create an awesome company What we mean by this We'll all work together to be creative and to make special things happen

Further details are provided on page 14

Our performance

2014/15 performance measurement – 2014/15 Key performance indicators

1. Embed customers at the heart of all we do

Basis	Key performance indicators		2014/15	2013/14	2012/13
MAT	DWI reportable events (category 3, 4, 5)	KPI 3	31	24	23
MAT	Service Incentive Mechanism Qualitative (SIM) score ¹	KPI 4	4 36	4 48	4 36
ACT	Service Incentive Mechanism Quantitative (SIM) score ²	KPI 5	105	143	167
MAT	Water supply interruptions index per property mins ³	KPI 6	10	16	29
	Sewerage serviceability (internal) ⁴	KPI 7	54	57	78
	Water serviceability (internal) ⁴	KPI 8	270	202	80
ACT	Security of Supply Index (SOSI) ⁵	KPI 14	100	99	99

2. Drive operational excellence and continuous innovation

Basis	Key performance indicators		2014/15	2013/14	2012/13
MAT	Pollution incidents (sewerage cat 1, 2, 3) ^{6 7}	KPI 12	368	449	376
ACT	Sewerage treatment works – failing consent, limits % ⁸	KPI 13	0.14	0 71	0 85
MAT	Net energy use Gwh %	KPI 15	634	691	690
MLE	Leakage levels ML/d	KPI 16	441	441	441
MAT	Waste water treatment performance Severn Trent Services % ⁹	STS KPI 1	7.4	5 6	10 8

3. Invest responsibly for sustainable growth

Basis	Key performance indicators		2014/15	2013/14	2012/13
ACT	Capex £m (UK GAAP, net of grants and contributions) ¹⁰	KPI 9	542 7	583 2	541 8
ACT	Debtor days ¹¹	KPI 10	34 7	34 5	36 7
ACT	Opex £m	KPI 11	588 9	585 3	566 5

4. Create an awesome place to work

Basis	Key performance indicators		2014/15	2013/14	2012/13
MAT	Lost time incidents per 100,000 hrs worked ¹²	KPI 1	0 21	0 21	0 21
MAT	Lost time incidents per 100,000 hrs worked ¹² Severn Trent Business Services	STS KPI 2	0 30	0.27	0 30
QR	Employee engagement % ¹³	KPI 2	79	81	79
QR	Employee engagement % ¹⁴	STS KPI 3	75	79	77

Key

Executive director balanced scorecard performance measure see Remuneration Committee report on pages 69 to 85

Black Regulated business KPI

Purple Non-regulated business KPI

Desired direction of KPI

Strategic report

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MAT Moving Annual Total

QR Quarterly Review

MLE Maximum Likelihood Estimate

ACT Year End Actual

Notes

- 1 In 2014/15 Ofwat changed the methodology for this measure. It is not comparable with 2013/14 and 2012/13. On a comparative basis we moved from 13th in 2013/14 to 6th in 2014/15 out of 18 water companies.
 - 2 Actual performance based wholly or partially on internal data.
 - 3 Number of minutes lost due to supply interruptions for three hours or longer per property served.
 - 4 Ofwat serviceability score assesses how effectively we are maintaining our network and assets against a range of measures. Assessed as either improving, stable, marginal or deteriorating.
 - 5 Score represents Internal KPI. The measure is out of 100.
 - 6 Total number of pollution incidents (category 1, 2, 3).
 - 7 2012/13 figures are not comparable. In 2013 the Environment Agency changed its reporting methodology for small incidents. As a result of this reclassification we now report more smaller incidents.
 - 8 Measured on a calendar year basis.
 - 9 Non-compliance with consent permits or formal client requirements during the previous 12 months.
 - 10 Investment excluding PDaS and IFRS adjustments.
 - 11 Actual performance based on audited financial statements for the year ended 31 March 2015.
 - 12 Actual performance across all employees and agency staff.
 - 13 Performance based on annual survey of all employees.
 - 14 Performance based on annual survey of all employees, including the Water Purification Business.
- KPI 3 Drinking Water Inspectorate – Reportable Events. This KPI measures the number of significant events reported to the DWI.
- KPI 7 Serviceability waste water. This KPI is an index based on pollutions and blockages (both measures of how our below ground assets are performing) and sewage treatment works non-compliance (above ground). The index reflects a 50/50 weighting for above and below ground assets.
- KPI 8 Serviceability water. This index is based on mains bursts and supply interruptions greater than 12 hours (both are measures of how our below ground assets are performing) and Water Treatment Works (WTW) non-compliance (above ground). The index reflects a 50/50 weighting for above and below ground assets.
- KPI 14 Security of Supply Index (SOSI) is a measure of how resilient we are against periods of drought. The index calculation is based upon the difference between the water available to use and the volume of water we expect to put into our supply network in order to meet demand.

Future performance measurement – Our Outcome Delivery Incentives (ODIs)

1. Embed customers at the heart of all we do⁴

Internal sewer flooding

Penalty/Reward

1,014

Rate of Penalty/Reward (per incident)

£42,000

Minutes without supply

Penalty

14.5

Reward

12

Rate of Penalty/Reward (per minute)

£1.1 million

SIM – Customer experience

Reward and penalty mechanism to be decided by OFWAT July 2015

External sewer flooding

Penalty

7,639

Reward

7,452

Rate of Penalty/Reward (per incident)

£19,800

Complaints about water quality

Penalty

11,900

Reward

9,992

Rate of Penalty/Reward (per complaint)

£900

2. Drive operational excellence and continuous innovation⁴

Improvements to river water quality³

Penalty/Reward

233

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Rate of Penalty/Reward (per point)

£150,000

Successful catchment management schemes

Penalty/Reward

12

Cap

21

Rate of Penalty/Reward (per scheme)

£1 03 million

Asset Stewardship – Coliform failures

Penalty/Reward

7

Rate of Penalty/Reward (per failure)

£463,000

Number of pollution incidents

Penalty

457

Reward

374

Rate of Penalty/Reward (per incident)

£53,900

Leakage

Penalty/Reward

444

Rate of Penalty/Reward (per megalitres per day)

£123,314

3. Invest responsibly for sustainable growth

Severn Trent Water

Severn Trent Business Services

See note 1

See note 1

4. Create an awesome place to work

Lost time incidents per 100,000 hrs worked

Severn Trent Water

0 21 See note 2

2013/14 0 21

Severn Trent Business Services

0 30 See note 2

2013/14 0 30

Employee engagement

Severn Trent Water

79 See note 2

2013/14 79

Severn Trent Business Services

75 See note 2

2013/14 75

Notes

- 1 Illustrative positioning only Internal KPIs for 2015/16 to be reported
- 2 2014/15 figures for illustrative purposes.
- 3 Consolidation of two ODIs relating to river water quality
- 4 The thresholds stated refer to the application of rewards and/or penalties

For full list of all ODIs and the details of each see www.severntrent.com

CASE STUDY

Producing local gas from local waste!

By investing in an innovative process at our Minworth sewage treatment works, we're unlocking even more of the hidden power in sewage

Minworth treats sewage from 2.5 million people around Birmingham – that's nearly 350,000 litres every hour. Valuable energy is locked away in this sewage. We release it by feeding the sludge from our treatment process into our anaerobic digesters. These work like giant cow's intestines, generating gas as they break the sludge down.

So far, we've used around 40% of this gas to produce electricity. Now we can also clean, pressurise and odourise the gas, before we 'inject' it into the network that supplies local homes. We're the first UK water company to do this on such a large scale, saving us £1.7 million every year while benefiting both customers and the environment.

Market and industry overview

The water and sewerage industry

The industry in England and Wales delivers services to homes and businesses of over 50 million people

There are 19 regional suppliers, who serve the majority of these customers. 10 of the regional companies – including Severn Trent Water – provide water and sewerage services. The other nine provide water services only.

The UK water industry was privatised in 1989 and has made significant progress since, attracting more than £4 billion of private investment every year to improve operational performance and make customer service improvements. As a result, drinking water quality in the UK is among the highest in the world. The industry also makes a substantial contribution to the economy, estimated at £15 billion a year for the UK as a whole, and directly or indirectly supports the equivalent of 127,000 full-time jobs.

“We expect the industry landscape to continue to evolve in the coming years.”

Despite the sector's progress since privatisation, it still faces substantial challenges that must be tackled in the coming years. These must be met whilst still keeping bills affordable for customers, both now and in the future. In particular:

- Much of the sector's infrastructure is ageing. For example, approximately 20% of Severn Trent's sewers and 10% of our water mains are more than 100 years old, which means we need to continue to reinvest in the renewal of our networks.
- We can expect to see more extreme weather. This means we need to build resilience, so we can cope with increased flooding and periods of droughts.
- The UK's population is growing, which is adding to the pressure on water resources and our networks. Severn Trent serves 3.1 million households, a total that's increasing by about 12,500 households each year. That's the equivalent of adding a city the size of Wolverhampton every seven years, in our region alone. We need to make sure we have the infrastructure in place to serve these people.
- Customers quite rightly expect better levels of service, making it ever more challenging for all organisations to meet their customers' expectations. Water companies know they've got to work harder at improving customer service.
- Our industry has to compete for global capital to invest for the future. The sector must remain an attractive investment opportunity. Otherwise the only way we'll be able to attract investment is by having to pay more for it, which will push up customers' bills.

Severn Trent has always contributed to the debate about our industry's future, including through our series of Changing Course publications. We'll continue to be an active participant in these conversations, so we can help shape thinking about how to best serve our customers in the future.

1. Much of the sector's infrastructure is ageing. We need to continue to reinvest in the renewal of our infrastructure and networks for future generations.
2. The AMP6 business plans are designed to deliver what customers say they value the most. We conducted our biggest ever customer consultation for PR14.

How the industry is regulated

Severn Trent Water is a regulated business. We work within five year regulatory planning cycles, known as Asset Management Plan (AMP) periods. This financial year was the last in AMP5, with AMP6 starting on 1 April 2015.

The industry operates within the following policy and regulatory framework:

- The European Union (EU) sets water, waste water and environmental standards across member countries.

- Government sets the overall water and sewerage policy framework. This is done by the Department for Environment, Food and Rural Affairs (Defra) in England, and by the Welsh Government in Wales
- Ofwat is our economic regulator, which means that it sets the prices we can charge our customers in each AMP period, and ensures that we carry out our functions properly and are appropriately financed
- The Drinking Water Inspectorate (DWI) is the drinking water quality regulator and makes sure we comply with the water quality regulations
- The Environment Agency (EA) is the environmental regulator in England. It controls water abstraction, river pollution and flooding
- Natural Resources Wales is the environmental regulator in Wales. It ensures that the country's natural resources are sustainably maintained, enhanced and used

We also work with other agencies, including

- The Consumer Council for Water (CCW), which represents the industry's customers, and
- Natural England, which protects and improves England's natural environment.

The regulatory regime for AMP6

During the year, Ofwat concluded its price review for AMP6, which runs from 2015 to 2020. Most of the companies have agreed business plans with Ofwat, setting out what they commit to deliver during the period and the bills that customers will pay.

The AMP6 business plans are designed to deliver what customers say they value most, in terms of the service they receive and the benefits to the environment and society. Across the industry, water companies engaged with more than 250,000 customers – the largest ever consultation in the utilities sector – to get a clear understanding of what they were willing to pay for.

Key features of the regulatory regime for AMP6 include

- **Greater flexibility to spend money where it's most needed.** In previous AMPs, spending was regulated between capital expenditure (Capex) to meet long term investment needs, and operating expenditure (Opex) to meet day-to-day running costs. The ability to earn a return on Capex arguably incentivised companies to seek Capex type solutions to issues, even if Opex might be more efficient. In AMP6 Ofwat has considered expenditure on a total expenditure (Totex) basis, so we can choose the most cost-effective and innovative solutions to meet our commitments.
- **Aligning the interests of customers and investors.** In AMP6, company performance is measured against metrics called Outcome Delivery Incentives (ODIs). While failure to achieve targets can lead to penalties, as in previous AMPs, many of these ODIs also include incentives for companies to outperform. As the ODIs are based on what is important to customers, outperformance means that both customers and companies benefit. Companies can also do better if they deliver their investment programme for less than their plan, sharing the savings with customers.
- **A better environment.** Several ODIs are designed to deliver important environmental improvements, such as better river quality, which focuses companies on achieving their environmental commitments over the next five years.
- **Reduced bills for customers.** Customers must be willing and able to pay for the costs of the programmes we'll deliver during AMP6. They'll benefit from rising standards and an average reduction in bills of 5% across the industry, over the five years. Companies will also be doing more to help people who struggle to pay their bills, for example by enhancing the social tariffs they offer.

To ensure we meet our commitments during AMP6, we've set out our strategy which is detailed on pages 8 to 9. Our ODIs, against which our performance will be measured, are explained on page 11. The regulated performance review on pages 20 to 29 talks about some of the specific initiatives we'll be undertaking as part of our plan.

“This will give business customers increased choice and encourage companies to provide a better service to them.”

An evolving industry

We expect the industry landscape to continue to evolve in the coming years. In addition to the opening up of non-household retail competition, as discussed under ‘The non-regulated market’, there’s scope for more competition in the wholesale business. For example, we believe customers would benefit from a greater role for water trading, which would allow companies with surplus water to sell it to those with resource constraints, saving the significant capital investment required for capital solutions such as desalination plants.

The regulatory regime also makes consolidation less difficult than before. This could encourage companies to take innovative approaches to consolidation, for example by merging their wholesale operations to deliver efficiencies, while demerging their retail businesses.

The non-regulated market

Our non-regulated markets provide additional opportunities for growth in the next few years. We are already active in the UK operating services market providing waste water and water treatment for clients. We also have a small presence in the Scottish water retail market. Competition for non-household retail in England will open up in April 2017 and we are preparing for this. This will give business customers increased choice and encourage companies to provide a better service to them. We are positioning our business to succeed in this market and working with the rest of the industry to support OpenWater. OpenWater is the body charged by the government with developing the market rules, framework and systems that will be needed for effective non-household retail competition.

In the US operating services market, the large majority of customers are municipalities which are looking to outsource the management of their treatment facilities to companies such as Severn Trent. There are signs that the market could create new opportunities, as municipalities turn to the private sector for expertise and funding in response to increasing demands from customers and regulators. We are looking at how we can take part in this market, as it develops.

The renewable energy market also has growth potential for us. We see scope to increase our electricity generation from sources such as food waste digestion and solar, allowing us to sell any electricity not used by our regulated business to National Grid. Similarly, we can sell surplus gas generated by our waste treatment works to the grid.

Working in partnership to protect our watercourses.

Our customers' top priority is having a reliable supply of high quality water. To achieve that at an affordable price, we have to protect our watercourses from pollution

The traditional way to tackle raw water pollution is to invest in new treatment processes, which is often expensive. However, by working in partnership with landowners and users, we're stopping pollution at source at a fraction of the cost

For example, since September 2013 we've been working with farmers in two catchment areas, to reduce their use of pesticides containing metaldehyde

Treatment of this chemical with conventional methods is difficult. We've therefore engaged with farmers and encouraged them to work together with us. By incentivising them to use alternative treatments and rewarding them for reducing pollution, we've cut metaldehyde levels in the two areas by up to 90%. We're now looking to expand this approach during AMP6, with the aim of having 12 successful catchment management schemes by 2020

Regulated

Our business model

– The role of Severn Trent Water Limited

Severn Trent Water Limited is a regulated business. We work within five year planning cycles, with customer prices set by our economic regulator, Ofwat. This allows us to fund our investment programme and cover an efficient level of operating costs.

We are also subject to regulation by two quality regulators – the Drinking Water Inspectorate and the Environment Agency.

Our prices and asset base are adjusted by RPI inflation each year. In certain circumstances we can ask for prices to be reviewed within the five year period due to costs associated with 'notified items' or 'relevant changes of circumstance'. Customer bad debt and the adoption of private drains and sewers (PDaS) are included in these categories for the current five year period. Severn Trent has absorbed the costs associated with PDaS and has not sought to review prices for this reason during 2010–2015.

The company earns a return on its asset base. We can generate additional returns if we outperform Ofwat's assumptions by becoming more efficient in the delivery of our capital programme, managing our operational costs more effectively, and by financing our business at a lower cost.

Our operating performance is assessed and benchmarked against the sector by Ofwat. Over the period 2015 – 2020 there will be scope to earn additional income, or incur penalties, based on our performance (as discussed on page 11).

Life cycle of water					
1. Water is collected	2. Water is cleaned	3. Clean water is distributed	4. Customers enjoy our services	5. Waste water is collected	6. Waste water is treated and returned to the environment
Regulatory framework					
<ul style="list-style-type: none"> • Ofwat • Natural England • Natural Resources Wales • Environment Agency • Health and Safety Executive 	<ul style="list-style-type: none"> • Ofwat • Drinking Water Inspectorate • Health and Safety Executive 	<ul style="list-style-type: none"> • Ofwat • Drinking Water Inspectorate • Health and Safety Executive 	<ul style="list-style-type: none"> • Ofwat • Consumer Council for Water • Drinking Water Inspectorate 	<ul style="list-style-type: none"> • Ofwat • Environment Agency • Health and Safety Executive 	<ul style="list-style-type: none"> • Ofwat • Natural England • Natural Resources Wales • Environment Agency • Health and Safety Executive

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Risks					
Failure of key assets may result in damage to property, injury to people and/or disruption to our ability to supply our customers Principal Risk Ref 6*** and 7***	Failure of key assets or processes may result in a decline in water quality, disruption in our supply to customers or failure to meet regulatory targets Principal Risk Ref 6*** and 7***	The performance of our distribution network may fall below the standards expected by DWI or Ofwat, resulting in poor service to our customers and increased leakage from our network Principal Risk Ref 7***	Failure to improve our customer service and meet customer expectations Principal Risk Ref 1*	Failure to deal with customer waste effectively may lead to sewer flooding Principal Risk Ref 7***	We may suffer operational failure in our waste water operations which results in damage to the local environment Principal Risk Ref 7***
	Hazardous processes or chemicals may result in people being injured Principal Risk Ref 6***	Failure of one of our key assets could result in disruption to supply to customers Principal Risk Ref 7***	We may be unable to respond effectively to the opening up of the business retail market to competition Principal Risk Ref 2*		Hazardous processes may result in people being injured Principal Risk Ref 7***
Investment and maintenance					
Networks invested and maintained					
<p>Our capital programme this year was £547 million, or around £165 per connected property, reflecting a decreased investment year on year (2013–2014 £602 million) in our water and sewerage networks. This included finding and fixing more leaks and reducing the number of supply interruptions, improvements to our water and sewage treatment plants and upgrades to our sewer network to reduce incidents of sewer flooding. We fund this investment programme from the profits we generate, and also by borrowing money from the capital markets. Capital investment is added on to our asset base, called the Regulated Capital Value (RCV). Our asset base also rises in line with inflation each year. The returns that we generate for shareholders on that asset base are set by our economic regulator, Ofwat, over five year planning cycles. We can increase these returns by outperformance in future years through Outcome Delivery Incentives (ODIs).</p>					
Regulatory framework			Risks		
<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 			<p>We operate within a complex legal and regulatory environment as a water and sewerage service provider in England and Wales. As a result we face a number of risks including those associated with possible non-compliance with our legal and regulatory framework, and enforcement by our regulators (e.g. DWI, EA and Ofwat) and failure to meet the terms of our regulatory contract as set out in our agreed business plan for 2015–2020. We also face risks associated with possible future changes in legislation which may result in our business plans becoming unsustainable or uneconomic.</p> <p>Principal Risk Ref 3, 4 and 6 ***</p>		

* Principal Risk Ref 1 and 2 on page 40

** Principal Risk Ref 3, 4, and 5 on page 41

*** Principal Risk Ref 6, 7 and 8 on page 42

Regulated business performance review

1. We have achieved an underlying improvement in interruptions to supply, reducing the average number of minutes that customers are without supply from 16 minutes to 9 minutes 54 seconds.

2. We answer at least 80% of calls within 20 seconds.

Our goal is to provide a reliable service that our customers, communities and investors can trust. This will enable us to generate long term sustainable growth, by delivering an outstanding customer experience, the best value service and environmental leadership.

In this section, we explain how our regulated business performed during the last 12 months, as well as the actions we're taking to position us for success over the next regulatory cycle.

Embedding customers at the heart of what we do

In recent years, we've worked hard to improve our service. These efforts are reflected in rising customer satisfaction scores. However, we recognise that we've got a lot further to go and we intend to make significant progress during AMP6.

For many people, being able to afford our services is key. Household budgets remain under pressure. We're therefore pleased to have had the lowest average combined water and sewerage bills in Britain for the last six years. Our average bill in 2014/15 was £333, which is lower in real terms than at the start of AMP5.

We're confident that we'll continue to have the lowest bills for the next five years, with customers seeing further reductions in real terms. At the same time, we're introducing an enhanced special tariff, which will offer customers discounts of up to 90%, depending on their circumstances. We'll continue our other support for our customers, such as our WaterSure tariff for those in financial need, which caps bills for people who use a lot of water because they are ill or have a large family. We'll also be introducing water health checks, to promote the support available and make sure customers are on the right tariff. Every year this will mean that help is available to around 50,000 customers who are struggling financially. Our partnership with Coventry Citizens' Advice Bureau is an important part of our approach.

Keeping bills affordable also means ensuring that everyone who can pay does, so they don't increase the burden on others. This year, we've improved bad debt levels to around 2.0%. This continues to be one of the best performances in the industry. We've made more effective use of our contact centres, making more calls to customers to engage with them and help them to manage their liabilities.

Ofwat's Service Incentive Mechanism (SIM) is an important indicator of how good our customer service is. The SIM score has two elements – qualitative and quantitative. During the year, we improved both parts of our score.

The qualitative element captures our customers' views of our service. This year, our qualitative score, as an average over the whole year, was 4.36. This is based on Ofwat's new methodology for 2014/15 and ranks us sixth among the 18 companies in our sector, up from thirteenth last year. In the final wave of results we came third – a great foundation for continued improvement through AMP6. Over the last 12 months, we've introduced around 35 initiatives to deliver a better customer experience.

"Providing the service our customers want means we need the right resource, so we've added approximately 100 front-line roles."

The quantitative metric reflects the number of customers who have had to contact us. Our performance here improved by 26.6%.

We also capture customer satisfaction data by directly surveying thousands of customers each month to get feedback after contact. To broaden our understanding of our performance, we've expanded these surveys to cover our customer operations contact centre, as well as the billing contact centre and we've seen our scores steadily increase.

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Consistent with rising customer satisfaction, we've seen a 20% reduction in complaints this year. An important contributor was the new resolutions team, which looks at the underlying causes of complaints and ensures we fix them.

Providing the best possible service to our customers means we need the right level of resource, so we've added approximately 100 frontline roles. We've created a customer strategy and experience department, bringing together the training, quality and complaint handling functions from across our contact centres. This gives us a more consistent approach to best practice. In addition, we've reviewed the role of our frontline managers, to help them to coach and develop our agents.

Another important focus this year has been reducing the work in progress. The changes we've made are helping us to meet the industry standard of answering at least 80% of calls within 20 seconds, which we didn't always manage in the first part of the year. We're also responding to customer emails more quickly, cutting the time it takes us to answer from five days to less than 12 hours.

Improving customer service means offering more ways to interact with us, so customers can choose the channel that suits them best. We want to be a 'digitally savvy' organisation, so we've invested heavily in our capabilities this year. This includes enhancing our web and mobile offerings, making them easier and more attractive to use. As part of this, we've been trialling web chat, which we plan to expand during the coming year.

Going forward, we'll help our customers to adopt new channels, by using analytics to gain insight into why they contact us and how we can encourage them to self-serve. As part of our digital strategy, we've also been investing in understanding the key points when our customers contact us. By analysing how best we can engage with them at each point, we'll know how to deliver the brilliant service they expect.

Enhancing intelligent use of customer data and the way we use it will be an important part of our approach during AMP6. We're investing in a new customer relationship management system, which will draw together customer information from across our systems. This will help our agents to resolve more queries first time. Increasing our knowledge of each customer will also help us to predict their likely needs, so we can offer them a more relevant and personalised service.

Developing customers' trust also means engaging with our communities and being increasingly open and transparent to deal with. We're also using channels such as social media to keep customers better informed about issues that may affect their service, so they know when they are likely to be resolved and any action they need to take. We are delighted that we are already ranked in the top ten in the empathy index for UK companies using Twitter.

Driving operational excellence and continuous improvement

Our overall operational performance continued to improve during the year. We've developed a culture of delivering against performance metrics and have achieved a stable or improved performance in 12 of Ofwat's 14 non financial KPIs during the last year.

The quality of our drinking water is high but our performance is not as consistent as we would like. In 2014, our overall compliance with the DWI's quality standards was 99.96%. However, we had 41 significant events, according to categorisations by the DWI, against a target of 15, while the serviceability of our water non infrastructure assets (above ground assets such as water production works) is rated as deteriorating. To improve performance, we've undertaken a significant amount of work at our water treatment works and boreholes, inspecting the sites and increasing our maintenance and capital replacement. We also increased our programme of water pipe cleaning, from around 1,000 km in a typical year to around 1,500 km last year.

In relation to leakage we have achieved our regulatory commitment for the fourth year running. Performance this year benefited from the continuation of our mains replacement programme and our new way of working, which we call Valuing Every Drop. This came from our Safer Better Faster approach to continuous improvement, which we use to diagnose issues, redesign our processes, train our people and equip them differently.

Valuing Every Drop has significantly reduced our time to process and react to leaks. By the end of the year, we were fixing 38% of all leaks within 24 hours, up from around 25% earlier in the year.

We have also achieved an underlying improvement in interruptions to supply, reducing the average number of minutes that customers are without supply from 16 minutes to around 10 minutes. However, a single very large mains burst, which affected 2,111 properties early in the year, meant that the number of properties with a supply interruption longer than 12 hours was 3,365, compared with 2,699 in 2013/14. We've continued to work to reduce the impact of interruptions, for example by faster despatch of emergency tankers.

CASE STUDY

Securing Birmingham's water supply for the next 100 years.

The Elan Valley Aqueduct has brought water to Birmingham for more than a century. Now we need to modernise and refurbish it, so it can serve our customers for at least the next 100 years.

The aqueduct carries water 74 miles from Wales. It's an amazing piece of Victorian engineering but it wasn't designed with long term maintenance in mind.

As it's Birmingham's main water supply, we can only turn it off for short periods, giving us a maximum of three days at a time to work on it.

To give the aqueduct the attention it needs, we'll have to provide a second major source of water for Birmingham. That means investing around £340 million in AMP6, so we can take water from the River Severn during its peak flow in the winter months and pump it 25km to our treatment works at Frankley. This complex project is our biggest ever. It will allow us to rebuild entire sections of the aqueduct, giving it another century of life and a secure water supply for the people of Birmingham.

Although very rare, internal sewer flooding is one of the worst things that can happen to our customers, so we were pleased to have further reduced the number of customers who suffered repeated flooding. In 2014/15 there were 198 incidents, down from 204 in 2013/14. We've continued to invest in capital solutions, enabling us to protect 192 properties from the risk of repeated flooding this year and a total of 746 over AMP5.

As our overall waste water infrastructure (below ground assets) serviceability assessment by Ofwat remains marginal, we've continued to focus on the areas that affect this. We reduced the number of sewer blockages by 8.4%, through initiatives such as First Time Resolution. Rather than simply unblocking the sewer, we provide a more holistic customer service by sending a sophisticated vehicle, capable of diagnosing and removing the problem, surveying the sewer and carrying out minor repairs. We've also trialled different ways of engaging with customers, to raise awareness of the problems caused by putting the wrong things down the sewer.

Pollution incidents happen when there are unplanned discharges of water or sewage into the environment. In 2014 the Environment Agency assessed our overall environmental performance as 4*, the highest score possible. We aim to maintain this strong performance by further reducing pollution incidents.

We had a record-breaking year for compliance at our waste water treatment works, directly contributing to the health of our rivers. Only one of our 704 consented sites failed to reach its compliance limits, giving us 99.9% compliance, up from 99.29% in 2013/14. We've continued to invest to maintain this strong performance.

Our pollution performance also benefited from our Safer Better Faster approach. During the year, we ran a series of 12 week improvement interventions. This included developing and launching an e-learning package for everyone working on our sewerage infrastructure, including our subcontractors. This educates them on how to spot problems, react quickly and better resolve customer issues.

Helping our engineers to work smarter

We're equipping all our engineers with robust and waterproof smartphones. The devices include satellite navigation, connectivity through video calling and instant messaging, and administrative functions such as timesheets and expenses. Our engineers will soon be able to access job and customer histories, so they can serve our customers better and complete more jobs first time. By working smarter, we'll enable our managers to spend more time in the field, while motivating and empowering our workforce.

Adapting how we work

During the year, we took an important step in preparing for AMP6, by bringing together our water and waste water wholesale operations. Combining them enables us to take advantage of cross skilling between water and waste, to reduce our support and management costs, and to put more emphasis on network control and asset management. This helps us to better understand risks, target our investment more effectively and drive improved performance for customers. Being efficient also requires us to adapt the way we work. For example, we're standardising our operating processes, while ensuring that we can adapt them quickly in response to new ideas.

Technology has an important role as we look to improve our performance during AMP6. We've started to rollout the next generation of handheld smart devices to our work crews, to give them better information about the sites they're visiting and the assets they'll be working on, so they can resolve problems more effectively. They can also update the data on our system, to ensure it's as accurate as possible.

"Renewable energy which is self generated allows us to keep costs down and bills low for customers "

We're also developing apps to enhance what we call the 'colleague journey'. This helps us to provide the information our people need at each stage of responding to and completing a job. They'll be able to complete jobs faster and first time, improving life for our customers. As part of this, we're asking our people to tell us what apps they want, so they can do their jobs better.

A new system we've introduced this year allows our customers to give us immediate feedback on our work crew's quality of service and workmanship. This allows us to talk in real time to work crews about where they're doing well and how they can improve, so we can shorten improvement timescales and share best practice more quickly.

We're continuing to invest in our telemetry system, so we can get more information on the performance of our pipes and treatment sites. By developing our analytics capability and combining this data with other information, such as weather patterns, we'll be able to be more predictive about future performance, so we can tackle problems before they affect our customers.

Innovation has always been important for us. We've brought together our water and waste research and development (R&D) teams, to give us an integrated programme that supports our Wholesale Operations business more efficiently. We're now reviewing our R&D plans and making sure we only focus on projects that contribute to our customer commitments either in the AMP6 plan or in the future.

Investing responsibly for sustainable growth

In 2014/15, we successfully completed our AMP5 investment programme. Investment of £547.4 million during the year brought the total for the last five years to £2.6 billion. Our 2014/15 programme included:

- investment in mains replacement,
- improving the resilience of our water treatment works, including our largest at Frankley, in Birmingham,
- further improvements at our waste water treatment works, to ensure we continue to comply with regulatory requirements,
- expenditure on sewer replacement and sewer flooding schemes, and

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- continuing to grow our renewable energy assets within our regulated business, by installing more combined heat and power plants

This year's expenditure also included £60 million of investment we brought forward from AMP6. We used this to improve our sewer flooding performance and to invest in mains resilience. It also enabled us to accelerate some of our planned water quality schemes for AMP6 by 18 months, by carrying out feasibility studies and design work ahead of schedule.

Our investment programme for the next five years will total £3.3 billion (based on 2012/13 prices) and will deliver further benefits for customers, in terms of service quality and value for money, as well as improving the environment. We'll spread this investment across our asset base, to improve its serviceability, reliability and resilience.

The largest single scheme in our plan, and the largest by any company during AMP6, is the first phase of the Birmingham Resilience Scheme. A major source of Birmingham's water is the Elan Valley aqueduct, which is more than 100 years old. Over the next five years, we'll be constructing a scheme to allow us to abstract water from the River Severn and treat it at Frankley, providing a new supply for Birmingham.

AMP6 sees Ofwat's KPIs replaced by ODIs, which allow companies to earn more for outperformance or suffer penalties for underperformance. The ODIs reflect our customers' priorities and our focus on them will ensure we deliver better value, better services and a healthier environment over the next five years. Given our track record of delivering against performance metrics we are confident that we're well placed to perform well against the ODIs and to succeed in AMP6.

Our AMP6 plan requires us to achieve £372 million of efficiencies (at 2012/13 prices), which is a significant challenge. Excellent procurement will be an important component of these savings and we've developed joint efficiency plans with our One Supply Chain partners. This will help us to deliver our capital programme more effectively, by standardising the products we buy and by planning more carefully with our suppliers, so we spend less time on-site and work more efficiently while we're there. We're also looking at our second level suppliers, so we can understand them better and work more directly with them, where it adds value.

Before we commit to capital expenditure, we're investigating whether we could solve the problem by operating our existing assets better or differently. We need to become ever more efficient and only build the assets we need to solve the problems we're facing, and get the best value. At the same time, we're developing methods to help us understand whether Capex or Opex will enable us to deliver the best outcome – an essential component of the new Totex regime in AMP6.

In AMP6, we'll invest in the next stage of enhancing our treatment works. This includes £234 million to help us meet the requirements of the Water Framework Directive; in what we believe is the most ambitious programme in the sector, we'll be looking to make the biggest impact on as many watercourses as possible.

Our catchment management approach allows us to work in partnership with our stakeholders to protect our raw water sources from pollution. For example, we've encouraged farmers to produce 'clean run-off' from their land, as well as removing metaldehyde from one of our catchments. This approach is both better for the environment and for our customers, as it reduces our need to spend money to clean affected water. We've also agreed to host two partnerships, covering the Tame, Anker and Mease rivers and the Lower Trent and Erewash catchments. Working as a partnership with other industries, regulators and NGOs allows us to have a more positive impact than when we work on our own.

Treating water and sewage is energy intensive. The majority of our carbon emissions come from pumping water around our network and treating sewage at our works. This year we reduced our emissions by 4% to 491 kilotonnes of CO₂e. We also met our 2009 commitment to have no net increase in emissions, with an overall 12% reduction over the period since this commitment. More information on our greenhouse gas impact can be found in the Directors' report on pages 87 and 88.

Renewable energy is an important part of our approach and a number of our processes use by-products or essential features of our water or sewage treatment. In 2014–2015, renewable energy provided 28% of our regulated business's energy needs. We intend to increase this further over the next few years. More on our renewable energy initiatives can be found in the non-regulated performance review on page 35.

Our long term impact on the environment also depends on our customers. With this in mind, we put considerable effort into educating our current and future customers, so people understand how to use water efficiently and what can be safely disposed of in our sewers. As part of this, we run a schools education programme, which teaches children each year about the value of water. We've also continued our volunteering programme. This engages our local communities in what we do, whilst improving our people's skills and building working relationships.

The suppliers we work with also have an important part to play in our sustainability efforts. While we've always taken care to select suppliers with, for example, strong health and safety records, we haven't specifically focused on other aspects of their sustainability performance. To address this, we have a new programme to review our suppliers' sustainability credentials, so that we understand their performance in key areas such as the environment and human rights.

Creating a great place to work

To achieve our objectives, we need Severn Trent to be a great place to work, and for our people to be flexible, to embrace new ways of working and skills and to focus on our customers' needs.

This was a year of considerable change, as we positioned the business to succeed during AMP6. We put our water and waste water operations into one wholesale and engineering function. We also created a Chief Customer Officer role to bring our customer and digital ambitions together. A key part of these changes was to reduce the number of layers in our organisation from nine to five. This gives our people more control over their roles and empowers them to do more. Empowerment and trust will be important themes for us going forward and we have teams looking at how we can further embed them into our culture.

The organisational change also reduced the number of roles in our business by approximately 500. We consulted widely with employees during the process and ran a comprehensive outplacement programme, to support those of our people whose roles were removed.

Despite the amount of change, we ran our annual employee engagement survey during this period and achieved our highest ever completion rate of 85%. The survey showed that our people remain highly committed, with our engagement index coming out at 79%, compared with 81% last year. This is a very creditable performance in the circumstances. We are determined to improve our scores next year.

Highlights from the survey included our employees' strong loyalty to Severn Trent, how much they enjoy their work and their willingness to go the extra mile for customers. However, our people would like more opportunities to share their views before we make changes that affect their jobs and they want more inspirational leadership from our senior team.

Our engagement survey highlights the importance of our senior team being visible and accessible across the business, so we are complementing what already happens with leadership led sessions called 'Friday Focus' at our largest sites. This will allow our people further opportunities to ask our leaders questions about anything they want to complement their day-to-day dealings with their team managers. In addition, our CEO, Liv Garfield, hosted more than 60 sessions during the year, meeting more than 5,000 of our people. She used these sessions to explain our performance challenges in AMP6 and how we need to adapt to meet them. These sessions were extremely well received by attendees and helped to align our people on the areas of focus.

As the world becomes more complex, we need to have more talented people in our organisation and provide more opportunities for them to reach their potential. Our apprenticeship programme brings in new talent each year and we currently have 80 apprentices. We've adapted the programme so that it now takes three years instead of four, by changing the way we train our apprentices and their college work, so they can reach the required technical level faster. Our graduate programme is also going from strength to strength. We took on 27 graduates in 2014–2015, our largest intake for some years. As at May 2015, Severn Trent Water Limited is one of thejobscrowd's 'Top 100 Companies for Graduates to Work for in 2015–2016' ranking at no 83. Thejobscrowd is the only graduate employer ranking based on realtime feedback and reviews from current graduates, so reflects actual graduate/employee engagement and experience. As the only water company represented in the 'larger intake' category, this is a great result for the first year of entering the survey.

The performance challenges we face in AMP6 are greater than in AMP5, so we've redesigned our performance framework. Our goal is to inspire everyone to achieve great performance, with a clear plan of how they can develop the skills and behaviours needed to achieve performance excellence. Individuals will discuss and review their performance every quarter to identify successes and areas where improvements can be made. We're aiming to create a culture that's performance led, and which encourages our people to achieve their full potential.

Turning Severn Trent into an awesome company

With the challenges of AMP6 fast approaching, our CEO Liv Garfield met more than 5,000 employees on her 'Awesome Company Tour'. Over more than 60 sessions, she engaged our people in our journey to become an awesome company. She set out how we'll delight our customers and give them the cleanest water, with brilliant people who work safely and take a 'digital first' approach. The outcome will be 'fab financials', which will fund our plans and reward our investors.

1 Turning Severn Trent into an awesome company. Visible and accessible leadership is key to building trust

2 Protecting our people's health and wellbeing is one of our core responsibilities. Our lost time injury rate during the year was 0.21 per 100,000 hours worked. Our goal is zero.

Training the engineers of the future

Severn Trent Water apprentice maintenance technician, Hannah Black is one of 80 young people who has joined us in operational apprentice roles. For Hannah it made perfect sense to become an apprentice giving her an opportunity to learn whilst she earned money to kick start her career. New apprentices will also gain a brand new 'Trailblazer' qualification, which we've designed with our industry colleagues and the Sector Skills Council.

We also need leaders who can challenge and engage. During the year, we completed our Leading for Performance programme, which aims to make leaders confident in driving high performance and creating an environment of empowerment. In total, we've trained 400 managers.

With our greater focus on performance comes the need to recognise and reward it. Our employee awards scheme reinforces a culture of continuous improvement and recognition, with more than 500 people nominated this year. We also offer flexible benefits, which are very popular. For example, employees can buy or sell holidays to suit their needs. Most of our people are shareholders in Severn Trent, meaning they benefit directly from our good performance. Nearly 48% of those eligible have joined our Sharesave scheme.

Protecting our people's health and wellbeing is one of our core responsibilities. Our lost time injury rate was 0.21 per 100,000 hours worked, which is the same as last year. Our performance remains industry leading but is not as good as we hoped for, given our considerable focus on health and safety. Minor accidents are a continued reminder of the need to remain focused and the need to refresh our approach to health and wellbeing. We continue to prioritise reductions in minor accidents, such as slips, trips and falls, as well as safety in our supply chain. In 2014/15 we ended the year with a RIDDOR score of 0.12 on our major construction programme delivered by our One Supply Chain team. This is 40% better than the construction industry average and 25%

better than the industry benchmark programme of work (the London 2012 Olympics) We're also creating a stronger central health and safety function, which will help to direct how our operational teams should work and provide more assurance that they're doing the right things We also address employees' wellbeing, paying attention to factors such as workplace stress and other mental health issues

"We take a long term view of our business, so we're big supporters of the science, technology, engineering and maths agenda in education."

We recognise that diversity and inclusion are important for our success and have made them a business imperative over the last 18 months As a customer focused organisation, we need our workforce to reflect the customers and communities we serve, so we can understand and respond to their needs Our workforce remains slightly more diverse than the sector average, with female employees making up 30.4% of the total, compared with 26% across the industry 7.8% of our employees are black, Asian and minority ethnic (BAME), against an industry average of 3.4%

To help us make meaningful progress during AMP6, we have prioritised three key areas

- women in operational leadership positions,
- women and BAME people in engineering positions, and
- BAME people in technical operator positions

We continue to take action to improve diversity, for example by training managers in how to interview effectively and fairly More than 400 managers have been through this training, which has a strong focus on unconscious bias in the recruitment process More than 130 leaders in our Wholesale Operations business have attended awareness-raising sessions, focusing on the benefits of diverse teams and building an inclusive environment.

We've taken action to encourage diversity among job applicants, for example by revamping our recruitment website to profile a broader range of employees and addressing the language we use in our job descriptions We've been successful in attracting more female graduates, which will give us a greater female talent pool for future senior management team appointments However, we have more work to do in attracting more female apprentices for operational roles

More information on our gender diversity can be found in the Nominations Committee report on pages 61 and 62 The Corporate Responsibility Committee report on pages 66 to 68 contains information on human rights issues for the group

We take a long term view of our business, so we're big supporters of promoting science, technology, engineering and maths in education We encourage young people to study these subjects, so they can become the engineers and technicians of the future For example, we support initiatives such as Tomorrow's Engineers and work with universities and technical colleges to make their curriculums more relevant to industry We also support the Big Bang, a national programme to get children interested in technology and science careers

Outlook

During 2014/15, we've put in place the foundations for success in AMP6 We have a plan that will deliver better value and better services for customers and a healthier environment for all By achieving our plan, we'll deliver long term sustainable growth and real benefits for our customers, communities and investors

1. We sponsor the Big Bang Fair, which provides 7–19 year olds with a fun and educational experience to help inspire them towards careers using their science and maths subjects.

CASE STUDY

Using food waste to power our processes.

At our Coleshill sewage treatment works, we're turning food waste into enough electricity to make the site self-sufficient

We've invested £13 million in an anaerobic digestion plant, which uses food waste from local businesses to create methane gas. We then convert this gas to green energy, sufficient to power over 4,000 homes or the whole of the works and more. Nothing is wasted, with plastic packaging going for recycling and the leftover material becoming fertiliser for local fields.

By digesting this food waste, we're preventing around 8,000 tonnes of carbon dioxide emissions each year. That's equivalent to taking 3,300 cars off the road. And we're enabling local businesses to save money and meet their environmental goals. The National Exhibition Centre is one of the first to send its food waste to Coleshill. We'll be taking around 120 tonnes of its waste each year, helping to ensure it sends zero to landfill.

Non-regulated

Our business model

Our non-regulated business allows us to apply our water and waste water services knowledge to create and deliver services and products to UK and global municipal, industrial and commercial customers.

We also provide renewable energy to the group and are looking to identify new opportunities in energy generation.

Role				
Identify and develop opportunities	Create products and services	Build strong and respected brands	Maximise our return	Associated risks
Severn Trent Operating Services				
Operating Services analyses markets and works with customers to identify opportunities and markets where our capabilities can be applied for customers' and shareholders' benefit. In the UK we provide design, build and contract operations for water and waste water treatment facilities for a variety of industrial segments and supply retail water to businesses throughout the UK.	Our strategy is to continue growing our Operating Services business in the US and Europe. Water supply services across the UK are changing, with legislation giving businesses a choice from whom they buy their water and waste water services. Operating Services is pursuing this open market movement, helping businesses achieve optimum water and waste water management through enhanced services.	Severn Trent Operating Services is the largest private operator of facilities operated in the US, serving more than 321 facilities in 22 states. These facilities regularly win awards in areas such as environmental compliance, health and safety and overall plant performance. With water services licences for Scotland, England and Wales, we offer multi-sited businesses the benefits and synergies of a single supplier approach.	We continue to enter new states in the US. In February 2015 OSUS was awarded a contract in Quincy, in the mid-west region, replacing American Water. 2014/15 also saw the first year of our largest monetary contract to date in Bridgeport, Connecticut, while expanding our presence in California with the acquisition of 14 contracts from SouthWest Water Company. In the UK long-term contracts with the Ministry of Defence (MoD) and First Milk provide continuing stability.	Hazardous processes may result in our people being injured (Principal Risk Ref 7). Failure of products or treatment processes may result in environmental damage and regulatory non-compliance (Principal Risk Ref 6). Regulatory or political change may lead to decreased demand for our services. We may be unable to take advantage of the opening up of the UK retail market to competition (Principal Risk Ref 2).

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Renewable energy				
<p>Severn Trent generates renewable energy from anaerobic digestion (AD), wind turbines and some hydro. We are also expanding into the food waste market. Our new facility at Coleshill, UK, will convert up to 48,000 tonnes of food waste into 17,026 MWh of electricity and approximately 30,000 tonnes of biofertiliser for agriculture per year by 2016. We plan to investigate the development of other technologies including photovoltaics (PV) and biomass combustion.</p>	<p>In 2014/15 we will supply over 40,000 MWh of electricity and heat to our regulated business. Our new food waste AD business will provide a service for the recycling of industrial, commercial, retail and domestic food waste.</p>	<p>We are recognised as being experienced in the field of AD. Our expertise in this complex biological process means that we can be trusted to provide an excellent service.</p>	<p>We have established electricity and heat power sale/purchase agreements with our regulated business. We will be entering into long term contracts with the wider supply market to process food waste.</p>	<p>Hazardous processes may result in our people being injured. We may be exposed to increased volatility in energy prices. Regulatory or political change or local opposition to our plans may affect our ability to generate sufficient renewable energy to achieve our targets.</p>

Non-regulated business performance review

1. During the year we won a major contract with the Coal Authority to operate and maintain mine water treatment plants across the UK for the next 10 years.

Following the sale of our Water Purification business, we have reorganised and brought together our remaining non-regulated businesses – Operating Services US, Operating Services UK, including non-household retail and renewable energy – into a new Business Services division led by Andy Smith

Severn Trent Services reported revenue rose by 2.9% to £216.3 million, with reported PBIT down 27.1% to £9.7 million. After adjusting for the impact of exchange rate movements, revenue was 4.6% higher and PBIT decreased by 27.1%.

“The business benefited from a number of actions we took to position it for growth and greater efficiency. We moved from being an integrated business to three separate business units, each focused on its own markets and customer needs, and each under new leadership teams.”

Operating Services

Operating Services provides contracted operating services, to manage and maintain water and waste water plants and networks. It delivered revenue growth on the back of new contract wins in the US and the UK. Revenue in 2014/15 was £216.3 million, up 4.6% after adjusting for the impact of exchange rates.

In the US, we won a number of contracts in the Northeast and Pacific regions. We also benefited from the first full year of our contract in Bridgeport, Connecticut. This contract, which we won in 2013/14, is our largest in the US by monetary value, with annual revenues of £13.8 million over 10 years. We operate, maintain and manage two waste water treatment facilities, 10 pumping stations and nearly 300 miles of sewers. Our performance to date has been strong, which has helped us to build an excellent relationship with the client. Most recently, we have assisted with the development of a five year capital plan, to address the challenges of ageing infrastructure.

In the UK, we continued to pick up selected new retail business in Scotland, with contract wins in the healthcare, retail and leisure sectors. Our approach here is disciplined, focusing on winning profitable work and using the opportunity to develop our understanding of the market, ahead of the opening up of non-household retail competition in England from April 2017.

We are actively preparing for the introduction of competition in non-household retail in England. We now have new processes which will equip us to deliver outstanding service to customers.

Our 25 year, £1 billion operation and maintenance contract with the UK Ministry of Defence is now in its 10th year. We continue to work with our customers to find new ways to improve our performance. During 2014/15, we also won a major contract with the Coal Authority, to operate and maintain mine water treatment plants across the UK for the next 10 years.

Renewable Energy

During the year, we continued to build our industry leading position in renewable energy generation. We sell the energy we create to power our regulated business' operations, with the surplus sold to National Grid.

Key developments during the year included opening our 'gas to grid' plant at Minworth, Birmingham. This plant is the first of its kind in the water industry, and injects the gas generated from the anaerobic digestion of sewage sludge into the national grid. As well as being a source of revenue for us, this has important environmental benefits by enabling power stations to turn the gas into electricity more efficiently than we could on-site. Our first food waste digestion plant, at Coleshill, Warwickshire, began generating electricity in December 2014.

We will invest in solar energy, making use of surplus land on or around operational sites.

Outlook

We believe Severn Trent Business Services has a number of attractive growth opportunities and that we've positioned the business to take advantage of them. In Operating Services, our preparations for non-household retail competition in England are going well, and we see potential in the US market, which is showing signs of opening up, as described on page 16.

We'll continue to invest in our renewables business, with the aim of increasing our external sales and providing around 50% of Severn Trent Water's energy needs by 2020. We intend to expand energy production from food waste, to upgrade our sewage anaerobic digestion to the latest technology and to add solar generation, with technological developments having made this more economically attractive.

"We believe Severn Trent Business Services has a number of attractive growth opportunities and that we've positioned the business to take advantage of them."

Improving efficiency, compliance and union relations

Our US Operating Services business has a 10 year contract to help the city of Bridgeport, Connecticut, meet the challenges of ageing plants, a struggling sewer system and improvements to safety and compliance. Since we started work in January 2014, we've built productive relationships with all five labour unions, by aligning our goals with theirs and the client's. This has helped us achieve outstanding regulatory compliance, enabling the city to sell credits under the state's Nitrogen Credit Exchange Program.

CASE STUDY

Taking the lead on environmental performance.

Our customers and other stakeholders value healthy rivers and want us to continue improving our local environment. That's why environmental performance is central to our plans.

We've invested more and achieved another record breaking year at our waste water treatment works. Of more than 700 sites, 99.9% met their compliance limits.

We've also further reduced the number of pollution incidents, by improving the way we work and launching new training for our people and subcontractors. Our environmental performance over the last year places us amongst the best in the industry. We'll continue to work hard to improve our local environment, with our plan for AMP6 including no fewer than 12 performance commitments.

Risk management

Our approach to risk

We have set ourselves some very challenging targets and continually strive to improve our standards of service delivery to customers and our overall performance. The group's risk management and internal control systems are vital to the delivery of these targets and enable the identification, assessment and mitigation of risks inherent in our business activities.

Accountability for the effectiveness of the group's Enterprise Risk Management (ERM) policies sits with the board, with oversight from the executive team, supported by operational risk owners and the central ERM team who are responsible for carrying out the ERM process.

Risk owners throughout the business, with support and challenge from the ERM team, identify and assess risks and undertake risk improvement actions to move risks to their target position. The ERM process starts from understanding the objectives we have set ourselves, as shown below.

The ERM process

When considering how best to manage our risks, our approach reflects the need to efficiently mitigate the inherent risks in our business whilst seeking to improve our performance through the targeted management of selected risks.

Within Severn Trent Water, our approach reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of our Severn Trent Water business is such that there are some significant inherent risks, as illustrated on page 18 'our regulated business model'. We aim to have a strong control framework in place to enable us to understand our risks and manage these risks both effectively and efficiently.

In our non-regulated businesses we take a more commercial approach to our decisions around which risks are acceptable. However, we recognise that we provide products and services for clients who operate in regulated environments. As a result, for risks that could impact on our clients' services, we take a similar approach to risk as in our own regulated business. The risks inherent in our non-regulated business are illustrated on page 32 'our non-regulated business model'.

Risk appetite

The board keeps under constant review the relationship between our strategic ambitions and the management of risk. In particular, this year the board focused carefully on the ambition in our AMP6 programme and the risk to its delivery.

The ERM process establishes target risk positions for each of our strategic risks. The board formally discuss the progress towards this position and the mitigating actions being undertaken every six months. Previously, the board has held a series of risk appetite discussions focusing on eight key strategic areas in the context of the below framework.

Strategic risk framework				
Risk appetite perspectives	Culture and values	Customer focus	Investor confidence	Regulatory regime
Risk focus areas	Protecting health, wellbeing and safety			
	Financing the business			
	Ambition for growth			
	Future competitive position			
	Customer confidence			
	Resilience of our networks			
	Relationships with regulators			
	Sustainability of the business			

Our Enterprise Risk Management process

We use an established ERM process across the group to assess and manage our most significant risks, which are linked to our corporate objectives. The ERM process covers all types of risk including operational, financial, legal and regulatory. Our assessment of risk includes explicit consideration of the possible impact of the risk on the reputation of the group as a whole.

We analyse both the potential causes and impact of risk. Using this process, we are able to consider the controls needed to minimise the likelihood of risks occurring and those which can help to maximise our resilience to risks. The understanding which we are able to gain from our ERM process allows us to put in place effective mitigation strategies. Resilience of our services is vital and we regularly carry out exercises jointly with other agencies such as local authorities, police and fire services to test this resilience.

Across the group, we manage risks within the overall governance framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with a holistic view of effective risk management. The key risks are reported to the Audit Committee and discussed at the board every six months in the form of risk maps. In addition, individual risks or specific risk topics are also discussed by the board during the year.

An overview of accountability for our ERM process is illustrated in the below chart.

Managing risk

Financial risks

Like all businesses, we need to plan future funding in line with business needs. This is part of our normal business planning process (see Principal risk 3). The board receive regular updates relating to funding, solvency and liquidity matters.

Financial risks are discussed in detail on page 42.

An example of risk management in practice

We have a number of large assets which are particularly vital to our ability to continue to supply high quality water to our customers all of the time

One of these is the Elan Valley Aqueduct, also known as the EVA. This asset transfers water from reservoirs in the Elan Valley to Birmingham's Frankley Reservoir, carrying drinking water to supply Birmingham. If the aqueduct were to be damaged, for example by extreme weather or by third parties, or if we experience major bursts on the aqueduct, this could result in an unacceptable disruption to supply to these customers. We have concluded that we are carrying an unacceptable level of long term risk, particularly in terms of loss of supply consequences in Birmingham. Our AMP6 investment plans are to provide a full alternative supply to Birmingham which can be deployed in the event of a failure of the EVA, and allow extended outage periods to undertake major maintenance or replacement activities as required.

The Birmingham alternative supply scheme will construct a new pumping station on the River Severn and an independent pipeline to Frankley Water Treatment Works. The works will be upgraded to treat river water and will have two fully independent streams to provide resilience against major failure at the works and protect supplies to Birmingham.

Principal risks

The principal risks identified in our ERM process are set out below and are categorised across.

- customer
- legal and regulatory
- operations, assets and people
- financial risks

For each risk we state what it means for us and what we are doing to manage it

Principal risks				
Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
Customer perception				
1	We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.	Severn Trent Water	<p>We are a regulated utility providing essential services to our customers. We recognise that our customers increasingly expect more from us, demanding higher service levels. As other industries improve their levels of service, the bar is constantly being raised.</p> <p>Failure to deliver the service customers expect will lead to customer dissatisfaction and we may suffer financial penalties under Ofwat's Service Incentive Mechanism.</p>	<p>We have made changes to our organisational design to embed customers at the heart of what we do, creating a Chief Customer Officer role and bringing together our IS function, contact centres and transformation teams.</p> <p>Providing the high quality service that our customers demand means we need the right processes, systems and resources. As part of becoming a digitally savvy organisation we are investing in a new customer relationship management system, which will draw together customer information from across our systems giving us greater insight into the needs of our customers. We are also giving customers more choice in the way that they interact with us by introducing new contact channels such as web chat and mobile.</p> <p>We know that providing great customer service needs the right resource so we have invested heavily in training our staff and added an additional 100 frontline roles.</p> <p>To help make sure we continuously improve we are directly surveying thousands of customers each month to get feedback on their experience of contacting us enabling us to</p>

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Principal risks				
Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
				improve our service, spot trends and react to our customers' needs
2	We may be unable to take full advantage of the opportunities presented by the opening up of the business retail market to competition	Group-wide	Competition will give business customers increased choice and will encourage companies to provide a better service. If we fail to keep pace with change or fail to recognise the needs of our business customers, we may lose customers to our competitors. We may fail to successfully grow our business by being unable to develop sufficiently attractive services to win new customers.	<p>We are positioning our business to succeed in this market and are actively preparing for the introduction of competition in non-household retail in England. As part of our preparations we have changed our processes to equip us with the technology to deliver outstanding service to customers. Our strategy reflects the needs of different customer groups, both large and small users and those users where water is critical to their operations.</p> <p>We are developing our service offering which includes, for example, services to help customers understand and reduce their water consumption.</p> <p>We have recently restructured our business and we believe that our new organisation is in good shape to meet the needs of the changing market place. We also have full representation on the OpenWater project helping to define the market rules, framework and systems for competition in the industry.</p> <p>We will be rolling out refresher training in competition law to ensure that as we move into the new environment we can also maintain full compliance with the relevant legislation and regulations.</p>
Legal and regulatory environment				
3	We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable	Severn Trent Water	Severn Trent Water operates in a highly regulated environment. Whilst we are broadly content with the direction of changes proposed for our industry, there remains a risk that	Severn Trent has always contributed to the debate about our industry's future, including through our series of Changing Course publications. We will continue to be an active participant in these conversations, so we can help shape thinking about

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Principal risks				
Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
			future changes could have a significant impact on Severn Trent Water	<p>how to best serve our customers in the future</p> <p>We have contributed to the establishment of OpenWater, the body which will oversee competition in the non-household retail market. We continue to liaise with Government, regulators and other stakeholders to ensure we understand the future direction of policy, its implications for our business and are able to put forward our own case for change in a constructive way</p> <p>We will continue to engage with our peers, Ofwat and other regulators, UK Government departments and other stakeholders, including the Welsh Government, to influence the direction of regulatory policy where possible</p>
4	The regulatory landscape is complex and subject to ongoing change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.	Group-wide	Our policies and processes must reflect the current legal and regulatory environment and all relevant employees must be kept aware of new requirements. Due to the spread of our operations, and changes in activity and organisational structure, this is not always straightforward. The group as a whole may face censure for non-compliance in an individual group company or a specific region in which we operate.	<p>We understand that the regulatory landscape is changing and following on from the restructuring of our organisation and in preparation for the opening up of the retail market, we plan to refresh our policy framework.</p> <p>We plan to continue extensive training across the group, particularly in relation to transactions between group companies and competition law.</p>
	Operations, assets and people			
5	We may experience loss of data or interruptions to our key business system as a result of cyber threats.	Group-wide	The risks arising from loss of one or more of our major systems or corruption of data held in those systems could have far reaching effects on our business. We have recognised the increasing	<p>We recognise that the cyber threat to the business is constantly evolving and one which we need to monitor and act on in a timely manner.</p> <p>Using guidance from the Government's Centre for Protection</p>

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Principal risks				
Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
			threats posed by the possibility of cyber attacks on our systems and data. Whilst this threat can never be eliminated and will continue to evolve, we are focused on the need to maintain effective mitigation.	<p>of Critical National Infrastructure we have identified key areas where we can improve our controls, focusing on training our people to be more security aware and ensuring our processes and technology are designed with security in mind.</p> <p>We have improved the resilience of our systems through implementation of disaster recovery services and regularly test our ability to recover from systems failure.</p>
6	We may fail to meet our regulatory targets, including targets from Ofwat in relation to operational performance of our assets, resulting in regulatory penalties.	Severn Trent Water	<p>If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties, either within the current price review period, or applied to the next price review.</p> <p>Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.</p>	<p>Our business plan for 2015–2020 includes considerable investment in our assets to improve the resilience of our networks, reduce interruptions and improve the service that our customers receive.</p> <p>We recognise areas where our performance is not as consistent as we would like and are committed to improving these areas. We have undertaken a significant amount of work at our water treatment works and boreholes, inspecting the sites and increasing our maintenance and capital replacement.</p> <p>We remain committed to investing in continuous improvement activities such as our Valuing Every Drop programme which has significantly reduced our time to process and react to leaks.</p> <p>We have also continued to work to reduce the impact to our customers when things unfortunately do go wrong, for example by faster despatch of emergency tankers and providing our staff with Incident management training.</p> <p>To improve our waste water performance we have trialled different ways of engaging with customers to raise awareness of the problems caused by putting the</p>

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Principal risks				
Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
				wrong things down our sewers We are also investing in capital solutions to enable us to protect properties at risk of sewer flooding
7	Failure of certain key assets or processes may result in inability to provide a continuous supply of quality water to large populations within our area, or cause damage to third party property or injury or ill health to our people, contractors and members of the general public	Group-wide	<p>Some of our assets are critical to the provision of water to large populations for which we require alternative means of supply</p> <p>Examples include failure of one of our reservoirs or use of chemicals in our treatment processes. These assets are regularly inspected and maintained and our assessment of the overall condition of these assets is good</p> <p>Another example is our IT and telephony systems which are critical to our operations and failure of these systems, for example our remote monitoring system, could have a significant effect</p>	<p>Our 2015–2020 business plan includes substantial investment in some of our largest strategic assets such as the Elan Valley and Derwent Valley Aqueducts. We are also investing £340 million in one of our largest ever capital schemes to improve the resilience of our water supply to Birmingham</p> <p>These investments will improve the resilience of our services and reduce the risk of injury as a result of failure of one of our assets</p> <p>As well as investing in improvements we also have assurance plans in place to monitor, inspect and maintain our most critical assets</p> <p>We also have security measures in place and contingency plans to maintain supplies in the event of failure</p>
	Financial risks			
8	Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably	Group-wide	We already provide significant funding. We may be called upon to provide more money to reduce deficits in our pensions schemes	We regularly revalue our schemes and monitor our investment performance and will continue to monitor the performance of our pensions investments and to work closely with our third party advisors to ensure that the schemes are managed effectively

Financial review

Chief Financial Officer's review

The group has delivered a good financial performance in 2014/15, underpinned by continuing improvements and growth in our regulated business, and continued revenue growth in our non-regulated Severn Trent Services business

On 13 May 2015 we announced the sale of our Water Purification business to Industrie De Nora. The disposal follows a successful turnaround of the business, and will enable our reorganised Business Services division to focus on its core strengths in water, waste, retail and renewables. The Water Purification business has been classified as a discontinued operation, and our prior year results have been restated to reflect this

We made some important changes to our financing structure at the end of the year, to reduce short term financing risk and increase exposure to currently low floating interest rates. These included replacing our revolving credit facility with a new £900 million facility and negotiating and drawing down on a new £530 million European Investment Bank (EIB) facility. In addition, we cancelled some floating to fixed interest rate swaps and purchased €183 million of our fixed rate €700 million Eurobond loan, due for repayment in March 2016, which resulted in a one time financing charge of £6.6 million in 2014/15. As a result, we have reduced the interest cost on £415 million of debt and swaps from an average interest rate of 5.1% to a floating rate, currently 1%. This has moved the proportion of our debt that is at floating rates to 10%, in line with our stated policy for AMP6 to increase the level of variable rate debt. Further details are set out in the Treasury management and liquidity section below

A brief overview of our financial performance for the year is as follows

Group turnover from continuing operations was £1,801.3 million (2013/14 £1,756.7 million), an increase of 2.5%

Underlying PBIT¹ increased by 3.2% to £540.3 million (2013/14 £523.8 million)

Net exceptional charges before tax totalled £18.7 million (2013/14 £15.2 million).

Reported group PBIT¹ was £521.6 million (2013/14 £508.6 million)

Net finance costs were £240.0 million (2013/14 £247.9 million)

1 PBIT is profit before interest and tax, underlying PBIT excludes exceptional items as set out in note 8

Regulated – Severn Trent Water

In Severn Trent Water, underlying PBIT increased by 3.9% to £539.0 million (2013/14 £518.6 million)

Turnover increased by £36.4 million, or 2.4%, to £1,581.2 million as a result of price increases of 1.5% (£23.0 million), higher consumption from metered commercial customers (£1.9 million), growth, net of meter optants (£1.0 million) and other increases including tariff mix effects of £10.5 million

Operating costs, excluding depreciation and infrastructure maintenance expenditure, increased in line with expectations by 3.1% to £619.1 million

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			Increase/(decrease)	
	2015 £m	2014 £m	£m	%
Employee costs	248.4	242.0	6.4	2.6
Hired and contracted	163.8	154.1	9.7	6.3
Costs capitalised	(92.4)	(92.6)	0.2	0.2
Raw materials and consumables	47.4	42.5	4.9	11.5
Power	63.9	65.3	(1.4)	(2.1)
Bad debts	28.4	31.3	(2.9)	(9.3)
Rates and service charges	113.2	112.3	0.9	0.8
Other	46.4	45.4	1.0	2.2
	619.1	600.3	18.8	3.1

Employee costs were 2.6% higher, broadly in line with annual pay inflation. The benefits of the recent reorganisation, which included a reduction of 500 roles, will be seen from 2015/16. Hired and contracted costs were 6.3% higher as we invested in key operational areas, such as sewer blockages and mains cleaning, to make a fast start in AMP6. The benefits of this will flow through to 2015/16. Raw materials and consumables increased by £4.9 million due to inflation and additional spending on water quality improvements.

Power costs decreased by £1.4 million. We continue to make good progress on our renewable energy generation, and generated the equivalent of 28% of gross consumption from self-generation in the year, providing an effective hedge against energy price volatility.

Bad debt charges improved to 2.0% of turnover (UK GAAP), down from 2.2% in 2013/14 as we saw the benefit of improved collection of older household debt and a range of social tariffs which help customers pay their bills.

Depreciation increased by £2.7 million, due to the growing asset base. Infrastructure maintenance expenditure declined £5.5 million due to operational efficiencies and programme phasing as we closed out AMP5.

We completed our planned capital programme for AMP5, investing £547.4 million (UK GAAP, net of grants and contributions) during the year. Included in this total was net infrastructure maintenance expenditure of £134.8 million, which is charged to the income statement under IFRS.

Non-regulated – Severn Trent Services

	2015 £m	2014 Restated £m	Increase/ (decrease) %
Turnover			
Services as reported	216.3	210.2	2.9%
Impact of exchange rate fluctuations	-	(3.5)	
Like for like	216.3	206.7	4.6%
Underlying PBIT			
Services as reported	9.7	13.3	(27.1%)
Like for like	9.7	13.3	(27.1%)

The results above exclude the Water Purification business, which has been classified as a discontinued operation.

In Severn Trent Services we saw good growth in turnover, up 4.6% on a constant currency basis to £216.3 million. Underlying PBIT was down £3.6 million to just under £10 million. This was due to business development investment in US concessions and a number of one off favourable items in the prior year.

Corporate and other

Corporate overheads totalled £13.2 million (2013/14 £13.6 million). Our other businesses generated a net profit of £1.1 million (2013/14 £2.5 million).

Exceptional items before tax

Net exceptional operating costs totalled £18.7 million (2013/14 £15.2 million) and included

- In our regulated business.
 - £28.3 million of restructuring costs to transform the business for AMP6, reducing the cost base and de-layering the management levels, offset by
 - £7.7 million of profit on disposal of property
- In our non-regulated business
 - £4.4 million of restructuring costs to prepare the business for retail competition in AMP6 and to reduce the cost base, offset by
 - the release of a £6.3 million provision previously made against accounts receivable in Italy.

Net finance costs

The group's net finance costs were £240.0 million, down from £247.9 million in the prior year. The benefits of lower interest rates (in particular on our RPI linked debt) were partially offset by higher levels of net debt.

In addition, in March 2015 the group reduced 2015/16 financing risk by purchasing approximately 26% of the €700.0 million, fixed rate Eurobond which is due for repayment in March 2016. This led to a charge of £6.6 million in finance costs.

Profit before tax

Underlying group profit before tax increased by 8.8% to £300.4 million (2013/14 £276.1 million). Group profit before tax was £148.2 million (2013/14 £318.9 million).

Taxation

The total tax charge for the year was £32.7 million (2013/14 credit of £152.9 million).

The current year tax charge for 2014/15 was £37.8 million (2013/14 £55.8 million before exceptional tax). The deferred tax credit was £5.1 million (2013/14 charge of £21.5 million before exceptional tax).

In the prior year there was an exceptional current tax credit of £59.2 million and an exceptional deferred tax credit of £171.0 million.

See note 13 for further detail.

The underlying effective rate of current tax on continuing operations, excluding prior year credits, exceptional tax credits and tax on exceptional items and financial instruments, calculated on profit from continuing operations before tax, exceptional items and gains/(losses) on financial instruments was 17.6% (2013/14 17.3%).

We expect the effective rate of current tax, as defined above, for 2015/16 to be in the range of 17% to 19%.

Reported group profit for the period and earnings per share

After a profit of £4.7 million (2013/14 loss of £36.9 million) from discontinued operations, reported group profit for the period was £120.2 million (2013/14 £434.9 million). The decrease was a result of a fair value loss on financial instruments, largely due to lower expectations for future interest rates, and an exceptional tax credit in the prior year which arose from an agreement with HMRC on a long standing discussion regarding overpayments of tax in prior periods.

Adjusted basic earnings per share (from continuing operations, before exceptional items, gains/(losses) on financial instruments, current tax on gains/(losses) on financial instruments and deferred tax) was 107.2 pence (2013/14 92.5 pence) (see note 15). The main drivers of the increase were an increase in underlying PBIT, as described above, a lower interest charge due to lower RPI year on year, and a lower current tax charge arising from adjustments of prior year computations.

Basic earnings per share were 49.9 pence (2013/14 182.1 pence).

Group cash flow

	2015 £m	2014 £m
Cash generated from operations	760.1	730.2
Net capital expenditure	(416.1)	(463.9)
Net interest paid	(218.2)	(204.5)
Payment to close out interest rate swaps	(139.2)	–
Tax (paid)/received	(28.6)	27.2
Other cash flows	(1.4)	(0.6)
Free cash flow	(43.4)	88.4
Acquisitions and disposals	–	(11.4)
Dividends	(196.9)	(185.3)
Net issue of shares	(16.7)	2.3
Change in net debt from cash flows	(257.0)	(106.0)
Non cash movements	(48.1)	(44.2)
Change in net debt	(305.1)	(150.2)
Net debt 1 April	(4,447.5)	(4,297.3)
Net debt at 31 March	(4,752.6)	(4,447.5)
Net debt comprises		
Cash and cash equivalents	176.7	123.2
Bank loans	(1,279.2)	(594.9)
Other loans	(3,467.5)	(3,826.0)
Finance leases	(180.0)	(201.2)
Cross currency swaps hedging debt	(2.6)	51.4
	(4,752.6)	(4,447.5)

Tax paid was £28.6 million (2013/14 received £27.2 million). The group has obtained agreement with HMRC to offset quarterly tax payments for the current year against a refund of overpayment of tax in prior periods, as outlined in the prior year results announcement.

Net debt at 31 March 2015 was £4,752.6 million (2013/14 £4,447.5 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 85.2% (2013/14: 80.3%). Net debt, expressed as a percentage of RCV at 31 March 2015 of £7,740 million was 61.4% (2013/14 58.4%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.5 times (2013/14 3.3 times) by profit before interest, tax, depreciation and exceptional items, and 2.3 times (2013/14 2.1 times) by underlying PBIT.

The fair value of net debt at 31 March 2015 is estimated to be £5,645.4 million (2013/14 £4,799.7 million) compared to the book value of £4,752.6 million (2013/14 £4,447.5 million). The difference between the book value and fair value of debt arises from fixed rate and index linked debt where the interest rate on the debt is higher than prevailing market rates at the year end.

Treasury policy and operations

Our treasury affairs are managed centrally and in accordance with our Treasury Procedures Manual and Policy Statement. The treasury operation's role is to manage liquidity, funding, investment and our financial risk, including risk from volatility in interest and (to a lesser extent) currency rates and counterparty credit risk. The board determines matters of treasury policy and its approval is required for certain treasury transactions. The board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary.

Our strategy is 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. Our principal operating subsidiary, Severn Trent Water, is a long term business characterised by multi year investment programmes. Our strategic funding objectives reflect this and the liquidity position and availability of committed funding are essential to meeting our objectives and obligations. We therefore aim for a balance of long term funding or commitment of funds across a range of funding sources at the best possible economic cost. The group also seeks to maintain an investment grade credit rating and a flexible and sustainable balance sheet structure.

We use financial derivatives solely to manage risks associated with our normal business activities. We do not hold or issue derivative financial instruments for financial trading.

Except for debt raised in foreign currency, which is fully hedged, our business does not involve significant exposure to foreign exchange transactions. We have investments in various assets denominated in foreign currencies, principally the US dollar and the euro. Our current policy is to hedge an element of the currency translation risk associated with certain foreign currency denominated assets.

The group issues notes in foreign currency under its European Medium Term Note (EMTN) programme and uses cross currency swaps to convert the proceeds to sterling. The effect of these swaps is that interest and principal payments on the borrowings are denominated in sterling and hence the currency risk is eliminated. The foreign currency notes and the cross currency swaps are recorded in the balance sheet at their fair values and the changes in fair values are taken to gains/(losses) on financial instruments in the income statement. Since the terms of the swaps closely match those of the underlying notes, such changes tend to be broadly equal and opposite.

Treasury management and liquidity

In February and March 2015, 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:

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- Entering into a new £530.0 million, floating rate, nine year facility with the EIB. 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 continues to ensure it has adequate liquidity to support business requirements and provide headroom for downside risk. At 31 March 2015 the group had £176.7 million (2013/14: £123.2 million) in cash and cash equivalents and committed undrawn facilities amounting to £745.0 million (2013/14: £500 million).

The group is funded for its projected investment and cash flow needs up to at least July 2016.

Cash is invested in deposits with financial institutions benefiting from high credit ratings and the list of counterparties is reviewed regularly.

The group's policy for the management of interest rate risk requires that not less than 45% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. Going forward, the group intends to manage its existing debt portfolio and future debt issuance to increase the proportion of debt which is at floating rates. At 31 March 2015, interest rates for 67% (2013/14: 77%) of the group's net debt of £4,752.6 million were at fixed rates of interest.

The group uses financial derivatives solely to hedge risks associated with its normal business activities including:

- Exchange rate exposure on borrowings denominated in foreign currencies,
- Interest rate exposures on floating rate borrowings, and
- Exposures to increases in electricity prices.

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the criteria for cash flow hedge accounting are met, the changes in value are taken to the income statement. If the risk that is being hedged does not impact the income statement in the same period, then an accounting mismatch arises from the hedging activities and there is a net charge or credit to the income statement.

Derivatives are typically held to their full term and mismatches will net out over the life of the instrument. The changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the group presents adjusted earnings figures that exclude these non-cash items. In exceptional circumstances the group may terminate swap contracts before their maturity date. The payments or receipts arising from the cancellations are charged or credited against the liability or asset on the balance sheet, and amounts previously recognised in reserves are recycled through the income statement.

The group holds interest rate swaps with a net notional principal of £583.7 million and cross currency swaps with a net notional principal of £396.6 million, which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a charge of £183.4 million in relation to these instruments.

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An analysis of the amounts charged to the income statement in the period is presented in note 12 to the financial statements

The group manages its electricity costs through a combination of self generation, forward price contracts and financial derivatives. The group has fixed around 100% of the wholesale energy cost for the first two years of AMP6 and around 50% of the energy cost for the third year of AMP6

The group's long term credit ratings are

Long term ratings	Severn Trent Plc	Severn Trent Water
Moody's	Baa1	A3
Standard and Poor's	BBB-	BBB+

The outlook is stable for Standard and Poor's, negative for Moody's

Pensions

The group operates two defined benefit pension schemes for its UK employees, of which the Severn Trent Pension Scheme (STPS) is by far the largest. The most recent formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2013 for both schemes. As a result, deficit reduction contributions of £40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and £12 million per annum in subsequent years to 2024/25 were agreed. Further payments of £8 million per annum through an asset backed funding arrangement will also continue to 31 March 2032.

As previously announced, the defined benefit schemes closed to future accrual on 31 March 2015. On 1 April 2015, members of the defined benefit schemes were transferred to the defined contribution Severn Trent Group Personal Pension scheme, which was opened on 1 April 2012.

The key actuarial assumptions for the defined benefit schemes have been updated for these accounts. On an IAS 19 basis, the estimated net position of the schemes was a deficit of £468.9 million as at 31 March 2015. This compares to a deficit of £348.3 million as at 31 March 2014. The movements in the net deficit can be summarised as follows:

	£m
Present value at 1 April 2014	(348.3)
Change in actuarial assumptions	(336.8)
Asset outperformance	193.4
Contributions in excess of income statement charge	22.8
Present value at 31 March 2015	(468.9)

Accounting policies and presentation of the financial statements

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards that have been endorsed by the European Union.

The Strategic Report, as set out from the inside front cover through to page 46, has been approved by the board.

By order of the board

Bronagh Kennedy

Group General Counsel and Company Secretary

21 May 2015

Chairman's letter

UK Corporate Governance Code Compliance Statement

The version of the Corporate Governance Code applicable to the current reporting period is the September 2012 UK Corporate Governance Code (Governance Code). The Governance Code is available on the Financial Reporting Council's website (www.frc.org.uk).

For the whole of the financial year ended 31 March 2015, Severn Trent was compliant with the Governance Code, except that the adequacy of arrangements in relation to the company's whistleblowing procedures falls within the remit of the Corporate Responsibility (CR) Committee, rather than the Audit Committee. The CR Committee's remit is to deal with any allegations from employees relating to any breaches under Severn Trent's Code of Conduct. The Audit Committee reviews reports of matters arising in respect of financial or internal control matters from the company's whistleblowing procedures and the company's procedures for preventing and detecting fraud and bribery, and receives reports on non-compliance.

The board considers that these arrangements are appropriate.

Andrew Duff

Dear shareholder

I am pleased to introduce the Governance Report for 2015 on behalf of your board. My role, together with the board, is to ensure that Severn Trent operates to the highest standards of corporate governance to effectively and efficiently deliver the group's strategic objectives and to meet its obligations to the company's stakeholders. Ultimately, good governance requires that the board has access to timely, relevant and robust information, so it can run the business effectively and promote the long term success of the company in the best interest of all stakeholders.

The Annual Report remains the principal means of reporting to our shareholders on the board's governance policies and therefore I welcome this opportunity to set out how the main and supporting principles of good corporate governance, as set out in the UK Corporate Governance Code (Governance Code), have been applied in practice.

During the year the Severn Trent Charter of Expectations was introduced to ensure best practice corporate governance throughout the business in line with the group's culture, values and behaviour. In turn, we have also overseen a review of our Code of Conduct, 'Doing the right thing – the Severn Trent way', across our businesses and reviewed our supporting group policies and our behaviours model. Further details of these can be found on our website (www.severntrent.com).

This report marks the end of the first year of Liv Garfield as Chief Executive Officer. The board has continued to support her approach to the business with key strategic changes to both the board and Executive Committee taking place in the past 12 months, which are outlined in this report.

The planned retirement from the board of two long serving directors during the year gave us the opportunity to think carefully about the composition and size of our board going forward. We decided that a smaller board would enable us to be more nimble in a changing, more competitive regulatory environment. We have therefore reduced the board from eleven directors to eight.

Richard Davey stepped down as a non-executive director, having served nine years and was succeeded by Martin Lamb as Senior Independent Director and by Philip Remnant as Chairman of the Remuneration Committee. After almost ten years in post, Michael McKeon retired as Chief Financial Officer and was succeeded by James Bowling.

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Dr Tony Ballance, Martin Kane and Andy Smith retired from the board, but have remained key members of the Executive Committee.

The board would like to thank Richard, Michael, Tony, Martin and Andy for their commitment, service and contribution over many years

I firmly believe that we will continue to deliver value and achieve sustainable growth for our company through the successful mix of good governance, a clear strategy with a supporting business plan, effective risk management and a strong organisational structure in place to execute it

Andrew Duff

Chairman

Governance report

Group Authorisation Arrangements

The Group Authorisation Arrangements (GAA) are the framework through which the Severn Trent Plc board authorises the right people, at the right level, to take important decisions as we manage legal, financial and administrative issues throughout the group. The GAA are designed to facilitate good control, efficient decision-making and demonstrable compliance. These arrangements are reviewed annually, with the last review undertaken in March 2015.

The flow of authority is from the Severn Trent Plc board to the Chief Executive and the Severn Trent Executive Committee. In respect of certain issues, the delegated authority is subject to an obligation to work with specialist business services areas (such as Tax, Treasury, Group Finance and Company Secretariat), which provide additional expertise and a group-wide perspective.

Governance of subsidiaries

The membership of the board of the listed company, Severn Trent Plc, is the same as that of its regulated subsidiary, Severn Trent Water Limited. This structure was implemented in 2007 to ensure that the highest standards of corporate governance were applied at the regulated subsidiary level and to promulgate greater visibility and supervision of Severn Trent Water Limited by the Plc board. Severn Trent Water Limited will therefore be voluntarily complying with the 2012 UK Corporate Governance Code (the Governance Code) to ensure these high standards also apply to it.

The two companies operate as distinct legal entities. The boards comply with the Severn Trent Plc Board Governance document and the Severn Trent Water Limited Matters Reserved to the board. They are assisted through the management of separate agendas, meetings and minutes by the Company Secretariat and advised in their meetings by the Company Secretary where appropriate.

Subsidiary company boards are required to be managed scrupulously with respect to legal, fiscal and administrative matters. In particular, the relationships between Severn Trent Water Limited and our other businesses such as Severn Trent Business Services are monitored and controlled to ensure that our obligations under competition law and regulatory requirements are complied with in respect of all transactions between them, or with third parties.

This Corporate Governance report describes the manner in which the company has applied the principles set out in the Governance Code during the year. The Governance Code sets out five key principles: Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders. This report demonstrates how the company has applied best practice corporate governance in these key areas.

Leadership

Charter of Expectations

During the year the Severn Trent Charter of Expectations has been adopted to promote and implement best practice corporate governance. The Charter sets out the role profiles and expectations of all key positions on the group's boards (together referred to as the 'board'), and board committees, and also reflects the board's responsibility for setting the tone for the group's culture, values and behaviour.

It is envisaged that having such expectations clearly documented will assist in the assessment of the effectiveness of the board and its committees, and that of individual directors.

The Charter of Expectations is published and available on our website (www.severntrent.com) so that there is complete transparency of the standards we set ourselves for all of our stakeholders.

The performance of the board and board committees and of each director will be measured against these expectations.

Board membership

2014/15 saw a number of changes to the board's composition due to carefully managed succession planning and evaluation of its required skills and capabilities. As a consequence, it was announced that the board would be reduced from eleven to eight directors, with effect from 23 January 2015.

Richard Davey stepped down as non-executive director, having served nine years and was succeeded as Senior Independent Director by Martin Lamb who has been on the board for six years and by The Hon Philip Remnant as Chairman of the Remuneration Committee. Michael McKeon ceased to be a director and Chief Financial Officer on 1 April 2015 having served almost ten years. Michael was succeeded by James Bowling effective the same date.

Dr Tony Ballance, Martin Kane and Andy Smith retired from the board, but remained members of the Severn Trent Executive Committee and retained their executive responsibilities in their areas of remit.

The board would like to thank Richard, Michael, Tony, Martin and Andy for their service.

These changes will support the effectiveness of the board with an appropriate balance of innovation, experience, independence and challenge to ensure effective decision making.

Photographs of the members of the board, together with their biographies and a description of the complementary skills and diverse experience that they bring to bear, can be found on pages 48 and 49.

In accordance with the Governance Code, all the directors will retire at this year's Annual General Meeting (AGM) and submit themselves for election or re-election by the shareholders.

Details of our policy on diversity in the boardroom are provided in the Nominations Committee report on pages 61 and 62.

Reporting obligations

As a public listed company, the company is required to comply with a range of reporting obligations set out by law and regulation.

The company recognises the importance of effective communication as a key part of building shareholder value and that, to prosper and achieve growth, it must earn the trust of security holders, employees, customers, suppliers, communities, regulators and other stakeholders, by being open in its communications and consistently delivering on its commitments.

The company announces its results on a half yearly basis and also provides quarterly trading updates to the market.

The Chief Executive has established a Disclosure Committee, chaired by the Chief Financial Officer, to oversee the company's compliance with its disclosure obligations and to consider the materiality, accuracy, reliability and timeliness of information disclosed. The committee also oversees the delivery of an integrated plan incorporating all elements of the year end reporting process, namely the group's preliminary results announcement and Report and Accounts, the company's AGM, the statutory and regulatory accounts of Severn Trent Water Limited, the Annual Regulatory Compliance Statement and the Annual Regulatory Performance Report.

Role of the Chairman

The role of Andrew Duff, your Chairman, is to lead a unitary board, facilitating the contribution of its members at its meetings, and to be responsible for ensuring that the management and processes of the board are maintained in line with the Code of Conduct and the Charter of Expectations

Agendas for board meetings are agreed by the Chairman in consultation with the Chief Executive, the Chief Financial Officer and Company Secretary, although any director may request that an item be added to the agenda. The Chairman demonstrates effective and ethical leadership for the company, and has authority to act and speak for the board between its meetings, including engaging with the Chief Executive, and providing support and advice where appropriate. He reports to the board and committee Chairmen on decisions and actions taken between meetings of the board and ensures effective working relations with open lines of communication with other group executive committee members. He also meets with the non-executive directors without the executive directors present, to consider the performance of the executive directors, to maintain the necessary depth and breadth of knowledge and skills to ensure the effectiveness of the board as a team.

The Chairman maintains effective communication with shareholders and other stakeholders by meeting with them in person to ensure the board maintains an understanding of the views of major investors and other key stakeholders, whilst promoting highest standards of corporate governance.

Senior Independent Non-executive Director

Martin Lamb replaced Richard Davey as your Senior Independent Non-executive Director with effect from 23 January 2015. Martin is a member of the Audit, Remuneration and Nominations Committees. The board has agreed that Martin will act as Chairman of the board in the event that the Chairman is unable to do so for any reason. The Senior Independent Director supports the Chairman in the delivery of his objectives and ensures that the views of all major shareholders and stakeholders are conveyed to the directors, to help develop an understanding of any key issues and concerns. He is available to all shareholders should they have any concerns, if the normal channels of Chairman, Chief Executive or Chief Financial Officer have failed to resolve them or for which such contact is inappropriate.

The Senior Independent Director meets with non-executive directors, without the Chairman present, at least annually, and taking into account the views of the executive directors, leads the non-executive directors in the ongoing monitoring and evaluation of the performance of the Chairman, including communicating the results of such.

Together with the Nominations Committee, he takes responsibility for ensuring that an orderly succession planning process is in place, in relation to both the role of the Chairman and the board in general.

Non-executive directors

Your non-executive directors are appointed to the board to contribute their independent external expertise and experience in areas of importance to the group. Their competencies include corporate finance, including mergers and acquisitions, general finance, corporate strategy, customer care, property, environmental and technology matters, engineering, regulation, general management, transformational change, science, regulatory compliance and supply chain management. They also provide independent challenge and rigour to the board's deliberations and are encouraged to make independent assessments of the group's competencies. The non-executive directors, led by the Senior Independent Non-executive Director, meet without the Chairman at least once a year for them to appraise the Chairman's performance and they have other meetings during the year without executive directors present.

As part of the board effectiveness review, the board has reviewed the status of the non-executive directors and considers them all to be independent in character and judgement as defined by the Governance Code.

Formal schedule of matters reserved for the board

The processes in place regarding the board's tasks and activities and the matters specifically reserved for the board's decision making, the role of and the authority delegated to the Chief Executive, the accountability of the Chief Executive for that authority, and guidance on managing the relationship between the board and the Chief Executive are documented. In addition to these processes, we have adopted the Severn Trent Charter of Expectations to ensure best practice corporate governance throughout the business.

These processes are reviewed annually.

The board has reserved the following for its own consideration:

- Strategy and Management
- Structure and Capital
- Financial Reporting and Controls
- Internal Controls
- Contracts and Policies
- Board Membership and other appointments, including the appointment of the Chief Executive, directors and the Company Secretary
- Remuneration
- Delegation of Authority including the Group Authorisation Arrangements (GAA) which sets out the group's delegated approval limits
- The approval or adoption of documents, including the Annual Report and Accounts, required to be made by the board by the company's GAA, constitutional documents, statute or external regulation

Chief Executive

Responsibility has been delegated to the Chief Executive to develop and implement the group's strategy and overall commercial objectives. The non-executive directors, led by the Chairman, appraise the Chief Executive's performance annually. Liv Garfield is empowered to take all decisions and actions that further the company's strategy and policies and which in her judgement are reasonable, having regard to the limits which apply to her role as Chief Executive, as set out in the company's Group Authorisation Arrangements (GAA). She will ensure a continual dialogue with the Chairman on the strategic issues facing the group including forthcoming complex, contentious or sensitive issues which may affect the group, of which the Chairman might not be aware. The Chief Executive is required to promote and conduct the affairs of the group with the highest standards of integrity, probity and corporate governance.

Executive directors

The executive directors support the Chief Executive in effectively leading Severn Trent towards the achievement of its strategic objectives and implement the strategy decisions taken by the board. They are committed to doing this in a responsible way which takes account of commitment to our Code of Conduct, the long term sustainable and responsible stewardship of the business and the delivery of an outstanding customer experience, the best value service and environmental leadership. This year saw our number of executive directors reduce from five to two, with Tony Ballance, Martin Kane and Andy Smith stepping down, allowing for a slimmer board structure.

Role of the Company Secretary

All directors have access to the advice and services of the Company Secretary, Bronagh Kennedy, and the Company Secretariat team. Bronagh is responsible for ensuring that the board operates in accordance with the governance framework it has adopted and that there is an effective flow of information to the board and its committees and between senior management and the non-executive directors.

The appointment and resignation of the Company Secretary is a matter for consideration by the board as a whole

Independent advice

Directors have access to independent professional advice at the company's expense on any matter relating to their responsibilities

Terms and conditions of appointment

The terms and conditions of appointment of the directors are available for inspection by any person at the company's registered office during normal business hours. They will also be made available before and during the AGM

Effectiveness

Board meetings

There are regularly scheduled meetings of the board and of its permanent committees throughout the year and any additional meetings and ad hoc committee meetings are convened as and when required

Papers, including minutes of board and Executive Committees held since the previous board meeting and performance reports, are circulated approximately a week in advance of each meeting

There is a documented procedure in place which allows directors to take independent professional advice in the course of their duties and all directors have access to the advice and services of the Company Secretary. If a director has a concern over any unresolved matter he or she may require the Company Secretary to minute that concern

The chart opposite shows how the board has spent its time at scheduled board meetings. The board's agenda is normally structured as follows

- Standing Items – regular reports from the Chief Executive and Chief Financial Officer on the operational and financial performance of the business, regulatory matters and external affairs and from the Company Secretary on governance issues
- Non Standing Items – Strategic Discussion Topics and ad hoc matters requiring approval, discussion or noting by the board

The board monitors the performance of Severn Trent Water Limited and Severn Trent Business Services at every meeting and receives monthly updates on performance against the KPIs and ODIs stated on pages 10 and 11 of the Strategic report. The board also regularly discusses reports on capital efficiency. The board monitors governance matters and developments in best practice through the Governance report provided by the Company Secretary, a standing item on the board agenda. The board also formally reviews compliance with the Governance Code on an annual basis and reviews conflicts and other arising disclosure requirements bi-annually

As part of its annual work plan, the board reviewed and approved all financial results announcements, the Annual Report and Accounts, the PR14 Five Year Plan and dividend payments and all changes to the composition of the board and its committees

During the year, seven board meetings were held, with the attendance figures of these meetings detailed below

Director	Meetings attended
Andrew Duff	7/7
Tony Ballance	6/6
John Coghlan*	7/7
Richard Davey	6/6

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Director	Meetings attended
Gordon Fryett	7/7
Liv Garfield	7/7
Martin Kane	6/6
Martin Lamb	7/7
Michael McKeon	7/7
Baroness Noakes**	6/7
Andy Smith	6/6
Dr Angela Strank	7/7

* John Coghlan was appointed at the May 2014 board meeting

** Apologies were given by Baroness Noakes at the July board meeting. Baroness Noakes retired following the July 2014 meeting

The above figures take into account board changes detailed in this Annual Report and Accounts

Board committee meetings 2014/15

There were three committee meetings of the board convened throughout the year to consider such matters as Severn Trent Plc's preliminary and interim results and interim management statements

Board Strategy Day and Preparation for PR14

In addition to formal meetings, the board attended a full day strategy session in November 2014, where the board and Executive Committee together considered the areas of future value creation across the Severn Trent group. Key areas of discussions included the delivery model for AMP6, developments following recent legislative changes in the Water Act 2014 and how the company should respond, innovation and external matters impacting the company and its strategic options for future growth.

Board committees

The four permanent committees of the board assist in the execution of its responsibilities and the board has delegated some of its responsibilities to those board committees. The committees assist the board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the board on decisions and actions taken, and making any necessary recommendations in line with their terms of reference. The effectiveness of each of the committees has been reviewed during the year as part of the externally facilitated board review. The terms of reference of each committee have also been updated to take account of best practice as part of their annual review.

The terms of reference of the Audit, Remuneration and Nominations Committees comply with the provisions of the Governance Code, except as reported on page 47, and are available for inspection, together with the terms of reference of the Corporate Responsibility Committee, on our website (www.severntrent.com) or may be obtained on request from the Company Secretary.

Reports from the Chairs of these committees are set out on pages 61 to 65 and 69 to 85 of this report.

Treasury Committee

In March 2015 the board approved the establishment of a new permanent committee of the board, the Treasury Committee, to provide oversight of treasury activities in implementing the policies and the funding and treasury risk management plan approved by the board, including inter alia the measurement and management of interest rate, funding, counterparty credit, liquidity and operational risks; funding proposals, relationship with rating agencies, debt investor relations, bank relationship management and treasury internal controls. The committee will review and approve the Group Treasury Policy Statements, at least annually, and present an annual report to the board in relation to its activities.

Training and development

Induction

On joining the board, a director's induction needs are evaluated and then they are provided with a comprehensive and personalised induction pack which includes information on our business, key operations and processes, how we are regulated, how we are shaping future regulation, strategic plans, financial reports, business plans and information on our governance framework and directors' roles and responsibilities and legal and regulatory duties.

Meetings are arranged with members of the executive management team and with external advisors who provide support to the relevant board committees on which the directors may serve. Visits to operational and office sites across the group and management presentations are also arranged for directors joining the board and subsequently throughout the year.

These arrangements have been followed for the induction of James Bowling, prior to him joining the board on 1 April 2015, and John Coghlan following his appointment to the board on 23 May 2014.

Directors' resource library

An online directors' resource library and Continuing Professional Development (CPD) repository has been created for use by the directors, which is subject to periodic reviews and updates where appropriate. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section, Strategy Day materials and details of board training sessions. It also includes a further reading section which contains regular updates and guidance on changes to legislation and best practice.

Continuing Professional Development

All directors receive updates throughout the year on matters such as changes to best practice governance guidelines. The directors also have access to professional development provided by external bodies and our advisors. CPD requirements were considered, through individual review meetings between the Chairman and each director, as part of the board effectiveness review in 2014/15 and remain an integral part of the development of our directors.

Board Effectiveness Review

The effectiveness of the board is reviewed annually and an independent externally facilitated review of the effectiveness of the board is conducted every three years. The board therefore conducted an externally facilitated board effectiveness evaluation this year, the last having taken place in November 2011.

In September 2014 a range of potential providers were identified and it was agreed that the evaluation exercise should be facilitated by Manchester Square Partners (MSP). MSP has no other connection with the company.

MSP provided a questionnaire to explore the board's approach to -

- Strategy
- Challenges and risks
- Values and culture
- Role of the board, board dynamics and engagement
- Structure of the board, its composition and succession planning

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- **Governance and leadership**

This was supplemented by a review of historic board papers and individual face-to-face interviews with all board directors, the former Senior Independent Director, Richard Davey and the Company Secretary.

The Chairman also discussed the contribution of directors with each of them in person and the Senior Independent Director conducted an evaluation of the Chairman with the assistance of the non-executive directors.

The subsequent report prepared by MSP was discussed by the Nominations Committee in its consideration of the re-election of directors and it was also the subject of a presentation to the board

The report concluded that -

- There was a strong level of consistency on the key purpose, role and focus areas for the board, which was hard working, fully committed and engaged
- There was a real openness and quality of debate at board meetings
- Board structures and processes were efficient, effective and thorough. Committees were well chaired, operating well and had good linkage to the board

Areas for further focus were -

- Allocation of agenda time to agreed key strategic priorities
- Mentoring, talent management and succession planning below Executive Committee level
- Enhance KPIs to reflect risks and operational performance against new AMP6 Regulatory Requirements

Code of Conduct principles

Working relationships:

- Keeping everyone healthy and safe
- Supporting employees' rights and diversity

Personal and business integrity

- Maintaining ethical and honest behaviour
- Staying free from bribery and corruption
- Keeping our communications open and responsible
- Delivering excellent customer service

Our place in the world

- Working within the community
- Protecting our environment
- Standing up for what's right
- In all our hands

'Doing the right thing – the Severn Trent way' details the principles we work by. You can view our Code of Conduct by visiting

<http://www.severntrent.com/about-us/corporate-governance/code-of-conduct>

Accountability

Code of Conduct: 'Doing the right thing – The Severn Trent way'

Every day Severn Trent employees have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what is safe, doing the right thing for customers, doing what is right ethically, and indeed what is right legally

However, sometimes it is not so clear 'Doing the right thing – The Severn Trent way' details the principles we work by This is our Code of Conduct and explains who we are, what we stand for and how we work. It also tells our customers, investors and business partners that they can trust and rely on us These principles apply to everyone in Severn Trent's businesses, no matter where in the world they are based or what they do They provide a common and consistent framework for responsible business practices and set out the standards we need to follow in our day-to-day activities

During the year we have continued to roll out the Code of Conduct across the group to make sure that everyone in the business understands what it is all about and upholds our ethical standards All employees are provided with a copy in their local language as part of their induction Training sessions are made available and all teams have been encouraged to discuss it through regular communication exercises

We have also continued to roll out our Code of Conduct into our supply chain, as explained in the Corporate Responsibility report on pages 66 to 68.

Policies

The Code of Conduct is supported by our group policies and our behaviours model Further details of these can be found on our website (www.severntrrent.com) During the year, we have completed the annual review of the policies and our behaviours model to ensure they are fit for purpose

Independence

The board considers each of the non-executive directors, seeking re-election at the forthcoming Annual General Meeting (AGM), to be independent in character and judgement

Interests

No director had a material interest at any time during the year in any contract of significance with the company or any of its subsidiary undertakings

Conflicts of interest

The board has a full documented process in place to authorise situational conflicts in accordance with the provisions of the Companies Act 2006 and under the Company's Articles of Association An annual review of conflicts is carried out with a simultaneous review of the Severn Trent Gifts and Hospitality Register, and is incorporated into the year end process of verifying directors' interests Half yearly reports are also made to the board of all directors' conflicts and directors are reminded of their obligations to disclose any potential conflicts

At the beginning of every board meeting there is a standing agenda item to consider and discuss whether any potential conflict exists If it does then the relevant director does not attend the meeting when that item is discussed.

During the 2014/15 financial year, the Nominations Committee discussed the proposed management of the situational conflict created by Martin Lamb's Chairmanship of Evoqua Water Technologies Given the benefits of Martin Lamb's valuable contribution to the board as a recently retired Chief Executive and the relative insignificance of the Business Services Water Purification business ('WP') in the context of the group as a whole, the committee considered that it could recommend authorisation of the conflict and the proposed means of management by the board, provided such was made transparent and kept under regular review to ensure that the board's effectiveness was not compromised The management of the conflict through redaction of papers and his absence from discussions on WP specific matters was also adopted by the Audit Committee in relation to his membership of such, in March 2015.

With the disposal of the Water Purification business, which was announced on 13 May 2015, this will no longer be necessary

Governance

Relations with shareholders

Retail shareholder engagement strategy

The board has an active shareholder engagement strategy, the main elements of which are set out below

The Annual Report and Accounts is the principal means of communicating with shareholders. The group has adopted e-communications as an alternative method of sending company information. In March 2015 shareholders were re-consulted as to their preferred method of receiving company communications. Following the consultation 54,417 shareholders (88%) receive confirmation that the Annual Report is available to view online, whilst 7,494 (21%) continue to receive a hard copy.

Our website (www.severntrent.com) contains an archive of annual reports together with other information relevant to investors. This includes comprehensive share price information, financial results, company news and financial calendars. The company offers a Dividend Reinvestment Plan (DRIP). Details of the DRIP are available on our website and the website of Equiniti, our registrar.

Institutional shareholders and analysts

The board recognises the importance of representing and promoting the interests of its shareholders and that it is accountable to shareholders for the performance and activities of the company and various mechanisms have been put in place to ensure it remains in touch with key activities and developments, including

- Monthly update of the key shareholder engagement activities carried out by the Executive Committee and the Investor Relations team,
- A monthly report, provided by Makinson Cowell, of our shareholder register, outlining the significant buyers and sellers of Severn Trent shares, and
- Regular summaries of sector research notes, allowing shareholders to understand the key opinions being communicated to investors by analysts.

Presentations are made to shareholders and analysts following the release of the interim and year end results. The Chief Executive and Chief Financial Officer regularly meet shareholders during the year. The Chairman and Martin Lamb, the Senior Independent Non-executive Director, have also met with shareholders separately from executive directors. In March 2015 all major shareholders were offered a meeting and those who requested one were accommodated. The Chairman and Martin Lamb were available to meet shareholders at their request throughout the year. The board receives written feedback from Makinson Cowell following meetings with institutional shareholders and monitors shareholder activity on a quarterly basis at its meetings.

"The Culture of the organisation is one that is willing to listen and to engage - they are available if you need them."

Communication with Institutional shareholders and the market

We are committed to serving the needs of our institutional investors and have an extensive programme of events designed to give them access to key senior management and our Investor Relations team. The following table summarises some of the main events of our engagement programme during 2014/15. The events were usually attended by the Chief Executive, the Chief Financial Officer and the Investor Relations team and comprised roadshows in the regions where our key investors are situated, such as the UK, Europe and North America, as well as various conferences to meet with a wide range of institutional investors. In addition to these events, the Chief Executive, the Chief Financial Officer and the Investor Relations team also attended numerous ad hoc meetings with key investors over the course of the year.

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Events in 2014/15

May/June	London Roadshow
June	Bank of America Merrill Lynch Utilities Conference
June	Brean Capital Global Resources and Infrastructure Conference
June	Germany/Switzerland Roadshow
June	North American Roadshow
July	Private Client Roadshow – London
July	Edinburgh Roadshow
September	Morgan Stanley Power & Utility Summit
September	Private Client Roadshow – London
September	Credit Suisse UK Utility Reverse Roadshow
November	London Roadshow
February	Dividend Roadshow
March	North American Roadshow
March	Capital Markets Day

Our conversations with investors during 2014/15 have inevitably focused largely on Ofwat's PR14 review process and the associated implications of such for Severn Trent. Key concerns for investors included the changes to the weighted average cost of capital, the introduction of Totex and ODIs, opportunities around our capital structure and discussions with Ofwat regarding our proposed investment in the Elan Valley Aqueduct. Other key areas of interest for investors have been the Water Bill and the upcoming changes to the regulatory framework, including water trading and the potential for future mergers, as well as the appointment of the new Chief Executive, Liv Garfield, and her plans for the business.

During the year, the Investor Relations section of the Severn Trent Plc website was updated. The aim of this was to improve navigation around the different areas, make it more intuitive and easier for investors to find the information they were looking for, as well as providing additional content.

Capital Markets Day

A key event in our timetable this year was our Capital Markets Day, held on 17 March 2015. This followed the receipt of our Final Determination on 12 December 2014, which set out Severn Trent Water Limited's allowed returns, expenditure and performance commitments for the next five year period from 2015–2020 (AMP 6) and the subsequent announcement of our dividend policy. The purpose of the day was to set out our strategy for the next five years and outline the plans being put in place to enable us to meet the requirements set out in our Final Determination. On the day, 70 of our key investors and analysts travelled to Severn Trent Centre in Coventry. The day's agenda included presentations from key management personnel, covering financials, operational performance, regulatory reform and our customer focus, as well as demonstrations of some of the key initiatives being implemented, such as the roll out of new digital devices to employees in the field. The day concluded with site tours of two strategically important sites, Minworth Sewage Treatment Works and our recently opened food waste digestion plant in Coleshill.

Members of the Water Forum

Members of the Water Forum comprise those with a statutory remit or key interest in the water industry.

The Water Forum is made up of nine organisations who represent our customers or have a stake in what we do. Membership is currently under review.

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Organisation

CBI West Midlands

Natural England

National Farmers Union

Citizens Advice Bureau – Coventry

East Midlands Councils

Environment Agency

Drinking Water Inspectorate

Scottish and Southern Energy

Consumer Council for Water

Customer engagement

As PR14 reached its concluding stages this year, we continued to engage with the Severn Trent Water Forum. The Forum is a multistakeholder group, independently chaired by Professor Bernard Crump of Consumer Council for Water, established to challenge the development of Severn Trent Water Limited's business plan for 2015–2020 to ensure that it takes into account our customers' priorities. Members of the Forum comprise those with a statutory remit or key interest in the water industry. The Forum is made up of nine organisations who represent our customers or have a stake in what we do.

The Forum met six times over the course of the year and discussed a range of issues including our proposals to improve the resilience of water supplies to Birmingham, the development of an expanded range of support for customers who are struggling to pay, and our proposals to improve river water quality in our region.

The Forum submitted two reports to Ofwat during the year setting out its independent views of these and other issues. Both reports are available at severntrent.com/waterforum.

Following Severn Trent Water Limited's acceptance on 28 January 2015 of the Ofwat Final Determination, the role and membership of the Forum during AMP6 is under review.

Voice of the Customer programme

We take seriously the voice of every individual customer. We have launched a new SMS text survey so that all customers that contact us are sent a survey by text for them to rate how we performed. This may relate to a call to our contact centre or an incident in the field. By listening to what our customers say about the service we provide, we are able to give real time insights to our agents in the contact centre and also to our colleagues in the field. We then call back every customer who scores us 1, 2 or 3 out of 5 for our service (1 being low, 5 being high). By doing this we can seek to understand the reason for the score, the situation that the customer is experiencing and resolve it for them. Our resolutions team who conduct these calls also look at the root cause and make sustainable changes to our business.

Looking ahead to 2015/16

Looking forward to 2015/16, we expect to see our extensive programme of investor events continuing. The early part of the year will be dominated by the start of the new regulatory period, with investors keen to understand how well our plans and strategy are being implemented as well as how well we are performing under the revised regulatory regime. The departure of our former Chief Financial Officer, Michael McKeon, and the appointment of James Bowling on 1 April 2015 to replace him, will also be of key interest to our investors. Our programme of roadshows is expected to be maintained, and we intend to continue to visit our key investors in Europe and North America, as well as those in the UK.

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Annual General Meeting

The Annual General Meeting (AGM) of the company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 15 July 2015

Presentations are made on the group's activities and performance during the year prior to the formal business of the meeting. The Chairs of the Audit, Corporate Responsibility, Remuneration and Nominations Committees, together with all other directors, attend the AGM.

The AGM gives shareholders an opportunity to feed back to the company on performance, management and the way we work in a very direct fashion, through the questions they ask. Shareholders often also meet informally with directors and senior management before and after the meeting.

The board encourages shareholders to attend the company's AGM and to exercise their right to vote. The notice of meeting and related papers are sent to shareholders at least 20 working days before the meeting. Separate resolutions are proposed on each substantially separate issue. The poll results from the 2015 AGM will be made available on our website after the meeting.

VIEW ONLINE

Our online Annual Report and Accounts

Easier, greener and only a click away

We're always looking to make life easier. Our online Annual Report is designed to help you read the information that matters to you, wherever you may be, whether on the move or at your desktop. It reduces our paper use too, which is kinder to the environment. We hope you like it.

www.severntrent.com/AR2015

Nominations Committee

Andrew Duff

Chairman of the Nominations Committee

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year. The main purpose of the committee is to assist the board by keeping the composition of the board under proactive review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board. It also advises the board on issues of directors' conflicts of interest and independence matters that may arise. The full terms of reference for the committee can be found on our website (www.severntrent.com) and are also available from the Company Secretary.

Succession planning

When considering new appointments to the board, the committee oversees the preparation of a role specification that is provided to an independent recruitment organisation retained to conduct a global search. In addition to the specific skills, knowledge and experience deemed necessary, the specification contains criteria such as

- a proven track record of creating shareholder value,
- unquestioned integrity and a diversity of psychological mindset,
- a commitment to the highest standards of governance,
- having the required time available to devote to the job,
- a strategic mindset, an awareness of market leadership and outstanding monitoring skills,
- a preparedness to question, challenge and openly assess, and
- an independent point of view

During the year the committee considered:

- Succession planning for the board and board committees
- The board's diversity policy
- Talent management
- Effectiveness of the board committees
- Re-election of directors for the AGM

Attendance at scheduled committee meetings:

During the year, there were three scheduled meetings of the Nominations Committee. The attendance figures for these meetings are detailed below.

Director	Meetings attended
Andrew Duff	3/3
John Coghlan *	3/3
Richard Davey **	2/3
Gordon Fryett	3/3
Lrv Garfield ***	2/2
Martin Lamb	3/3

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Director	Meetings attended
Philip Remnant	3/3
Dr Angela Strank	3/3

* John Coghlan was appointed as a member of the Nominations Committee in May 2014

** Richard Davey retired as a director on 23 January 2015

*** Liv Garfield stepped down as a member of the Nominations Committee in October 2014.

Baroness Noakes was unable to attend the meeting in July and sent her apologies. Subsequently, Baroness Noakes retired as a member of the Committee in July 2014.

The committee keeps under review the balance of skills on the board and the knowledge, experience, length of service and performance of the directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interest, including the time available to commit to their duties to the company. The results of these reviews are important when the board considers succession planning, the effectiveness of the board and its committees and the election and reappointment of directors. Members of the committee take no part in any discussions concerning their own circumstances.

The members of the committee in 2014/15 were the non-executive directors of the board. Liv Garfield stepped down as a member as of October 2014, and Richard Davey retired as director as at 23 January 2015.

In accordance with the Governance Code, the succession planning and searches in respect of the appointments of Liv Garfield, effective 11 April 2014, and John Coghlan, effective 23 May 2014, during the year under review, were disclosed in the Nominations Committee Report in the Annual Report and Accounts for 2014.

The committee initiated a process to search for a new Chief Financial Officer following Michael McKeon's indication to the board of his desire to retire. Russell Reynolds was appointed as an advisor and was provided with a role specification and a detailed brief of the desired candidate profile. The committee considered a list of potential candidates and those shortlisted were interviewed by members of the board. Michael McKeon took no part in any meetings relating to his succession.

Following this process, the board accepted the committee's recommendation that James Bowling join the board as Chief Financial Officer with effect from 1 April 2015.

In accordance with the requirements of the Governance Code, all members of the board will seek election or re-election at the AGM on 15 July 2015. In April 2015, the committee formally reviewed the performance, contribution and commitment of each of the directors retiring at this year's AGM and seeking reappointment, and supported and recommended their reappointment to the board. The committee confirmed that each director continues to perform well, on both an individual and collective basis, making a valuable contribution to the board's deliberations and demonstrating commitment to the long term interests of the company.

The committee also supported and recommended the election of the newly appointed directors, as detailed on page 50. The appointment of these new executive and non-executive directors brings a wealth of new skills and experience to the board and benefits from a significant investment of the committee in planning and executing the succession process.

Diversity

Further to the publication of the Davies Report, 'Women on Boards', in February 2011 and its third annual progress report in March 2014, boards of FTSE 350 companies have been encouraged to promote greater female representation on corporate boards. Guidance from the Financial Reporting Council has also highlighted the importance of greater diversity of psychological profile around the board table. Severn Trent has recently developed a Board Diversity Policy and recognises the importance of diversity in its broadest sense throughout its organisation, including that of the board. 25% of the board are now women, including the Chief Executive. Even more importantly, over 50% of the Executive Committee are now women. However, Severn Trent is committed to increasing diversity at all levels of the company in all respects and not just gender.

As stated above, the Nominations Committee reviews the board effectiveness and composition each year and, in particular, considers the balance of skills, experience and independence of the board. It also considers the benefits of all aspects of diversity, but without compromise as to the calibre of directors, when identifying candidates for appointment.

The selection of female candidates to join the board, will therefore be made based on merit and the individual's ability to contribute to the effectiveness of the board, which in turn will be dependent on the pool of female candidates available.

Severn Trent is seeking to build a diverse pool of future leaders and details of diversity initiatives being undertaken are set out in the Corporate Responsibility Committee report on page 67.

As and when board appointment opportunities arise, we make full use of the procedures recommended by the Davies Report and by the Governance Code to support this aspiration. All board appointments have been and will continue to be based on merit and must be in the interests of all stakeholders.

A breakdown by gender of the number of persons who were directors of the company, senior managers and other employees as at 31 March 2015 is set out opposite

As at 31 March 2015, we had 2 female members on our board of 8 (representing 25%) and 5 female members out of 9 on the Executive Committee (representing 50%). As at the date of this report, there are 2 female members on our board of 8 (representing 25%) and 5 female members out of 9 on the Executive Committee (representing 55%).

Andrew Duff

Chairman of the Nominations Committee

Audit Committee

John Coghlan

Chairman of the Audit Committee

The committee assists the board in discharging its responsibilities for the integrity of the company's financial statements, the assessment of the effectiveness of the systems of internal controls and monitoring the effectiveness and objectivity of the internal and external auditors. It also oversees the assurance of regulatory returns made by Severn Trent Water Limited to Ofwat. The role and the responsibilities of the committee are set out in written terms of reference. These can be found on our website (www.severntrent.com) and are also available from the Company Secretary.

This report provides details of the role of the Audit Committee and the work it has undertaken during the year.

Composition of the Committee

The members of the committee during the year were John Coghlan as Chairman, Richard Davey and Philip Remnant, whose experience and backgrounds are set out on pages 48 and 49. Richard Davey stepped down on 23 January 2015 and Martin Lamb became a member on 23 January 2015.

The board is satisfied that all the committee members have recent and relevant financial experience and that all members of the committee remain independent.

Activities of the Committee

The members of the committee receive updates on financial reporting and the group's regulatory framework in various forms throughout the year. The Chairman, Chief Executive, Chief Financial Officer, Director of Internal Audit, Group Financial Controller and the external auditors normally attend, by invitation, all meetings of the committee. Other members of senior management are also invited to attend as appropriate. The committee regularly holds private discussions with both the internal and external auditors.

In performing its duties, the committee has access to the services of the director of Internal Audit, the Company Secretary and, if required, external professional advisors.

Key areas of focus in 2014/15

The committee reports to the subsequent meeting of the board on the committee's work. It met four times in 2014/15 and its work focused on the following key areas:

- financial statements and accounting policies,
- risk management and internal controls,
- oversight of internal and external audit,
- regulatory reporting obligations of our subsidiary Severn Trent Water Limited, and
- scrutinising the assurance process underpinning the PR14 submission.

The committee's performance was included in the review of the Board Committee's effectiveness referred to on page 56.

Internal controls

Committee receives regular reports from Internal Audit and reviews management letters received from the external auditor
Identifies principal risks and related controls
Provides guidance to risk owners on the board's tolerance for different types of risk
Reviews the group's approach to cyber security and IT continuity
Reviews the procedures, systems and controls designed to prevent and detect fraud and bribery

Internal Audit

The Head of Internal Audit and his team report on a day-to-day basis to the executive team
This work is summarised and reported to the committee on a regular basis
The Head of Internal Audit can raise any issues with the committee or its Chairman at any time during the year

Financial statements and accounting policies

The committee looked carefully at those aspects of the financial statements which required significant accounting judgements or where there was estimation uncertainty. These areas are explained in note 4 of the financial statements on page 106. The committee receives detailed reports from both the Chief Financial Officer and the external auditors on these areas and on any other matters which they believe should be drawn to the attention of the committee. The committee also reviews the draft of the external auditors' report on the financial statements, with particular reference to those matters reported as carrying risks of material misstatement. The committee discusses the range of possible treatments both with management and with the external auditors and satisfies itself that the judgements made by management are robust and should be supported. The following areas were the most important ones for 2014/15:

- restructuring costs relating to the business as a whole;
- the outcome of the triennial valuation of the pension scheme, the deficit calculation and the consistent application of appropriate assumptions,
- the amount of the provisions held for tax liabilities and the calculation of current and deferred tax benefits in relation to changes in industrial buildings allowances,
- the proposed disclosure of material items of income or expenditure which met the criteria for classification as exceptional items, and
- the implications of and the proposed response to the new Financial Reporting Council reporting requirements on going concern and viability statements

The committee reviewed and challenged the evidence and assumptions underpinning the current use of the going concern assumption in preparing the accounts and in making the statement made in the Directors' report that the company is a going concern.

The committee reviewed the draft results announcements for interim and full year results and the proposed presentations to analysts and paid particular attention to the tone of the announcements and presentations to consider their consistency with the financial statements

In reviewing the financial statements, the committee receives input from the Disclosure Committee, which is chaired by the Chief Financial Officer.

The Audit Committee reviewed the outcome of the process (established in 2014) to confirm that the report and accounts are 'fair, balanced and understandable'. As last year, the Disclosure Committee undertook a detailed review of the Annual Report and Accounts prior to making a recommendation that the board could make the fair, balanced and understandable statements contained in the Directors' responsibility statement on page 90. Deloitte LLP (Deloitte) reported to the committee on its review of the half-year interim results and on its audit of the year end financial statements.

Internal controls

The committee receives regular reports from Internal Audit in respect of its work on the internal control framework and reviews management letters received from the external auditors.

The committee reviewed the processes for and outputs from our Enterprise Risk Management process, through which the principal risks and related controls are identified. The committee discussed the approach to documenting the board's risk appetite and providing guidance to risk owners on the board's tolerance for different types of risk. In addition, it monitored the ongoing development of our compliance and assurance processes in respect of the key risks.

The committee reviews the procedures, systems and controls designed to prevent and detect fraud and bribery and receives a log of incidents of fraud or bribery every six months, which includes the actions taken to investigate and respond to the incidents. There were no material incidents during the year.

The committee also reviewed the group's approach to cyber security and IT continuity.

Further details of our internal control framework can be found in the Directors' report on page 88.

Internal Audit

The Head of Internal Audit and his team report on a day-to-day basis to the executive team on the effectiveness of the group's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the group's assets and resources. This work is summarised and reported to the committee on a regular basis and is a key element of the assurance that the committee receives on the risks and controls in the group. The Head of Internal Audit is free to raise any issues with the committee or its Chairman at any time during the year.

The effectiveness of the Internal Audit function, the audit plan and budget are reviewed at least annually by the committee.

Policy on the provision of non-audit services

The company has approved a formal policy on the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the external auditors.

The policy sets out the approach to be taken by the group when using the services of the external auditors, including requiring that certain services provided by the external auditors are pre-approved by the committee or its Chairman.

It defines the non-audit services that may be provided by the external auditors and separately sets out those non-audit services which are prohibited, since the independence of the external auditors could be threatened.

Non-audit services where the external auditors may be used include audit-related services required by statute or regulation, tax compliance, due diligence on acquisitions and disposals, services related to fraud, Corporate Responsibility report reviews and regulatory support.

The approval of the committee or its Chairman is always required if a non-audit service provided by the auditors is expected to cost more than £100,000 or if non-audit fees for the year would exceed the amount of the audit fee.

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External auditors

Deloitte audits all significant subsidiaries of the group. Annually, the committee reviews the external auditors' audit plan and reviews and assesses information provided by them confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. The committee also reviews their effectiveness, which involves assessment of the auditors by the committee and key executives, and confirmation that the auditors meet minimum standards of qualification, independence, expertise, effectiveness and communication. These assessments are carried out prior to the committee recommending to the board that the external auditors be proposed for reappointment at the AGM.

Deloitte were appointed auditors of the company in 2005, pursuant to a competitive tender process and since 2005 the company has annually considered the need to re-tender the external audit service.

The company is committed to complying with the provisions in the Governance Code in respect to audit tendering along with the UK Competition and Markets Authority Order and the European Union rules on audit tenders. As a result, the committee will formally tender the external audit service during the 2015/16 financial year. There are no contractual obligations to restrict the committee's choice of external auditors.

The Audit Partner, currently Carl Hughes, is required to rotate after a maximum of five years, 2014/15 being his last financial year. The Audit Partner rotating in for the 2015/16 financial year is Kari Hale.

Details of the amounts paid to Deloitte for audit and non-audit services are provided in note 7 to the accounts on page 111.

Severn Trent Water Limited

The regulated activities carried out by Severn Trent Water Limited also require two annual reporting submissions to Ofwat which are reviewed by the committee: an annual submission on Severn Trent Water Limited's regulatory performance and obligations known as the Annual Regulatory Performance Report, together with the Annual Regulatory Compliance Statement, and a statement that underpins the customer charges made by Severn Trent Water Limited, known as the Principal Statement.

In March 2015 the committee reviewed the process, timeline and assurance framework in place for the production and submission of the Annual Regulatory Compliance Statement and the 2015/16 Principal Statement to Ofwat.

Deloitte makes reports to Ofwat in respect of Severn Trent Water Limited's regulatory accounts. The Annual Regulatory Performance Report, which provides an overall picture of company performance, covers many aspects which are not financial and Severn Trent Water Limited appoints engineering consultants, Atkins, to report and provide assurance on those aspects. The committee receives reports from Atkins on their work as part of its review of the Annual Regulatory Returns.

Attendance at scheduled Committee meetings:

During the year, there were 4 scheduled meetings of the Audit Committee.

The attendance figures are detailed below for these meetings.

Director	Meetings attended
Philip Remnant	4/4
Baroness Noakes *	1/1
John Coghlan **	3/3
Martin Lamb ***	1/1
Richard Davey ****	3/3

* Baroness Noakes retired as a member of the Audit Committee in July 2014.

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**** John Coghlan was appointed as a member of the Audit Committee in May 2014.**

***** Martin Lamb was appointed as a member of the Audit Committee on 28 January 2015**

****** Richard Davey retired as a member of the Audit Committee on 23 January 2015**

Corporate Responsibility Committee

Gordon Fryett

Chairman of the Corporate Responsibility Committee

The committee provides guidance and direction to the company's Corporate Responsibility programme, reviews the group's key non financial risks and opportunities and monitors progress

The committee reviews annually the adequacy of the company's formal whistleblowing policy and procedures which deal with allegations from employees relating to breaches of the Code of Conduct and reviews at each of its meetings the whistleblowing incident log

The terms of reference for the committee can be found on our website (www.severntrent.com) and are also available from the Company Secretary

This report provides details of the role of the Corporate Responsibility (CR) Committee and the work it has undertaken during the year

The members of the committee are Gordon Fryett (Chairman), Andrew Duff, Liv Garfield and Dr Angela Strank

Our CR framework

Our Code of Conduct, 'Doing the right thing – The Severn Trent way', provides the structure and a common CR framework for both our businesses – regulated and non-regulated. The nine principles of our Code of Conduct are

- 1 Keeping everyone healthy and safe
- 2 Supporting employees' rights and diversity
- 3 Maintaining ethical and honest behaviour
- 4 Staying free from bribery and corruption
- 5 Keeping our communications open and responsible
- 6 Delivering excellent customer service
- 7 Working within the community
- 8 Protecting our environment
- 9 Standing up for what's right

To monitor performance, both Severn Trent Water and Severn Trent Business Services have an effective performance management system in place through core business Key Performance Indicators (KPIs) (see page 10 of the Strategic report for further details). These are overseen by the relevant management teams and the board. Many of the business KPIs relate directly to our CR focus areas and therefore contribute significantly to our CR performance and are linked to our reward arrangements. We report internally on our CR performance through senior management and the committee. Externally, we report through a number of channels, including our website and our Annual Report and Accounts.

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Key areas of focus 2014/15

The committee provides board oversight of our CR framework, including the strategy and performance related to health, safety, environment and the community as well as employee and supply chain matters. CR KPIs and whistleblowing allegations are reviewed at every meeting. Key areas of discussion and review during 2014/15 are set out below:

- the committee reviewed two papers outlining future societal, economic and environmental issues, and agreed to review the forward agendas for the committee to ensure that emerging risks were considered in more detail,
- a new approach to CR for Severn Trent was approved, comprising compliance in relation to the performance of core essential activity, and excellence in two identified areas of ambition for the company – making our region's rivers healthier and improving water efficiency, each having measurable targets. The new framework for our CR was launched in April 2015,
- the committee received an update on initiatives to promote diversity at Severn Trent. It was noted that Severn Trent compared relatively well against industry benchmarks and that further initiatives were under way to ensure the progression of females through management positions,
- the committee received two reports from Internal Audit with respect to their findings on Health, Safety and Environment. The committee noted that a good framework was in place for occupational health and managing contractors, and
- the committee discussed updates on working in the community protecting our environment, water quality, employee satisfaction in Severn Trent Business Services and managing our supply chain responsibly

Attendance at scheduled committee meetings:

During the year there were 4 scheduled meetings of the Corporate Responsibility Committee. The attendance figures are detailed below for these meetings:

Director	Meetings attended
Gordon Fryett	4/4
Andrew Duff	4/4
Liv Garfield	4/4
Dr Angela Strank	4/4

CR activities

We are committed to CR and see it as an integral part of our business.

Human rights

We have a responsibility to understand our potential impacts on human rights and to mitigate or eliminate these impacts. We are committed to operating in accordance with the United Nations Global Compact Principles and our Code of Conduct supports this commitment. Whilst not having a specific human rights policy, we have group policies on Human Resources, Anti Bribery and Anti Fraud, Whistleblowing and Procurement. These policies are in turn supported by a broader range of policies within Severn Trent Water Limited and Severn Trent Business Services to support key human rights.

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Freedom of association and collective bargaining

We recognise the right of all employees to freedom of association and collective bargaining. We seek to promote cooperation between employees, our management team and recognised trade unions. We believe this fosters a joint understanding of business needs and helps to deliver common solutions aimed at making our business successful.

Internationally, Severn Trent Business Services operates a small number of sales and marketing offices where union membership is not available due to national law. It is important that these employees and those who do not wish to join a union are not at a disadvantage.

All Severn Trent employees are encouraged to raise concerns at work through their line manager, however, we recognise that employees may feel inhibited in certain circumstances. In this case, employees are encouraged to use our confidential and independent whistleblowing helpline, operated by Safecall, an independent company which specialises in handling concerns at work. The service is available internationally and Safecall provides a translation service, allowing any employee, wherever they are in the world, to access it.

Equality

Severn Trent believes that a diverse and inclusive culture is a key factor in being a successful business. We do not tolerate discrimination under any circumstances and believe in treating everyone equally with fairness, encouragement and respect. Our Code of Conduct and our group Human Resources Policy govern all aspects of employee rights and diversity. Underpinning these are individual business level policies which define our approach to a diverse and inclusive environment.

Diversity

To ensure our workforce reflects the diversity of the customers and communities we serve, we have put considerable focus on monitoring our performance against a range of diversity measures and benchmarks. We drive actions out of the analysis of the data and have built a plan to enable us to become a more diverse and inclusive workplace. Our diversity and inclusion plan is supported by our flexible working policies which promote part time working, job shares, flexible hours and core working hours, with our technology enabling working from home when necessary.

We have also undertaken training with employees involved in recruitment to ensure that we do not have an unconscious bias within the attraction and selection programme. Throughout 2014/15, we have also focused on increasing diversity in our applicants with a primary focus on our entry level schemes for apprenticeships and graduates. We have looked at the communications we use to attract new applicants and how we can reach a broader and more diverse range in our community.

We continue to take part in diversity initiatives such as the 30% Club and Project 28-40, so we can contribute to the debate and benefit from others' experience, and received a rating of Silver this year in the Business in the Community gender and race benchmark survey (improving from Bronze last year).

Our gender diversity metrics as at 31 March 2015 are set out in the Nominations Committee report on page 62.

Prevention of child labour and forced labour

We will not condone the use of child labour and forced labour under any circumstances. The highest risk for Severn Trent is through our supply chain, therefore we work with our suppliers to ensure they operate to the same standards we set ourselves.

Our Code of Conduct has been built into the procurement tender process as part of the pre-qualification questionnaire template in Severn Trent Water. During 2014/15, 169 new suppliers have been required to confirm adherence to our Code of Conduct. In addition, 20 retrospective assurance checks on existing suppliers have been carried out.

Prevention of bribery and corruption

Our group-wide Anti Bribery and Anti Fraud Policy prohibits bribery and corruption in all our business dealings, regardless of the country or culture within which we work. Employees identified as high risk through a risk review for Severn Trent Water Limited and all employees of Severn Trent Business Services are required to undertake an online training module and examination to ensure awareness of and compliance with this policy. The Audit Committee carries out an annual review of our systems and controls to detect and prevent bribery and corruption.

Remuneration Committee

Philip Remnant

Chairman of the Remuneration Committee

The committee determines, on behalf of the board, the company's policy on the remuneration of executive directors, other members of the Executive Committee and the Chairman of the board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The policy framework for remunerating all senior executive managers is consistent with the approach taken for executive directors.

Dear shareholder

Welcome to my first Remuneration Committee report. I am delighted to report that in 2014/15 we again delivered on our commitments with significant value for our shareholders and our customers, improved operational performance, the lowest combined water and sewerage bills in the land and higher returns through the growing dividend. This performance has been reflected in the payments under our incentive plans.

Remuneration for the year under review

The annual bonus payments to executive directors for the financial year to 31 March 2015 were between 46.4% and 75.3% of base salary, reflecting a good year of operational performance with particularly strong improved performance on our quality of interaction with our customers and our impact on the environment.

During the year, awards under the Share Matching Plan (SMP) vested at 66.2% of the maximum based on total shareholder return performance over the three years to 19 May 2014. The Long Term Incentive Plan (LTIP) awards based on RoRCV performance over the three years to 31 March 2015 will vest in full. There is a detailed breakdown of the targets set and the payments under the annual bonus, SMP and LTIP on pages 79 and 80.

Key policy developments for 2015/16

No changes are proposed to the overall structure or quantum of the remuneration arrangements. However, the Remuneration Committee has had to review the performance measures used in the annual bonus and LTIP to reflect the new regulatory framework under AMP6 (which spans the five year period from 1 April 2015 to 31 March 2020). The committee has consulted with the company's major shareholders and institutional investor bodies prior to making these changes.

Annual bonuses for 2014/15 were based on performance against the Severn Trent Water balanced scorecard, business unit objectives and personal performance. The scorecard Key Performance Indicators (KPIs) no longer reflect the main indicators of performance as we move into AMP6, especially with the introduction of Outcome Delivery Incentives (ODIs). ODIs are quantifiable, transparent operational targets set for us by and monitored by Ofwat covering aspects such as water quality, leakage, asset stewardship, supply, flooding, customer experience and environmental performance. Severn Trent Water is rewarded by Ofwat if it exceeds the ODI targets and suffers financial penalties for missing them. Bonuses for the Chief Executive and Chief Financial Officer for 2015/16 onwards will be based 50% on profit before interest and tax (PBIT) of Severn Trent Water, 40% on business unit performance (including performance against ODIs, performance of Severn Trent Services and health and safety performance) and 10% on personal performance. PBIT has been chosen as a measure as it is an indicator of overall financial performance and reflects efficiencies, revenue and other key levers in the business plan. We believe that the new structure for the bonus provides a stronger link between our financial and operational performance and the rewards earned by executives.

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Since 2011, awards under the LTIP have been subject to a performance condition which measured Severn Trent Water Limited's Return on Regulatory Capital Value (RoRCV) relative to the Final Determination set by Ofwat. RoRCV was considered a key financial measure of performance under the AMP5 framework. Under AMP6 and the new regulatory incentive structures for water companies, Return on Regulatory Equity (RORE) has replaced RoRCV as Ofwat's key financial metric and is a key measure for investors in the new regulatory environment. RORE is calculated as profit after tax (plus net incentives earned in the year) divided by the average equity element of our regulatory capital value and measures how efficiently we can deliver returns to shareholders. Unlike RoRCV, RORE is aligned with the key drivers of performance in AMP6 and reflects how well we perform against our operational and capital expenditure targets, our financing performance and achievement against the ODI framework. To align the incentive structure with the new reporting framework, LTIP awards from 2015 onwards will be based on RORE outperformance relative to Ofwat's Final Determination. The performance targets for the awards to be granted in 2015 require average RORE over the three year performance period to equal the Final Determination (5.65%) for 25% of the award to vest, increasing on a straight line basis to 100% vesting for outperforming the Final Determination by 1.29 times (7.29%). The committee considers the targets to be demanding and the stretch target requires the company significantly to outperform the Final Determination, delivering substantial returns to shareholders.

Finance Director changes

During the course of the year, the committee considered the retirement of the current Chief Financial Officer, Michael McKeon, and the recruitment arrangements for his successor, James Bowling as Chief Financial Officer. Full details of their respective leaving and joining arrangements are set out in the Annual Report on remuneration on page 85.

Structure of the report

The changes to the performance measures used in the annual bonus and LTIP require us to resubmit our Policy Report for shareholder approval. The Policy Report reflects the remuneration policy approved by shareholders last year, updated to reflect the new board structure and the proposed changes to the performance measures noted above. The Policy Report will be subject to a binding vote at the forthcoming AGM and, once approved, it is intended that the policy will apply until the 2018 AGM (when it will be subject to reapproval by shareholders as required under the regulations). This letter and the Annual Report on remuneration will be subject to an advisory vote at the AGM.

I hope that you are supportive of our proposals and will approve both resolutions at the AGM.

Philip Remnant

Chairman of the Remuneration Committee

Policy report

This section of the Remuneration Committee Report, setting out the new remuneration policy for the directors of Severn Trent Plc, is subject to approval by shareholders at the AGM on 15 July 2015 and will take effect, subject to approval, from this date. Once approved by shareholders, this policy will replace the current policy which was approved by shareholders at the 2014 AGM. In most respects the new policy is similar to the existing policy, albeit updated to reflect the new board structure and the change in performance metrics for the annual bonus and long term incentive awards (which require shareholder approval). There are no other substantial changes to our policy.

Setting the remuneration policy

The committee sets the remuneration policy for executive directors and other senior executive managers, taking into account the company's strategic objectives over the short and long term and the external market.

The committee addresses the need to balance risk and reward. The committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The committee believes that the incentive schemes are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the executives so that the long term performance of the business is not compromised by the pursuit of short term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall company performance.

Linkage to all employee pay

The committee reviews changes in remuneration arrangements in the workforce generally. It ensures that executive director salary increases are normally aligned to the increases for the rest of the workforce. Furthermore, the annual bonus operates on a broadly similar basis with the bonus schemes operated throughout Severn Trent Water Limited and all UK employees may participate in the HMRC tax-advantaged Save As You Earn (SAYE) scheme. The company has not directly consulted with employees on the topic of executive remuneration, however, the committee does consider the general base salary increase, remuneration arrangements and employment conditions for the broader employee group when determining the remuneration policy for executive directors.

Shareholder views

The committee engages proactively with the company's major shareholders and takes their views into account. The committee reviews any feedback received from shareholders as a result of the AGM process and throughout the rest of the year, and takes into consideration the latest views of investor bodies and their representatives, including the Investment Association, the National Association of Pension Funds and proxy advice agencies such as Institutional Shareholder Services. When any significant changes are made to the remuneration policy, the Remuneration Committee Chairman discusses these with major shareholders in advance and may offer meetings for more detailed discussion.

Remuneration policy for the executive directors

The following table sets out a summary of each element of the executive directors' remuneration packages.

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Salary	To recruit and reward executives of a suitable calibre for the role and duties required	Base salaries for individual directors are reviewed annually by the committee and normally take effect from 1 July	Details of the current salary levels for the directors are set out in the Annual Report on remuneration on page 76
		Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size (currently FTSE 51–150) and practice in other water companies), company performance, affordability and internal relativities	Any increase to directors' salaries will generally be no higher than the average increase for the UK workforce. However, a higher increase may be proposed in the event of a role change or promotion, or in other exceptional circumstances
		The company, where appropriate, may set base salary levels below the market reference salary at the	

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Element	Purpose and link to strategy	Operation (Including performance metrics)	Maximum opportunity
		time of appointment, with the intention of bringing the base salary levels in line with the market as the individual gains the relevant experience	
Benefits	To provide competitive benefits in the market to enable the recruitment and retention of directors	A car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. Relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	The value of benefits is based on the cost to the company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically.
Pension	To provide a pension comparable with similar companies in the market to enable the recruitment and retention of directors	A defined contribution scheme and/or cash supplement in lieu of pension.	Company contribution to a pension scheme and/or cash allowance up to a maximum of 25% of salary.
Annual bonus	To encourage improved financial and operational performance and align the interests of directors with shareholders through the partial deferral of payment in shares.	Bonuses are based on financial, operational and personal performance. No more than 20% of the bonus will relate to personal contribution for any executive.	Maximum annual bonus of 120% of base salary (target annual bonus of 60% of base salary).
		50% of the bonus is paid in cash and 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting).	
		A clawback mechanism applies to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.	
LTIP	To encourage strong and sustained improvements in	Awards are granted annually and are subject to a three year	Maximum limit is 150% of base salary (with 200% being used in

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
	financial performance, in line with the company's strategy and long term shareholder returns	performance condition which requires the company's return on regulatory equity (RORE) to outperform the target set out in Ofwat's Final Determination. A sliding scale of targets is set. Different targets and/or performance measures may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time	exceptional circumstances) The grant level for 2015/16 is 125% for the Chief Executive and 80% of base salary for other executive directors
		The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting	Up to 25% of an award may vest for threshold performance
		The award may be structured as a conditional share award (awards may also be settled in cash in certain circumstances)	
		A clawback mechanism applies to allow the recoupment of vested incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting, gross negligence, fraud or gross misconduct	
All Employee Share Plans	To encourage widespread employee share ownership to enable employees to share in the success of the business, and to align their interests with those of shareholders	The executive directors are able to participate in HMRC tax advantaged all employee share plans on the same terms as other eligible employees	The maximum limits under the plans are as set by HMRC

Further details on the variable pay policy

Annual bonus

The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set for us under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead. Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. Further details on the performance measures and weightings to be used for the forthcoming year are set out in the Annual Report on Remuneration on page 85.

Long-term Incentives (LTIP)

For LTIP awards granted in 2015, RORE will be used to assess performance. Using RORE to assess long term performance reflects the focus of Ofwat in AMP6 and is consistent with our aim to deliver efficient returns to shareholders. RORE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value and it is verified and published as part of the Annual Regulatory Performance Report. The committee believes that the use of RORE provides a strong alignment between the long term financial and operational performance of the group and the reward delivered to management.

LTIP awards granted in 2013 and 2014 are subject to a performance condition relating to return on regulatory capital value (RoRCV). RoRCV is calculated as current cost operating profit less tax paid divided by our average regulatory capital value. Details of the performance targets applying to the 2013 and 2014 awards are set out in the Annual Report on Remuneration on page 82.

The committee reserves the discretionary power to adjust the formulaic outcome of the LTIP performance conditions to ensure that the vesting result is reflective of the underlying financial and operational performance of the company over the performance period. The use of this discretion is expected to be exceptional and the committee would consult with its major shareholders before making any upwards adjustment. In relation to the awards granted in 2013, there is a cap and collar limiting the extent to which this discretion can be applied (if the vesting result indicated by the performance condition is greater than 50% the committee may reduce the vesting to a number not less than 50%, and if it is 0% it may increase it to any figure not greater than 50%). This cap and collar approach does not apply to awards granted from 2014 onwards.

In addition, for any awards to vest, the committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the group. If the committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%).

Legacy Share Matching Plan

Until 2013, awards were also made under a Share Matching Plan (SMP). Under the SMP, the executive directors could receive up to 0.5 matching shares for each share deferred under the annual bonus plan (the maximum award level was therefore 30% of salary). The matching awards were subject to achievement of a relative total shareholder return performance condition and a financial underpin. At the time of release, participants also receive the value of the dividends which would have been paid on vested shares over the performance period. The outstanding awards will be allowed to pay out under the approved policy, subject to achievement of the performance conditions on which they were granted. Liv Garfield and James Bowling do not hold any outstanding awards under this legacy plan.

Remuneration Committee discretion

The committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers (see policy on terminations), retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the committee to determine that it would be appropriate to do so. In exercising such discretions, the committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the company's approved remuneration policy.

External directorships

Executive directors are permitted to take on external non-executive directorships, though normally only one other FTSE 100 appointment, to bring a further external perspective to the group and help in the development of key individuals' experience. In order to avoid any conflicts of interest, all appointments are subject to the approval of the Nominations Committee. Executive directors are permitted to retain the fees arising from one appointment.

Shareholding guidelines

The company operates shareholding guidelines under which executive directors are expected to build and maintain a shareholding in the company. The Chief Executive is expected to build and maintain a holding of shares to the value of 200% of salary, and other executive directors 125% of salary. Executive directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding guidelines have been met.

Reward scenarios

The bar charts show how the composition of each of the executive directors' remuneration packages varies at different levels of performance achievement.

Minimum pay is fixed pay only (i.e. salary + benefits + pension). On target pay includes fixed pay, a 60% of salary bonus and 50% vesting of the LTIP awards (with grant levels of 125% of salary for the Chief Executive and 80% of salary for the Chief Financial Officer). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards. No share price growth has been factored into the above chart and all amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2015. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2015 (estimated value used in the case of James Bowling). The executive directors are also permitted to participate in HMRC tax advantaged all employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Service contracts and policy on payments for loss of office

The remuneration related elements of the current contracts for executive directors are shown in the table below.

Provision	Policy
Notice period	12 months from either party
Termination payment	Payments for loss of office comprise a maximum of 12 months salary and benefits only
Mitigation	Any termination payment will not be made automatically but will be subject to both phasing and mitigation (including offset against any earnings from new employment)
Change of control	There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the company. Outstanding incentive awards would vest in line with the treatment set out below for a good leaver except that the performance and vesting period will end on the date of control.
Annual bonus	The committee may exercise its discretion to pay a bonus to a departing executive, subject to performance and pro rated to reflect the proportion of the year worked. The bonus would be paid at the same time as for the other directors and, if the executive has left employment by that date, it may be paid solely in cash.
	Any outstanding deferred bonus shares will vest on cessation of employment unless the departure is a result of summary dismissal.
Long Term Incentive Awards	The default treatment is that all awards will lapse on cessation of employment. However, executives will be considered a good leaver in certain prescribed circumstances or by the discretion of the Committee. If an executive is a good leaver, the award will ordinarily vest on the normal vesting date, subject to performance and time pro rating (as set out below). The committee also has the discretion to determine that the awards for a good leaver should vest early (e.g. on cessation of employment) subject to performance with time pro rating (as set out below).

Provision	Policy
	For the outstanding awards under the legacy 2005 LTIP (awards granted in 2013 and prior), the time pro rating is calculated by rounding up to the nearest full year unless otherwise specified. Time pro rating under the 2014 LTIP (awards granted since 2014) and under the legacy Share Matching Plan is rounded up to the nearest month. In exceptional circumstances the committee may time pro rate the 2005 LTIP, 2014 LTIP and SMP awards to a lesser extent or not at all. For the Recruitment Awards granted on appointment to Liv Garfield and to be granted to James Bowling, no time pro rata reduction will be applied in a good leaver situation. This is in recognition of the fact that the expected value of the forfeited awards was significantly higher in both cases (with much of it being non performance related) and which would not have been scaled back for a similar event.

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary. Outstanding awards under the SAYE and the legacy Share Incentive Plan (SIP) would vest in accordance with the terms of the plans as approved by HMRC.

Approach to recruitment and promotion

The remuneration packages for all new executive directors will be set in line with the company's approved policy. The committee will take into account, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing the best candidate.

Annual bonuses and long term incentives will be awarded in line with the maximum limits outlined in the policy on page 72. Participation in the bonus plan will normally be prorated for the year of joining.

The committee may make additional cash and/or share based awards if deferred pay is forfeited by an executive on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and any performance conditions. Awards would typically be made under the terms of the LTIP or under the exemptions permitted under the Listing Rules. Non performance related payments unrelated to the forfeiture of awards, i.e. 'golden hellos', will not be made.

Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted.

Chairman and non-executive directors

The remuneration policy for non-executive directors, other than the Chairman, is determined by the board. The fee for the Chairman is determined by the Remuneration Committee (without the Chairman present)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fee	To recruit and retain non-executives of a suitable calibre for the role and duties required	Base board fee with additional fees paid for the Senior Independent Director and chairmanship of the Board Committees. The Chairman receives a total fee in respect of his board duties. Fees are paid monthly. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	Details of the current fee levels for the directors are set out in the Remuneration Committee Report.
		The fees for the non-executive directors and Chairman are set taking into account the time commitment of the role and market rates in comparable companies. The fees are normally reviewed annually (but not necessarily increased).	The fee levels are set subject to the maximum limits set out in the Articles of Association.

Non-executive directors normally serve terms of three years. They do not have service contracts. Instead, they are engaged by letters of appointment which are terminable by either party with no notice period and no compensation in the event of such termination, other than accrued fees and expenses. All of the directors are subject to appointment or reappointment at the 2015 AGM.

Annual Report on remuneration

This part of the report will be subject to an advisory vote at the AGM. The information on pages 75 to 84 is audited.

Membership of the Remuneration Committee and its advisors

The members of the committee are listed in the table below. All are Independent non-executive directors, as defined under the Governance Code, with the exception of the company Chairman who was independent on his appointment. During the year ended 31 March 2015, the committee met six times to discuss key remuneration issues arising, the review and operation of the company's remuneration policy and market updates by its advisors.

Remuneration Committee attendance in 2014/15

Richard Davey	5/5
Andrew Duff	6/6
Martin Lamb	6/6
Philip Remnant	6/6
Dr Angela Strank	6/6

On 20 October 2014 it was announced that Richard Davey, non-executive director, Senior Independent Director and chairman of the Remuneration Committee would be retiring on 23 January 2015, having served nine years on the board. Philip Remnant succeeded him in the role of chairman of the Remuneration Committee with effect from 23 January 2015.

The committee members have no personal financial interest, other than as shareholders, in the matters to be decided. The Chief Executive, Director of Human Resources and by invitation the Head of Reward and Pensions also attended the committee meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the committee.

To ensure that the company's remuneration practices are in line with best practice, the committee has access to advice from New Bridge Street (NBS) (a trading name of Aon Hewitt Limited). NBS is the independent advisor to the committee and was appointed in 2011. The total fees paid to NBS during the year for services to the committee were £190,525 excluding VAT (2014: £209,089). NBS also provided advice during the year to the company on the implementation of its share plans and other technical matters. NBS is a signatory to the Remuneration Consultants Group Code of Conduct and reports directly to the Chair of the committee. The committee reviews the appointment of its advisors annually and is satisfied that the advice it receives is objective and independent.

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Directors' emoluments

	Year ending 31 March 2015						Year ending 31 March 2014							
£'000	Base salary and fees	Benefits in kind ⁽ⁱ⁾	Pension ⁽ⁱⁱ⁾	Annual bonus ⁽ⁱⁱⁱ⁾	Long term incentives ^(iv)	Other ^(v)	Total	Base salary and fees	Benefits in kind	Pension	Annual bonus	Long term incentives ^(v)	Other	Total
Non-executive directors														
Dr Bernard Bulkin ^(vi)	-	-	-	-	-	-	-	47.3	-	-	-	-	0.1	47.4
John Coghill ^(vi)	54.6	-	-	-	-	0.1	54.7	-	-	-	-	-	-	-
Richard Davey ^(vi)	62.2	-	-	-	-	0.4	62.6	75.0	-	-	-	-	0.2	75.2
Andrew Duff (Chairman)	257.0	-	-	-	-	-	257.0	250.0	-	-	-	-	-	250.0
Gordon Fryett	64.4	-	-	-	-	-	64.4	53.3	-	-	-	-	-	53.3
Martin Lamb	53.2	-	-	-	-	-	53.2	50.0	-	-	-	-	-	50.0
Baroness Noakes ^(vi)	19.5	-	-	-	-	-	19.5	65.0	-	-	-	-	0.3	65.3
Philip Remnant ^(vi)	54.3	-	-	-	-	0.2	54.5	0.2	-	-	-	-	-	0.2
Dr Angela Strank	51.4	-	-	-	-	0.1	51.5	9.4	-	-	-	-	-	9.4
Executive directors														
Tony Ballance ^(vi)	207.3	16.5	76.6	100.7	147.0	0.3	548.4	202.1	16.6	74.6	182.0	161.7	6.3	623.3
Liv Garfield ^(vi)	610.0	16.6	203.1	405.5	850.0	12.5	2,097.7	-	-	-	-	-	-	-
Martin Kane ^(vi)	261.5	53.1	76.6	198.8	179.5	36.2	807.7	255.5	145.8	76.6	126.5	181.8	5.0	791.2
Michael McKeon	475.4	16.3	190.5	276.2	322.0	22.3	1,302.7	463.1	16.5	185.6	344.8	367.1	0.5	1,377.6
Andy Smith ^(vi)	278.7	16.5	112.1	177.9	190.6	0.3	776.1	262.9	16.5	149.9	210.5	216.0	9.7	865.5
Tony Wray ^(vi)	19.6	0.7	7.8	-	518.8	1.6	548.5	561.2	16.5	228.6	452.4	547.9	11.9	1,818.5
Total	2,469.1	119.7	668.7	1,159.1	2,207.9	74.0	6,698.5	2,295.0	211.9	715.3	1,296.2	1,474.5	34.0	6,026.9

Footnotes

(i) Benefits include a car allowance of £15,000 per annum, family level private medical insurance, life assurance worth 6 x base salary, telephone allowances and participation in an incapacity benefits scheme. The figure shown for Martin Kane includes remuneration paid as compensation for his required relocation to the US. This figure includes his US cost of living expenses, comprising accommodation costs, UK and US private medical insurance, vehicle costs, air fares, tax advice, flexible benefits, US disturbance

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allowance and utility costs. He also received compensation for UK tax suffered on US benefits of £36,931 (2014 £49,434). These arrangements ceased on 30 September 2014.

- (ii) Liv Garfield is a member of the defined contribution scheme. The figure shown includes £40,000 paid into the scheme by the company via salary sacrifice, the remainder has been paid as an annual cash supplement in lieu of a pension. Tony Ballance is also a member of the defined contribution scheme and the figure shown is the contribution paid into the scheme by the company in the year. For the other executive directors the figure shown is the annual cash supplement paid in lieu of a pension.
- (iii) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to an additional holding period of three years with no further performance conditions attached.
- (iv) The 2015 figure is comprised of
 - The vesting of the 2012 LTIP award, or in the case of Liv Garfield the second tranche of her recruitment award. The performance period for these awards ended on 31 March 2015 and the awards vest on 1 April and are due to be released following the end of the close period. The value of the shares has been estimated by using the average share price for the period from 1 January 2015 to 31 March 2015 of £20.62.
 - The vesting of the 2011 SMP award. The performance period for this award ended on 19 May 2014. The awards vested on 20 May 2014 and shares were released on 2 June 2014 at a share price of £19.73.
- The 2014 figure is comprised of
 - The vesting of the 2011 LTIP award. The performance period for this award ended on 31 March 2014. The awards vested on 1 April 2014 and shares were released on 5 June 2014 at a share price of £19.6433. This value has been updated to reflect the actual share price on vesting (a share price of £17.71 was used in determining the figure in the prior year accounts).
 - The vesting of the 2010 SMP plus the value of dividends earned on these shares including those due in the previous year paid during 2014/15.
- (v) For non-executive directors, this figure relates to taxable expenses relating to travel. For executive directors, this figure consists of the value obtained from inclusion in the Severn Trent all employee Save As You Earn Scheme and Share Incentive Plan.
- (vi) Retired from the board on 24 January 2014.
- (vii) Appointed to the board on 23 May 2014.
- (viii) Retired from the board on 23 January 2015.
- (ix) Retired from the board on 16 July 2014.
- (x) Tony Ballance, Martin Kane and Andy Smith stood down from the board with effect from 23 January 2015 but remain on the Severn Trent Executive Committee. The figures shown in the table above relate to amounts received for the full financial year for ease of comparison. The equivalent figures relating purely to qualifying services (i.e. whilst serving as a board director) would be 81.6% of the figure for salary, benefits, pension and bonus being 298 days out of 365 and 95.5% of the value shown for long term incentives being 100% of the SMP figure and 94.4% of the LTIP figure.
- (xi) Retired from the board on 11 April 2014. Tony Wray was treated as a good leaver under the company's longterm incentive plans and the figures relate to the vesting of his 2012 LTIP and 2011 SMP awards.
- (xii) Liv Garfield joined Severn Trent Plc on 31 March 2014 and subsequently joined the board on 11 April 2014. The first tranche of Liv Garfield's recruitment award (41,222 shares) vested on 5 June 2014. The value of the shares on vesting was £809,736. The value of this award has not been included in the table above since it was based on performance to 31 March 2014 (i.e. prior to joining the board).

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Annual bonus outturn for 2014/15

The weighting of the performance measures for the annual bonus awarded during the year was as follows

During the year, Andy Smith moved from being responsible for Water Services to take on a new role as Managing Director, Business Services (which encompasses the Severn Trent Services business, a new role for Retail for non-household Water Services organisation and renewable energy). Martin Kane moved from CEO of Severn Trent Services to take on a new role of Chief Engineer covering engineering design standards, quality assurance, R&D and innovation for the group, and all health and safety aspects of our operations. Their business unit objectives were therefore split between objectives relating to Severn Trent Water Limited and Severn Trent Services, reflecting their changes in role during the year.

a) Severn Trent Water – Balanced Scorecard

The bonus outturn in respect of Severn Trent Water performance was determined by reference to a balanced scorecard of measures, based on 10 of the company's 16 Key Performance Indicators (KPIs). The KPIs used to determine the annual bonus were

Key Performance Indicators				Target	Stretch	Outturn	Points
Employee							
• Providing a safe working environment KPI 1	KPI 1	Lost time incidents per 100,000 hrs worked		0.19	0.15	0.21	85
• Developing a confident and productive workforce KPI 2	KPI 2	Employee motivation		82%	84%	79%	0
Customer							
Quality interaction with the customer	KPI 4	Service Incentive Mechanism – Qualitative		3rd	1st	2nd	115
	KPI 5	Service Incentive Mechanism – Quantitative		127	104	105.00	129
	KPI 7	Serviceability – Waste		58	52	53.52	122
	KPI 8	Serviceability – Water		167	152	270	0
Financial							
• Asset base enhancement	KPI 9	Capital Expenditure (net) versus final determination – % outperformance		0%	2%	0.0%	100
• Management of cost base	KPI 11	Operating Expenditure versus final determination – % outperformance		0.5%	0.8%	0.5%	100
Environment							
• Minimising environmental impact	KPI 12	Pollution incidents (cat 1, 2 and 3)		405	377	368	140
	KPI 16	Leakage MI/d – Post MLE		448	442	441	135
Total							926

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- I For KPI4 the Ofwat introduced new methodology (an Ofwat pilot) to determine the outcome for Wave 4. The Wave 4 result placed STW in 2nd place against the other WASCs. The bonus payout is based on us coming 2nd and is equivalent to achieving 115 points which the mid point between target and stretch.

Each KPI has 100 target points, 130 stretch points and extra points can be earned for above stretch performance. No points can be earned for below a threshold level of performance. For executive directors to be awarded the maximum bonus available, they are required to achieve 1,300 aggregate points. During the year, two of the 10 KPIs exceeded the stretch level of performance, with KPI 12 generating a score of 140 points and KPI 16 generating a score of 135. The aggregate score was 926 points. The resulting bonus awarded for the Severn Trent Water Limited portion of the annual bonus was 46.3% of the maximum, representing an improvement to operational performance but set against challenging targets.

b) Severn Trent Water – business unit objectives

The business unit objectives used to determine the annual bonus were

Measure/Objective	Applicable to								
	Ballance	Garfield	Kane	McKeon	Smith	Target	Stretch	Outturn	% Payable
1 Percentage of customers registered for paperless bills	✓			✓		33%	40%	12.9%	9.8%
2 Speed of response in repairing leaks (% fixed with 24 hours)		✓	✓		✓	50%	55%	38%	23.7%
3 Amount of renewable energy produced from waste water renewable activities	✓	✓			✓	30%	34%	28.4%	34.0%
4 Customer water quality complaints		✓				12,837	11,920	15,881	8.5%
5 Reduction of customer complaints waste water		✓				2,226	1,670	1,961	73.8%
6 Reduction written customer complaints		✓				14,877	13,910	9,978	100.0%
7 Sewer flooding incidents	✓	✓	✓			515	478	613.0	0.0%
8 Reduction in controllable operating expenditure (£m)	✓	✓	✓	✓	✓	25.0	40.0	25.5	51.7%
9 Number of properties interrupted for greater than 12 hours					✓	856	770	3,365	0.0%
10 Capital blocks net spend £m water (£m)			✓		✓	60.0	58.4	59.4	68.8%
11 Capital blocks net spend £m waste (£m)			✓			97.0	95.0	84.2	100.0%
12 Creating an investment fund to enable the ST green business plan (£m)				✓		20.0	22.5	13.4	8.8%

0% is payable for achieving the threshold level under each metric, increasing on a straight line basis to 50% for target performance and 100% for stretch performance. Each metric is evenly weighted. Achievement against the business unit targets is set out in the table above. The resulting bonus awarded for the Severn Trent Water business unit portion of the annual bonus were 17.5% of the maximum for Tony Ballance, 41.7% of the maximum for Liv Garfield, 48.8% of the maximum for Martin Kane, 26.1% of the maximum for Michael McKeon and 30.5% of the maximum for Andy Smith.

c) Severn Trent Services – business unit objectives

Part of Martin Kane's and Andy Smith's bonuses related to the financial and non financial key performance indicators and business unit objectives of Severn Trent Services as follows

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	Weighting	% achieved – Martin Kane	% achieved – Andy Smith
Financial performance (PBIT and Turnover)	44.4%	29.5%	29.5%
Non financial objectives	11.2%	5.6%	5.4%
STS business unit objectives	44.4%	37.0%	29.8%
Total	100%	72.1%	64.7%

The financial targets related to achievement of PBIT of £14.8 million and turnover of £337.7 million as set out in the business plan for Severn Trent Services. The total bonus payable for Severn Trent Services performance was 72.1% of the maximum for Martin Kane and 64.7% for Andy Smith. In respect of Michael McKeon and Liv Garfield, whose performance was measured against the achievement of specific business restructuring targets for Severn Trent Services, it was determined that these were met and they were awarded 95% of the maximum bonus.

d) Personal contribution

All directors had 10% of their bonus opportunity measured against personal objectives. The personal objectives varied by individual but covered PR14 and the AMP6 business plan, development of the retail business, talent and succession planning, and transition management. The objectives for the Chief Executive related to developing the company strategy, PR14, customer service, raising operational performance and talent management.

e) Overall achievement for 2014/15

Name	Severn Trent Water Balanced Scorecard	Severn Trent Water Business Unit Objectives	Severn Trent Services Business Unit Objectives	Personal Performance	Total Bonus(as % maximum)	Total Bonus (£)
Tony Ballance	23.2% (max 50%)	7.0% (max. 40%)	–	8.5% (max 10%)	38.7%	£100,691
Liv Garfield	23.2% (max. 50%)	14.6% (max. 35%)	4.7% (max. 5%)	9.5% (max 10%)	52.0%	£405,483
Martin Kane	11.6% (max 25%)	9.8% (max 20%)	32.4% (max 45%)	9.0% (max. 10%)	62.8%	£198,804
Michael McKeon	23.2% (max 50%)	8.3% (max 32%)	7.6% (max 8%)	8.9% (max 10%)	48.0%	£276,157
Andy Smith	11.6% (max 25%)	6.1% (max 20%)	29.1% (max 45%)	5.7% (max 10%)	52.5%	£177,872

The maximum bonus opportunity for all Directors is 120% of salary. Bonuses are paid 50% in cash and 50% in shares (deferred for three years). The deferred shares will be granted in June 2015. The deferred shares are not subject to any further performance conditions. Michael McKeon will be retiring on 31 May 2015 and, as permitted under the rules of the annual bonus plan, his bonus will be paid solely in cash.

Long term incentive awards vesting in relation to performance in 2014/15

The 2011 SMP awards and the 2012 LTIP awards have vested or will vest based on performance during the year as follows

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a) 2011 SMP awards

The 2011 SMP awards were subject to a Total Shareholder Return (TSR) performance condition, measured relative to companies ranked 51–150 in the FTSE by market capitalisation (excluding investment trusts). The overall performance period was three years commencing on the date of grant (20 May 2011). However, the award was split into three tranches, each with a different measurement period for TSR as follows:

Tranche	Performance period	Weighting	Severn Trent TSR	Median TSR	Upper Quartile TSR	Vesting
1	18 months	20%	26.5%	3.6%	22.6%	100%
2	27 months	30%	42.6%	26.9%	55.6%	70.3%
3	36 months	50%	49.1%	40.9%	77.4%	50.3%
Overall level of vesting						66.2%

The committee was satisfied that the company's TSR appropriately reflected the company's underlying performance and the award vested at 66.2%.

b) 2012 LTIP awards

The 2012 LTIP awards were subject to an RoRCV performance condition, measured over three financial years to 31 March 2015. Average RoRCV is compared to the baseline figure set out in the Ofwat Final Determination. 0% of the award vests if average RoRCV equals that set in the Final Determination, increasing on a straight line basis to 50% vesting for 1.02 x the Final Determination and 100% vesting for 1.07 x Final Determination.

The committee has various discretions in relation to determining the final vesting outcome as set out in the policy report. The committee considered the level of RoRCV outperformance of the Ofwat Final Determination for the 2012 LTIP. This showed the average RoRCV over the three years ending in 2014/15 had outperformed the RoRCV Ofwat Final Determination by 1.14 times, therefore resulting in 100% vesting.

c) Liv Garfield recruitment award

The second tranche of Liv Garfield's recruitment award will vest in May 2015. It is subject to the same performance conditions as the 2012 LTIP awards and therefore will vest at 100%.

d) Summary of long term incentive awards vesting based on performance in 2014/15

Executive	Award type	Grant date	Number of shares granted	End of performance period	% vesting	Number of shares vesting	Value of resultant award ⁽ⁱ⁾	Release/vesting date
Tony Ballance	SMP	20/05/11	1,868	19/05/14	66.2%	1,236	£24,386	02/06/14
	LTIP	19/06/12	5,741	31/03/15	100%	5,741	£118,379	01/04/15
Total						£142,765		
Liv Garfield	Recruitment	04/06/14	41,222	31/03/15	100%	41,222	£849,998	01/04/15
Total						£849,998		
Martin Kane	SMP	20/05/11	2,131	19/05/14	66.2%	1,410	£27,819	02/06/14
	LTIP	19/06/12	7,119	31/03/15	100%	7,119	£146,794	01/04/15
Total						£174,613		
Michael McKeon ⁽ⁱⁱ⁾	SMP	20/05/11	3,938	19/05/14	66.2%	2,606	£51,416	02/06/14
	LTIP	19/06/12	12,684	31/03/15	100%	12,684	£261,544	01/04/15
Total						£312,960		
Andy Smith	SMP	20/05/11	2,399	19/05/14	66.2%	1,588	£31,331	02/06/14
	LTIP	19/06/12	7,460	31/03/15	100%	7,460	£153,825	01/04/15
Total						£185,156		
Tony Wray ⁽ⁱⁱⁱ⁾	SMP	20/05/11	4,542	19/05/14	64.3%	2,922	£57,651	02/06/14
	LTIP	19/06/12	21,875	31/03/15	100%	21,875	£451,062	01/04/15
Total						£508,713		

- (i) For the SMP award this is based on the share price at release of £19.73. For the LTIP award this is based on the average share price over the final three months of the performance period (£20.62) as the awards will not be released until after the end of the close period.
- (ii) Michael McKeon stepped down from the board on 1 April 2015 and will subsequently be retiring on 31 May 2015. As noted on page 85, he is being treated as a good leaver under the rules of the LTIP. His award will vest as normal. In accordance with the rules, there is no pro rata reduction since he served for the whole of the performance period.
- (iii) Tony Wray retired from the board on 11 April 2014. As noted in last year's Annual Report, he is treated as a good leaver under the rules of the SMP and LTIP. The awards vested on the normal vesting date subject to performance and a time pro rata reduction. For the 2011 SMP award, time prorating was calculated to the nearest month. For the 2012 LTIP award, time prorating was calculated to the nearest year in accordance with the rules of the plan.

Outstanding scheme interests, including share awards granted during the year

The table below sets out details of the executives' outstanding share awards as at 31 March 2015

Executive	Award type	Maximum ^(b) number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting ^(d) exercise date	Awards granted during the year	
							Basis of award	Face value
Tony Ballance	2012 LTIP	5,741	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	5,855	0%	–	31/03/16	01/04/16	–	–
	2014 LTIP	8,817	0%	–	31/03/17	16/07/17	80% of salary	£169,040
	2012 SMP	1,721	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	2,963	5%	–	12/06/16	13/06/16	–	–
	2012 ABS	3,442	–	–	–	28/06/15	–	–
	2013 ABS	5,926	–	–	–	26/06/16	–	–
	2014 ABS	4,179	–	–	–	30/06/17	Deferred bonus	£80,987
	2013 SAYE	725	–	1,241	–	May–16	–	–
	2014 SIP	24	–	–	–	–	–	–
	Total	39,393						
Liv Garfield	2014 LTIP	42,383	0%	–	31/03/17	16/07/17	125% of salary	£812,500
	Recruitment Award	41,222	0%	–	31/03/15	May–15	125% of salary	£812,500
	Recruitment Award	41,223	0%	–	31/03/16	May–16	125% of salary	£812,500
	2015 SAYE	1,136	–	1,584	–	May–18	–	–
	Total	125,964						
Martin Kane	2012 LTIP	7,119	0%	–	31/03/15	01/04/15		
	2013 LTIP	7,119	0%	–	31/03/16	01/04/16	–	–
	2014 LTIP	10,720	0%	–	31/03/17	16/07/17	80% of salary	£205,520
	2012 SMP	2,162	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	4,360	5%	–	12/06/16	13/06/16	–	–
	2012 ABS	4,324	–	–	–	28/06/15	–	–
	2013 ABS	8,721	–	–	–	26/06/16	–	–

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Executive	Award type	Maximum ^(a) number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting ^(b) exercise date	Awards granted during the year	
	2014 ABS	3,265	–	–	–	30/06/17	Deferred bonus	£63,267
	2012 SAYE	152	–	1,177	–	May–15	–	–
	2013 SAYE	290	–	1,241	–	May–16	–	–
	2014 SAYE	270	–	1,331	–	May–17	–	–
	2015 SAYE	681	–	1,584	–	May–18	–	–
	2014 SIP	24	–	–	–	–	–	–
	Total	49,207						
Michael McKeon	2012 LTIP	12,684	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	12,937	0%	–	31/03/16	01/04/16	–	–
	2014 LTIP	19,480	0%	–	31/03/17	16/07/17	80% of salary	£373,440
	2012 SMP	3,685	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	6,757	5%	–	12/06/16	13/06/16	–	–
	2012 ABS	7,370	–	–	–	28/06/15	–	–
	2013 ABS	13,514	–	–	–	26/06/16	–	–
	2014 ABS	8,898	–	–	–	30/06/17	Deferred bonus	£172,417
	2014 SIP	24	–	–	–	–	–	–
	Total	85,349						
Andy Smith	2012 LTIP	7,460	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	7,610	0%	–	31/03/16	01/04/16	–	–
	2014 LTIP	11,459	0%	–	31/03/17	16/07/17	80% of salary	£219,680
	2012 SMP	2,234	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	3,842	5%	–	12/06/16	13/06/16	–	–
	2012 ABS	4,468	–	–	–	28/06/15	–	–
	2013 ABS	7,684	–	–	–	26/06/16	–	–
	2014 ABS	5,431	–	–	–	16/07/17	Deferred bonus	£105,249
	2013 SAYE	725	–	1,241	–	May–16	–	–
	2015 SAYE	568	–	1,584	–	May–18	–	–

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Executive	Award type	Maximum ⁽ⁱⁱ⁾ number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting ⁽ⁱ⁾ exercise date	Awards granted during the year	
	2014 SIP	24	–	–	–	–	–	–
	Total	51,505						
Tony Wray ⁽ⁱⁱⁱ⁾	2012 LTIP	21,875	0%		31/03/15	01/04/15		
	2013 LTIP	8,057	0%	–	31/03/16	01/04/16		
	2012 SMP	3,023	5%		24/05/15	25/05/15		
	2013 SMP	2,298	5%		12/06/16	13/06/16		
	Total	35,253						

(i) Awards that are due to vest in a close period will be released as soon as practicable after the end of the close period

(ii) Additional dividend equivalent shares may be released where provided in the rules

(iii) Tony Wray's outstanding scheme interests have been adjusted to reflect a time pro rata reduction following his retirement on 11 April 2014

a) Long Term Incentive Plan awards

The LTIP awards are granted as conditional shares. The awards are subject to an RoRCV performance condition measured over three financial years. Average RoRCV is compared with the baseline figure set out in the Ofwat Final Determination. 0% of each award vests if average RoRCV equals that set in the Final Determination, increasing on a straight line basis to 50% vesting for 1.02 x Final Determination and 100% vesting for 1.07 x Final Determination.

Ofwat are no longer publishing a baseline RoRCV figure in AMP6. This impacts on the final year of the 2013 LTIP award and the final two years of the 2014 LTIP award. However, an equivalent baseline figure can be constructed using the component numbers set out in the Ofwat model. To ensure a like for like comparison between the baseline figure and how actual RoRCV will be calculated in those years, an adjustment has been made to increase the baseline figure to take into account the impact of expected income to be received under Pay As You Go (which dictates what portion of total expenditure is treated like operating expenditure, and directly passed through into customers' bills, and what is treated as capital expenditure and added to Severn Trent Water's asset base). This gives a baseline figure of 3.49% for 2015/16 and 3.6% for 2016/17.

As noted on page 79, the 2012 LTIP vested at 100% on 1 April 2015. However, as the company was in a close period, the release of awards will be made after this period ends.

The 2014 LTIP awards were granted on 16 July 2014. The share price used to calculate the number of shares granted was £19.17 (being the average price over the preceding three days).

b) Share Matching Plan awards

For the outstanding legacy Share Matching Plan awards, TSR performance is measured over three different measurement periods, each commencing on the date of grant – 20% of each award is measured over 18 months, 30% over 27 months and 50% over 36 months. 25% of each part of the award will become eligible for vesting for median performance, increasing (on a straight line basis) to full vesting for upper quartile performance or above. However, for any of the awards to vest, the committee must be satisfied that the company's TSR is reflective of the company's underlying performance over the full three year performance period. The 2012 SMP awards will vest, subject to performance, on 25 May 2015. However, the current indication is that the 2012 SMP will not meet the TSR performance measure and as such no shares will vest.

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c) Deferred shares under the Annual Bonus Scheme

Each year, 50% of an executive director's annual bonus is deferred in shares for three years. The awards are granted in the form of deferred shares. The 2014 award relates to the deferral of the annual bonus for 2013/14. The award was granted on 30 June 2014. The share price used to calculate the number of shares granted was £19.38. The deferred shares relating to the annual bonus for 2014/15 will be granted in June 2015.

d) Save As You Earn

The executive directors, in common with all eligible UK employees of the group, are entitled to participate in the company's HMRC tax advantaged SAYE Scheme.

e) Share Incentive Plan

With the exception of Liv Garfield and Martin Kane, the executive directors received an award of free shares linked to the performance of Severn Trent Water Limited under the Share Incentive Plan (worth £474) during the year, on the same terms as other Severn Trent Water Limited employees.

f) Liv Garfield's Recruitment Award

A one-off LTIP award was granted to Liv Garfield on 4 June 2014 as partial consideration for her significant unvested entitlements at her former employer. The award was split into three equal tranches, the face value of each being £812,500 (125% of base pay of £650,000) vesting in 2014, 2015 and 2016. The tranches are subject to the same performance condition as the equivalent Severn Trent LTIP awards vesting in each of those years (i.e. the 2011, 2012 and 2013 awards). The first tranche of the Recruitment Award vested at 100% on 5 June 2014 with a value upon release of £809,736. The second tranche of the Recruitment Award vests at 100% in May 2015.

Directors' pension provisions

Name	Service completed in year (including transferred in service credits)	Accrued pension at 31 03 15	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of accrued pension at 31 03 14	Transfer value of accrued pension at 31 03 15	Increase in transfer value net of directors' contributions	Increase in value net of directors' contributions
Martin Kane	35	£154,511	2,587	-1,515	2,828.7	2,711.5	-117.2	-0.8
Andy Smith	9	£41,226	-2,233	-3,406	804.7	802.4	-2.3	0.0
Tony Wray	6	£31,573	830	0	547.6	599.7	52.1	0.0

Notes

The accrued pension figures and transfer value calculations have been provided by Towers Watson. The inflation figure used in respect of the year to March 2015 was as at September 2013 (2.7%) in line with statutory guidance for calculating the increase in value.

Andy Smith and Martin Kane have both elected to use the 'Scheme Pays' approach to meeting tax charges on pension savings above the annual allowance. The impact of this reduces the accrued pension and transfer value at 31 March 2015 by the following amounts:

Andy Smith – Pension: £2,233 p.a. (of which £1,581 p.a. is in respect of the year to 31 March 2014). Transfer value: £43,500, and

Martin Kane – Pension: £1,474 p.a. (all of which is in respect of the year to 31 March 2014). Transfer value: £26,000.

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Tony Wray and Andy Smith are deferred members of the Severn Trent Pension Scheme (SSPS Section) Tony Wray ceased to contribute to the Scheme from 31 December 2011 and Andy Smith ceased to contribute to the Scheme from 31 March 2014, when they became deferred pensioners of the Scheme and stopped accruing pensionable service

Martin Kane is a member of the Severn Trent Pension Scheme (WPS Section) but opted out of the scheme on 30 June 2007 While he no longer accrues additional years of service for pension purposes, consistent with the legislation, his accrued benefits generally continue to be linked to his final salary (or £161,000 plus RPI from 30 June 2007 to the date of his retirement, if higher) and scheme benefits are preserved in relation to ill health retirement and death in service.

External directorships

Michael McKeon was appointed as a non-executive director of The Merchants Trust Plc on 1 May 2008 and, in respect of his appointment for the year ended 31 March 2015, he was paid fees of £27,750 (2014 £26,042)

Tony Wray was appointed as a non-executive director of Grainger plc on 24 October 2011 and in respect of the appointment (for the period 1 to 11 April 2014) he was paid fees of £1,492 (2014 £48,500)

Liv Garfield was appointed as a non-executive director of Tesco plc on 1 April 2013 and served until her resignation on 28 February 2015 She received fees in respect of her appointment (for the period 11 April 2014 to 28 February 2015) of £72,968

No other executive directors currently hold any external fee earning non-executive directorships

Directors' shareholdings and summary of outstanding share interests

As disclosed in the Policy Report, the company operates shareholding guidelines under which executive directors are expected to build and maintain a shareholding in the company of 200% salary for the Chief Executive and 125% of salary for other executive directors Details of the current shareholdings of the directors and whether they have met the new shareholding guidelines are set out below

Interests in shares as at 31 March 2015

Outstanding scheme interests

Director	Beneficially owned	LTIP and SMP	Deferred shares under the Annual Bonus	SAYE options	Total	% shareholding guideline achieved*
John Coghlan	400	-	-	-	400	-
Richard Davey ¹	588	-	-	-	588	-
Andrew Duff	8,184	-	-	-	8,184	-
Gordon Fryett	2,312	-	-	-	2,312	-
Martin Lamb	3,012	-	-	-	3,012	-
Baroness Noakes ²	4 018	-	-	-	4 018	-
Philip Remnant	1,400	-	-	-	1,400	-
Dr Angela Strank	235	-	-	-	235	-
Tony Ballance ^c	22,566	25,097	13,547	725	39 369	278%
Liv Garfield	21,748	124,828	-	1,136	125,964	34%
Martin Kane ³	32 051	31,480	16,310	1,393	49,183	314%
Michael McKeon	55,456	55 543	29,782	-	85,325	242%
Andy Smith ³	31,815	35,004	17,583	1,293	53,880	296%

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Director	Beneficially owned	LTP and SMP	Deferred shares under the Annual Bonus	SAYE options	Total	% shareholding guideline achieved*
Tony Wray ⁴	45,837	35,253	0	–	35,253	–

* The share price used to calculate the percentage of the shareholding guideline achieved was £20.59 (as at 31 March 2015)

1 Richard Davey retired from the board on 23 January 2015

2 Baroness Noakes retired from the board on 16 July 2014

3 Tony Ballance, Martin Kane and Andy Smith stepped down from the board on 23 January 2015

4 Tony Wray retired from the board on 11 April 2014, the outstanding scheme interests have been adjusted to reflect a time pro rata reduction

Shares counting towards achievement of the guideline include beneficially owned shares and the net of tax value of deferred shares under the annual bonus since they are not subject to performance conditions. The executive directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding guidelines are met.

There has been no change in the directors' interests in the ordinary share capital of the company between 31 March and 21 May 2015

Percentage increase in the remuneration of the Chief Executive

	2015	2014	% Change
Chief Executive (£'000)			
– Salary ¹	650.0	561.2	15.8%
– Benefits	16.6	16.5	0.6%
– Bonus	405.5	452.4	(10.4%)
Average per employee (£'000)			
– Salary	28.8	28.5	1.1%
– Benefits ²	0.5	0.4	25%
– Bonus ³	1.2	1.3	(7.7%)

1 The salary figure for 2015 has been adjusted to include salary paid into the pension scheme as an employer pension contribution via salary sacrifice

2 Includes car allowance and family level private medical insurance for senior and middle managers

3 The figures are based on an estimate as the 2015 bonuses are not finalised before the date of publication

The table above shows the movement in salary, benefits and annual bonus for the director occupying the role of Chief Executive between the current and previous financial year compared with that of the average employee. The Chief Executive figures for 2014 relate to the former Chief Executive, Tony Wray. The figures for 2015 relate to the current Chief Executive, Liv Garfield.

The committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the company's total wage bill as a result of movements in the number of employees. The comparator group used were Severn Trent Water Limited employees based in the UK as this is where the vast majority of our employees are based.

Total shareholder return chart (not subject to audit)

This graph shows the value, at 31 March 2015, of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 Index. The FTSE 100 was chosen as the comparator index because the company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.

Total remuneration of the Chief Executive

Year ending 31 March

	2010	2011	2012	2013	2014	2015
Chief Executive	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	2,097.7
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	52.0%
LTIP vesting (% of maximum)	63.0%	0.0%	28.4%	57.5%	100%	100%
SMP vesting (% of maximum)	–	–	–	–	78%	–

Relative importance of the spend on pay

The table below shows the expenditure of the company on staff costs against dividends paid to shareholders for both the current and prior financial periods, and the percentage change between the two periods.

	2015	2014	% Change
Staff costs (£'m)	369.5	351.9	5.0%
Dividends (£'m)	196.9	185.3	6.3%

How the policy will be applied in 2015 onwards**Salary, benefits and pension**

The base salary for the Chief Executive will increase by 2.1% on 1 July 2015 (from £650,000 to £663,650). This is lower than the average increase that will apply to the general UK workforce. As a new joiner to the company, James Bowling's salary will next be reviewed on 1 July 2016. The base salaries for the executive directors from 1 July 2015 are therefore as follows:

Liv Garfield	£663,650
James Bowling	£400,000

Benefits and pension provision will be applied in line with the policy set out in the table on pages 71 and 72.

Annual bonus

The structure and operation of the annual bonus for the Chief Executive and Chief Financial Officer will be as outlined in the policy table. The performance measures will be Severn Trent Water profit before interest and tax (50%), business unit performance (40%) and personal performance (10%). The business unit performance relates to performance against Severn Trent Water Outcome Delivery Incentives (25%), Severn Trent Business Services profit before interest and tax (10%) and health and safety performance (5%). The Remuneration Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in next year's Remuneration report.

Long Term Incentive Plan

LTIP awards for 2015 will be 125% of salary for the Chief Executive and 80% for the Chief Financial Officer, and will be made as soon as possible after the AGM (subject to approval of the Policy report). The awards will be based on return on regulatory equity (RORE) over the three year period to 31 March 2018. Our three year average RORE performance will be compared with the baseline RORE figure set by Ofwat in our Final Determination. 25% of the award will vest if average RORE matches the baseline figure of 5.65%, increasing on a straight line basis to full vesting for outperforming the baseline by 1.29 times (equivalent to 7.29%). The Remuneration Committee considers that the threshold target is demanding and more challenging than the RORCV target set for the previous AMP. It also considers that the upper target is very challenging and would require very significant ODI and financing outperformance, together with a very high level of efficiencies, and was set significantly ahead of analyst consensus.

Retirement from the board of Michael McKeon

Michael McKeon will be retiring from the company on 31 May 2015. He will not receive any compensation for loss of office. As a retiree, Michael McKeon will be treated as a good leaver in relation to his outstanding incentive awards. Consistent with the policy on terminations, his bonus for 2014/15 will be paid in cash and his outstanding deferred share bonus awards will vest, in full, on cessation of employment. His outstanding awards under the SMP and LTIP will continue to vest on the normal vesting dates, subject to performance and a time pro rata reduction (where relevant). Any outstanding awards under the company's HMRC tax advantaged all employee share plans vest in accordance with their terms.

Recruitment of James Bowling as Chief Financial Officer

The remuneration package granted to James Bowling on appointment is as follows:

- Salary of £400,000
- Pension contribution of 25% of salary
- Annual bonus potential of 120% of salary
- LTIP grant level of 80% of salary

The annual bonus and LTIP levels are in line with our policy. A one off LTIP award was necessary to secure his appointment, as partial consideration for his significant unvested entitlements at his previous employer. The award will be split into three equal tranches, the face value of each being £308,000 vesting in 2015, 2016 and 2017. It will be subject to the same performance conditions as the equivalent Severn Trent LTIP awards vesting in each of those years.

Non-executive directors' fees

There have been no changes to the fee levels for the Chairman and non-executive directors during the year. The current fee levels are set out in the table below:

	Fees
Chairman's fee	£257,000
Base fee paid to all non-executive directors	£51,350
Supplementary fees	
– Senior Independent Director	£10,000
– Audit Committee Chairman	£15,000
– Remuneration Committee Chairman	£15,000
– Corporate Responsibility Committee Chairman	£13,000

The Chairman and non-executive directors normally serve for terms of three years. The current expiry dates of their letters of appointment are John Coghlan (22 May 2017), Andrew Duff (9 May 2016), Gordon Fryett (20 June 2015), Martin Lamb (1 March 2017), Philip Remnant (31 March 2017) and Dr Angela Strank (24 January 2017). However, all of the directors are subject to reappointment at the 2015 AGM.

Statement of shareholding voting at AGM

At last year's AGM, the Directors' Remuneration report and policy received the following votes from shareholders

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Report	138,974,226 (99.35%)	908,111 (0.65%)	719,294
Approve Directors' Remuneration Policy	136,960,503 (97.66%)	3,276,685 (2.34%)	362,862

Philip Remnant

Chairman of the Remuneration Committee

21 May 2015

Directors' report

The directors present their report, together with the audited group financial statements, for the year ended 31 March 2015. The Governance section set out on pages 52 to 60 forms part of this report.

Principal activity

The principal activity of the group is to treat and provide water and remove waste water in the UK and internationally.

Details of the principal joint ventures, associated and subsidiary undertakings of the group at 31 March 2015 are shown in notes 19 and 45 to the financial statements on pages 119 and 145 to 146.

Business review

The Strategic report on the inside front cover through to page 46 provides detailed information relating to the group, its business models and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2015.

Details of the principal risks and uncertainties facing the group are set out in the risk management section on pages 38 to 42.

Directors and their interests

Biographies of the directors currently serving on the board are set out on pages 48 and 49. In addition, Michael McKeon and Richard Davey served as directors during the year ended 31 March 2015.

All of the directors will be offering themselves for election or re-election at the Annual General Meeting (AGM), as set out in the Governance report on page 52.

Details of directors' service contracts are set out in the Directors' remuneration report on page 76. The interests of the directors in the shares of the company are shown on page 87 of that report. The board has a full documented process in place in respect of conflicts which is documented on page 57 and 58.

Insurance and indemnities

The company maintains directors' and officers' liability insurance in respect of legal action that might be brought against its directors and officers. In accordance with the company's Articles of Association, and to the extent permitted by law, the company indemnified each of its directors and other officers of the group against certain liabilities that may be incurred as a result of their positions with the group.

Severn Trent does not have in place any indemnities for the benefit of the auditors.

Employees

The average number of employees within the group is shown in note 9 to the financial statements on page 112.

Severn Trent believes a diverse and inclusive workforce is a key factor in being a successful business. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population. We endeavour to keep employees in the workforce if they become disabled, and make reasonable adjustments to their role as well as looking for redeployment opportunities elsewhere in the company if necessary. All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability.

The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit and healthy, including an employee assistance programme which is available to Severn Trent Water Limited employees.

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The group actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of its activity and financial performance by way of company wide communication forums, briefings and publication to staff of all relevant information and corporate announcements. To help align employees' interests with the success of the Company's performance, Severn Trent offers employees, the Severn Trent Sharesave Scheme, an HM Revenue and Customs approved SAYE plan, which is offered to UK employees on an annual basis.

Research and development

Expenditure on research and development is set out in note 7 to the financial statements on page 111.

Treasury management

The disclosures required under the EU Fair Value Directive in relation to the use of financial instruments by the company are set out in note 35 to the financial statements on pages 131 to 137. Further details on our treasury policy and management are set out in the Financial review on page 43.

Post balance sheet events

Details of post balance sheet events are set out in note 43 to the group financial statements on page 145.

Dividends

An interim dividend of 33.96 pence per ordinary share was paid on 9 January 2015. The directors recommend a final dividend of 50.94 pence per ordinary share to be paid on 24 July 2015 to shareholders on the register on 19 June 2015. This would bring the total dividend for 2014/15 to 84.90 pence per ordinary share (2014 80.40 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 8 to the Company financial statements on page 152. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

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

Details of employee share schemes are set out in note 37 to the financial statements on pages 139 and 140. For shares held by the Severn Trent Employee Share Ownership Trust, the trustee abstains from voting.

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

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of directors are described in the Severn Trent Plc Board Governance document, the Articles and the Governance Report on pages 53 and 54.

Under its Articles of Association, the directors have authority to allot ordinary shares, subject to the aggregate nominal amount limit set at the 2014 AGM.

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these is considered to be significant in terms of their likely impact on the business of the group as a whole. There are no agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Substantial shareholdings

As at 31 March 2015 the Company had been notified in accordance with chapter 5 of the Disclosure and Transparency Rules of the following major shareholdings

Name of Holder	No of ordinary shares of 97 ¹⁷ / ₁₀₀ p each	Percentage of voting rights and issued share capital
Blackrock Inc	23,457,458	9.87%
Legal & General Group Plc	9,523,698	3.99%

As at 21 May 2015, the Company had been notified of the following holdings of voting rights in the ordinary share capital of the Company: Blackrock Inc 23,457,458 (9.87%), Legal & General Group Plc 9,523,698 (3.99%)

Authority to purchase shares

The Company was given authority at its AGM in 2014 to make market purchases of ordinary shares up to a maximum number of 23,949,741 ordinary shares. Similar authority will again be sought from shareholders at this year's AGM. On 13 February 2015, the Company announced that it would commence a share repurchase programme. Following that announcement, during the year ended 31 March 2015 market purchases of 966,578 ordinary shares were made with all of these shares being cancelled following their purchase at an average price of 2,031 pence. Following the year end, a further 882,678 ordinary shares have been repurchased to 21 May 2015 at an average price of 2,139 pence. In total 1,018,092 ordinary shares have been cancelled with 733,946 ordinary shares being held in treasury at 21 May 2015 to satisfy future share based awards under long term incentives plan and no ordinary shares having been transferred from treasury to satisfy the exercise of share options.

The share repurchase was considered a low risk method of returning capital to shareholders, satisfying future share awards and moving gearing in Severn Trent Water Limited towards the 62.5% net debt/RCV notional level used by Ofwat in the price review PR14. The share repurchase has had minimal impact on EPS, with less than 0.5% of issued share capital cancelled during the year, increasing EPS by 0.1%.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £157,648 (2014: £108,000). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the company or any of its subsidiaries in the EU and disclosure of any such payment must be made in the Annual Report. The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2014 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries. Pursuant to those authorities, during the year ended 31 March 2015 the group incurred costs of £nil (2014: £nil). Those authorities will expire at the 2015 AGM and, in line with market practice to renew the authorities on an annual basis, the board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum aggregate of £150,000 per annum. As permitted under the Companies Act 2006, this resolution also covers any political donations made or political expenditure incurred, by any subsidiaries of the Company.

Supplier payment policy

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code (PPC). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Report on greenhouse gas emissions

This is the second year Severn Trent has been required to report greenhouse gas (GHG) emissions in the Directors' report.

Severn Trent is committed to reducing its GHG emissions. For Severn Trent Water Limited, which accounts for 98% of our total group emissions, we have been publicly reporting on our emissions since 2002. In that time we have reduced our emissions primarily by being more energy efficient and generating more renewable energy.

Our continued investment in renewable energy over the past decade and beyond now allows us to generate 250 GWh per annum, the equivalent of 28% of Severn Trent Water Limited's electricity needs over the year.

During the last year, we began generating renewable electricity from food waste, increased generation from energy crops and wind power and began injecting renewable biogas from sewage directly into the national gas grid.

In 2009 we set ourselves a target to generate the equivalent of 30% of Severn Trent Water's electricity needs by 2015. In February 2015 we met that target, generating the equivalent of 31% in the month, which rose to 33% in March. We continue to lead the UK water industry in renewable energy production. Our aim is to retain this leading position by generating the equivalent of 50% of our electricity needs by 2020.

Severn Trent Water has held the Carbon Trust Standard since 2009 in recognition of consistent emissions reductions and effective carbon management processes. Our Gross Greenhouse Gas (GHG) emissions have continued to reduce since we first achieved the standard because of our reduction in energy consumption and our increase in self-supplied renewable energy. This year, Severn Trent Water used 885 GWh of electricity, which is 17 GWh (2%) less than in 2009–10.

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Our approach of generating more of our own energy and reducing the amount we use reduces our costs and our reliance on the electricity grid

Further details about our approach to climate change and the risks and opportunities it presents to our business are set out in our Carbon Disclosure Project (CDP) submission (www.cdp.net) The CDP request information about climate change from companies each year on behalf of investors and score each company on the quality and completeness of their responses. We have seen a year on year improvement in our CDP score and in 2014 we achieved 85%, compared to the average score of 77% across FTSE 350 companies

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2014 to 31 March 2015

Our total net emissions have risen this year, due entirely to an 11% increase in the emissions intensity of grid electricity, a factor over which we have no control On a like for like basis our emissions from the use of fuel and operation of our facilities and our total energy consumption decreased by 1% compared to last year

The GHG data we report is reported internally during the year to the Corporate Responsibility Committee and to the board We have subjected our GHG data and processes to external assurance by Atkins

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tonnes CO ₂ e)	2014-15	2013-14
Emissions from combustion of fuel and operation of facilities (Scope 1)	154,644	169,844
Emissions from electricity purchased for own use (Scope 2)	357,756	330,697
Total Annual Gross Operational Emissions	512,400	500,523
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	(38,878)	(21,672)
Total Annual Net Operational Emissions	473,522	478,851

Annual GHG intensity ratio (t CO ₂ /unit)	2014-15	2013-14
Operational GHG emissions of Severn Trent per £m turnover	269.7	269.6

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions

For Severn Trent Water, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 9.11' (released April 2015) This is a peer reviewed calculation tool developed and used by all the major water companies in the UK It is updated each year to include the latest available emissions factors. For Severn Trent Services, we have used the latest Defra Emissions factors which include the relevant conversion factors for overseas electricity

Our long term aim is to be carbon neutral and energy self sufficient, provided that this is the best value option for our customers and investors We plan to continue to reduce our emissions within Severn Trent Water by a further 7% between 2015 and 2020, primarily by reducing our energy use We plan to continue to increase our renewable generation mainly within our non-regulated business Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors

Internal controls

The board is responsible for the group's system of internal control and for reviewing its effectiveness The board regularly reviews the effectiveness of the system of internal control, including risk management, financial,

operational and compliance aspects, in accordance with the requirements of the Governance Code. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives

The Audit Committee reviews the group's risk management process and the effectiveness of the system of internal controls on behalf of the board and keeps under review ways in which to enhance the control and assurance arrangements. The Audit Committee receives reports every six months from the Chief Executive detailing the significant risks and uncertainties faced by the group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary. During its review of risk management during 2014/15, the board explicitly considered the target position for significant risks. The board considered whether target risk positions are appropriate and confirmed that suitable timescales are agreed for reaching these target positions.

During the course of its review of the system of internal control in 2014/15, the Audit Committee has not identified nor been advised of any significant failings or weaknesses which it has determined to be significant to the group.

The Internal Audit department provides objective assurance on risk management, governance and control matters. The external auditors (Deloitte) report significant financial control issues to the Audit Committee.

An independent reporter (Atkins) provides objective assurance in relation to the Severn Trent Water Limited Annual Regulatory Compliance Statement and Annual Regulatory Performance Report. Deloitte performed calculations of the financial KPIs included in the Annual Regulatory Compliance Statement and the Annual Regulatory Performance Report.

The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the group has been in place for the year to 31 March 2015 and up to the date of approval of the Annual Report, which is in accordance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance).

The group's procedures for exercising control and managing risk in relation to financial reporting and preparation of consolidated accounts include:

- the formulation and communication of group accounting policies which are regularly updated for developments in IFRS and other reporting requirements,
- specification of a set of financial controls that all of the group's operating businesses are required to implement as a minimum,
- deployment of a group-wide consolidation system with controls to restrict access and maintain integrity of data,
- recruitment, training and development of appropriately qualified and experienced financial reporting personnel,
- oversight by the Disclosure Committee of the group's compliance with its disclosure obligations, and
- monthly reviews by the board of financial reports from the group's operating businesses.

Relevant audit information

The directors confirm that

- so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of them has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

External auditors

Having carried out a review of their effectiveness during the year, the Audit Committee has recommended to the board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as auditors. The Audit Committee will also be responsible for determining the audit fee on behalf of the board.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed by Listing Rule 9.8.4R can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	112
(4)	Details of long term incentive schemes	79
(8)	Section 7 in relation to any major subsidiary undertakings	145
(2), (5), (6), (7), (9)–(14)		Not applicable

Accounts of Severn Trent Water Limited

Regulatory accounts for Severn Trent Water Limited are prepared and sent to Ofwat. A copy of these accounts will be available on the website of Severn Trent Water Limited (www.stwater.co.uk) or on request to the Company Secretary. There is no charge for this publication.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position and the business reviews of Severn Trent Water Limited and Severn Trent Services are set out in the Strategic report, from the inside front cover to page 35. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 43 to 46. The group's objectives, policies and processes for managing its capital and its financial risk management objectives are described in the Financial review on pages 43 to 46 and in the Governance report. Details of the group's financial instruments, hedging activities and exposure to credit risk and liquidity risk are described in note 35 to the group financial statements.

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The group's principal operating subsidiary, Severn Trent Water Limited, is a regulated long term business characterised by multi year investment programmes. The group's strategic funding objectives reflect this. The group therefore seeks to attain a balance of long term funding or commitment of funds across a range of funding at the best possible economic cost. Average debt maturity is 15 years and the effective average interest cost during the year was 5.6%. The group is in a strong liquidity position and had £176.7 million in cash and liquid reserves and £745 million of undrawn committed bank facilities at 31 March 2015, which are expected to be sufficient to fund its investment and cash flow needs at least until July 2016 in the normal course of business.

Severn Trent Water Limited operates in an industry that is currently subject to economic regulation rather than market competition, although Ofwat have signalled an intention to introduce more competition in their 2020 water purification sector. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities. As a consequence the directors believe that the group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Annual General Meeting

The AGM of the Company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 15 July 2015. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on our website (www.severntrent.com).

By order of the board

Bronagh Kennedy

Group General Counsel and Company Secretary

21 May 2015

Directors' responsibilities statement

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

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the group financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company Financial Statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors

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

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

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

Responsibility statement

We confirm that to the best of our knowledge

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole,
- the Strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and

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- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy

This responsibility statement was approved by the board of directors on 21 May 2015 and is signed on its behalf by



Andrew Duff	James Bowling
Chairman	Chief Financial Officer
21 May 2015	

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

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Other information

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

Opinion on financial statements of Severn Trent Plc	<p>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,</p> <ul style="list-style-type: none"> 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 <p>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.</p>
Going concern	<p>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</p> <ul style="list-style-type: none"> 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. <p>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.</p>
Our assessment of risks of material misstatement	<p>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.</p>

Risk	How the scope of our audit responded to the risk
<p>Determination of the provision for impairment of trade receivables in Severn Trent Water Limited (£122.5 million) (note 4)</p> <p>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.</p> <p>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.</p>	<p>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.</p>

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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.

<p>Our application of materiality</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>An overview of the scope of our audit</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>Opinion on other matters prescribed by the Companies Act 2006</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> 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.
<p>Matters on which we are required to report by exception</p>	
<p>Adequacy of explanations received and accounting</p>	<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p>

records	<ul style="list-style-type: none"> • 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 <p>We have nothing to report in respect of these matters</p>
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	<p>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</p> <ul style="list-style-type: none"> • 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 <p>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.</p>
Respective responsibilities of directors and auditor	<p>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.</p> <p>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.</p>
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

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	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
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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					Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £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	–	–	7.2	–	7.2	1.7	8.9

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	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
results and net assets							
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)

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	Note	2015 £m	2014 £m
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 **James Bowling**
 Chairman Chief Financial Officer
 Company Number 2366619

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	(10.3)	–
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.

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.

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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 21) 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 21)

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.

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.

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

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.

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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

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 21).

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.

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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

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

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	2015 £m	2014 Restated £m
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.

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

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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

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

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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

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	2015			2014 Restated		
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
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

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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

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

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	2015 £m	2014 Restated £m
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)

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:

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	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

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

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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 21

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	8.0	6.8	7.6	9.1
Services Italy	1.8	2.5	4.8	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

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	Computer software		Capitalised development costs and patents £m	Total £m
	Internally generated £m	Purchased £m		
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

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

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	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Total £m
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		

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	2015 £m	2014 £m
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

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

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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

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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	(87.0)	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

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

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	2015 £m	2014 £m
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

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.

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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

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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	386.2	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)

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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.

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

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	2015		2014	
	Men	Women	Men	Women
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.

(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.

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 / ₁₀ p (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 97¹⁷/₁₀ 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 97¹⁷/₁₀p		
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

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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

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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)

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. The currency cash flows are translated at the spot rate.
Liabilities	(25.2)	(21.7)	
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		2014
	Carrying value £m	Fair value £m	Carrying value £m	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

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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

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

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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		

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.

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	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

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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.

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.

	Euro €m	US Dollar \$m	Japanese Yen ¥Bn	Czech Krona CZKm
2015				
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)	–	–	–

	Euro €m	US Dollar \$m	Japanese Yen ¥Bn	Czech Krona CZKm
2014				
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

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

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	(181.2)	(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)

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2015 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index linked £m	Trade payables £m	Payments on financial liabilities £m
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)	(5,948.7)	(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

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	Receipts from financial assets
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		£m	£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		
	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
2015								
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)

			Derivative liabilities			Derivative assets		
			Cross currency swaps			Cross currency swaps		
	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
2014								
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	(63.3)	–	–	–	–	5.5	(4.0)	(61.8)

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			Derivative liabilities			Derivative assets		
			Cross currency swaps			Cross currency swaps		
years								
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		2014	
	+1.0% £m	-1.0% £m	+1.0% £m	-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		Fair value	
	2015 £m	2014 £m	2015 £m	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

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	
	2015 %	2014 %	2015 £m	2014 £m	2015 £m	2014 £m
Period to maturity						
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	
	2015 £/MWh	2014 £/MWh	2015 MWh	2014 MWh	2015 £m	2014 £m
Period to maturity						
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%).

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

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

Date of grant	Normal date of vesting	Number of awards	
		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

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Sharesave options outstanding at 31 March were as follows

Date of grant	Normal date of exercise	Option price	Number of share options	
			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

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

Date of grant	Normal date of vesting	Number of awards	
		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

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.

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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)

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

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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

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	2015 £m	2014 £m
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)

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.

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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

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

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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

Company statement of comprehensive income

For the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	191.1	310.7
Other comprehensive income		
Items that will not be reclassified to the income statement		
Deferred tax arising on change of rate	–	(0.5)
	–	(0.5)
Items that may be reclassified to the income statement		
Amounts on cash flow hedges transferred to the income statement in the year	2.7	2.6
Deferred tax on transfers to income statement	(0.5)	(0.5)
	2.2	2.1
Other comprehensive income for the year	2.2	1.6
Total comprehensive income for the year	193.3	312.3

Company balance sheet

At 31 March 2015

	Note	2015 £m	2014 £m
Non-current assets			
Intangible fixed assets	1	0.2	0.2
Tangible fixed assets	2	0.3	0.4
Investments in subsidiaries	3	3,760.3	3,762.7
Derivative financial instruments		–	2.6
		3,760.8	3,765.9
Current assets			
Debtors	4	34.6	25.0
Derivative financial instruments		2.0	3.6
Cash at bank and in hand		–	25.9
		36.6	54.5
Creditors: amounts falling due within one year	5	(325.7)	(217.1)
Net current liabilities		(289.1)	(162.6)
Total assets less current liabilities		3,471.7	3,603.3
Creditors: amounts falling due after more than one year	6	(82.7)	(113.8)
Net assets		3,389.0	3,489.5
Capital and reserves			
Called up share capital	8	233.7	233.9
Share premium account	9	100.2	94.2
Other reserves	10	159.6	156.5
Retained earnings		2,895.5	3,004.9
Total capital and reserves		3,389.0	3,489.5

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

Andrew Duff **James Bowling**
Chairman Chief Financial Officer

Company number 02366619

Company statement of changes in equity

For the year ended 31 March 2015

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2013	233.3	89.7	154.4	2,877.0	3,354.4
Profit for the year	–	–	–	310.7	310.7
Amounts on cash flow hedges transferred to the income statement	–	–	2.6	–	2.6
Deferred tax on transfers to the income statement	–	–	(0.5)	–	(0.5)
Deferred tax arising from rate change	–	–	–	(0.5)	(0.5)
Total comprehensive income for the year	–	–	2.1	310.2	312.3
Share options and LTIPs					
– proceeds from shares issued	0.6	4.5	–	–	5.1
– value of employees' services	–	–	–	3.0	3.0
Dividends paid	–	–	–	(185.3)	(185.3)
At 31 March 2014	233.9	94.2	156.5	3,004.9	3,489.5
Profit for the year	–	–	–	191.1	191.1
Amounts on cash flow hedges transferred to the income statement	–	–	2.7	–	2.7
Deferred tax on transfers to the income statement	–	–	(0.5)	–	(0.5)
Total comprehensive income for the year	–	–	2.2	191.1	193.3
Share options and LTIPs					
– proceeds from shares issued	0.7	6.0	–	–	6.7
– own shares purchased	–	–	–	(3.6)	(3.6)
Share buy back	–	–	–	(100.0)	(100.0)
Share cancellation	(0.9)	–	0.9	–	–
Dividends paid	–	–	–	(196.9)	(196.9)
At 31 March 2015	233.7	100.2	159.6	2,895.5	3,389.0

In previous years £1,221.2 million of the company's retained profit arose as a result of group restructuring exercises, and is not considered likely to be distributable

Notes to the company financial statements

For the year ended 31 March 2015

1 Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2014 and 31 March 2015	0.9
Amortisation	
At 1 April 2014 and 31 March 2015	(0.7)
Net book value	
At 31 March 2014 and 31 March 2015	0.2

2 Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Total £m
Cost			
As at 31 March 2014 and 31 March 2015	0.1	0.6	0.7
Depreciation			
As at 1 April 2014	–	(0.3)	(0.3)
Charge for the year	–	(0.1)	(0.1)
As at 31 March 2015	–	(0.4)	(0.4)
Net book value			
As at 31 March 2015	0.1	0.2	0.3
As at 31 March 2014	0.1	0.3	0.4

3 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
As at 1 April 2014	3,313.6	449.1	3,762.7
Loans repaid	–	(2.4)	(2.4)
As at 31 March 2015	3,313.6	446.7	3,760.3

Details of principal subsidiaries of the company are given in note 45 of the group financial statements.

4 Debtors

	2015 £m	2014 £m
Amounts owed by group undertakings	19.3	19.2
Deferred tax	1.9	4.9
Corporation tax recoverable	11.6	–
Other debtors	1.8	0.3
Prepayments and accrued income	–	0.6
	34.6	25.0

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

	Accelerated tax depreciation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2013	0.1	7.3	0.8	8.2
Charge to profit and loss account	–	(2.2)	0.5	(1.7)
Charge to profit and loss account arising from rate change	–	(0.5)	(0.1)	(0.6)
Charge to other comprehensive income	–	(0.5)	–	(0.5)
Charge to other comprehensive income arising from rate change	–	(0.5)	–	(0.5)
At 1 April 2014	0.1	3.6	1.2	4.9
Charge to profit and loss account	–	(1.9)	(0.8)	(2.7)
Charge to other comprehensive income	–	(0.5)	–	(0.5)
Transfers	–	–	0.2	0.2
At 31 March 2015	0.1	1.2	0.6	1.9

5 Creditors: amounts falling due within one year

	2015 £m	2014 £m
Bank overdrafts	(6.1)	(4.0)
Other loans	(17.0)	(26.4)
Borrowings (see note 7)	(23.1)	(30.4)
Derivative financial instruments	(6.5)	(0.2)
Trade creditors	(0.1)	(0.4)
Amounts due to group undertakings	(204.8)	(146.2)
Other creditors	(7.0)	(10.1)
Taxation and social security	–	(28.7)
Accrued expenses	(64.2)	(1.1)
	(325.7)	(217.1)

6 Creditors: amounts falling due after more than one year

	2015 £m	2014 £m
Borrowings – other loans (see note 7)	(79.7)	(95.5)
Amounts due to group undertakings	(3.0)	–
Derivative financial instruments	–	(18.3)
	(82.7)	(113.8)

7 Borrowings

	2015 £m	2014 £m
Borrowings due within one year	23.1	30.4
Borrowings due after more than one year		
Between one and two years	–	17.8
Between two and five years	–	–
After more than five years	79.7	77.7
Total borrowings due after one year	79.7	95.5
	102.8	125.9

Borrowings repayable after more than 5 years comprises the company's RPI linked retail bonds issued in July 2012. The bonds carry a coupon of 1.3% on the principal amount which is uplifted by RPI. The bonds are repayable in July 2022.

The company's borrowings are denominated in sterling, after taking account of cross currency swaps the company has entered into. There is no significant difference between the book value and the fair value of the company's borrowings. Fair values are based on the expected future cash flows discounted using zero coupon forward interest rates related to the expected timing of payments.

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

	2015 £m	2014 £m
2-5 years	–	200.0

The facility in the prior year was shared with Severn Trent Water Limited. During the year the facility was renegotiated as a Severn Trent Water Limited only facility.

8 Share capital

	2015 £m	2014 £m
Total issued and fully paid share capital		
238,683,513 ordinary shares of 97 ¹⁷ / ₁₀₀ (2014: 238,942,647)	233.7	233.9

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97¹⁷/10p		
At 1 April 2014	238,942,647	233.9
Shares issued under the group's Employee Sharesave Scheme	707,444	0.7
Share buy back	(966,578)	(0.9)
At 31 March 2015	238,683,513	233.7

9 Share premium

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

10 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2013	156.1	(1.7)	154.4
Total comprehensive income for the year	–	2.1	2.1
At 1 April 2014	156.1	0.4	156.5
Total comprehensive income for the year	–	2.2	2.2
Share buy back	0.9	–	0.9
At 31 March 2015	157.0	2.6	159.6

The capital redemption reserve 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 of the group financial statements.

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.

11 Share based payments

For details of employee share schemes and options granted over the shares of the company, see note 37 of the group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the company during the year are also disclosed in that note.

12 Pensions

The group operates group defined benefit pension schemes, of which some employees of the company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The cost of contributions to the group schemes amount to £0.1 million (2014: £0.1 million). There were no amounts outstanding for contributions to the defined benefit schemes (2014: nil).

Information about the plans as a whole is disclosed in note 28 to the group financial statements.

13 Related party transactions

The retirement benefit schemes operated by the company are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 12.

14 Contingent liabilities

a) Bonds and guarantees

The company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2015, the company had no contingent liabilities (2014: £25.9 million).

15 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 50.94 pence per share.

16 Dividends

For details of the dividends paid in the years ended 31 March 2015 and 31 March 2014 see note 14 in the group financial statements.

Five year summary

	2015 £m	2014 Restated ² £m	2014 As previously stated £m	2013 £m	2012 £m	2011 £m
Continuing operations						
Turnover	1,801.3	1,756.7	1,856.7	1,831.6	1,770.6	1,711.3
Profit before interest, tax and exceptional items	540.3	523.8	516.8	495.4	504.2	519.1
Net exceptional items before tax	(18.7)	(15.2)	(44.4)	(5.8)	(50.9)	(21.4)
Net interest payable before (losses)/gains on financial instruments and exceptional finance costs	(240.0)	(247.9)	(247.9)	(244.3)	(229.0)	(230.6)
(Losses)/gains on financial instruments	(133.5)	58.0	58.0	(45.3)	(67.7)	(14.2)
Results of associates and joint ventures	0.1	0.2	0.2	0.2	0.1	0.1
Profit on ordinary activities before taxation	148.2	318.9	282.7	200.2	156.7	253.0
Current tax on profit on ordinary activities	(37.8)	(55.8)	(56.5)	(27.9)	(60.5)	(32.1)
Deferred tax	5.1	(21.5)	(21.5)	8.2	78.2	53.6
Exceptional tax	–	230.2	230.2	38.4	–	–
Profit on ordinary activities after tax	115.5	471.8	434.9	218.9	174.4	274.5
Profit for the period	115.5	471.8	434.9	218.9	174.4	274.5
Net assets employed						
Fixed assets	7,325.5	7,123.8	7,123.8	6,906.1	6,743.6	6,635.3
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	(516.1)	(348.2)	(348.2)	(273.8)	(341.3)	(320.4)
Derivative financial instruments ¹	(177.7)	(197.1)	(197.1)	(279.8)	(261.8)	(90.5)
Retirement benefit obligation	(468.9)	(348.3)	(348.3)	(383.7)	(345.8)	(292.1)
Provisions for liabilities and charges and deferred tax	(658.5)	(692.6)	(692.6)	(827.5)	(845.5)	(957.4)
Net assets held for sale	72.6	–	–	–	–	–
	5,575.9	5,537.6	5,537.6	5,141.3	4,949.2	4,974.9
Financed by						
Called up share capital	233.7	233.9	233.9	233.3	232.6	232.2

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	2015 £m	2014 Restated ³ £m	2014 As previously stated £m	2013 £m	2012 £m	2011 £m
Continuing operations						
Reserves	576.2	843.7	843.7	599.9	740.9	867.6
Total shareholders' funds	809.9	1,077.6	1,077.6	833.2	973.5	1,099.8
Non-controlling interests	13.4	12.5	12.5	10.8	7.9	6.3
Net debt ²	4,752.6	4,447.5	4,447.5	4,297.3	3,967.8	3,868.8
	5,575.9	5,537.6	5,537.6	5,141.3	4,949.2	4,974.9
Statistics						
Earnings per share (continuing) – pence	48.3	198.5	182.1	90.9	72.5	115.2
Adjusted earnings per share – pence	107.2	92.5	88.4	92.6	88.9	105.6
Dividends per share (excluding special dividend) – pence	84.9	80.4	80.4	75.8	70.1	65.1
Dividend cover (before exceptional items and deferred tax)	1.3	1.2	1.1	1.3	1.3	1.6
Gearing	85.2%	80.3%	80.3%	83.6%	80.2%	77.8%
Ordinary share price at 31 March – pence	2,059.0	1,823.0	1,823.0	1,712.0	1,544.0	1,446.0
Average number of employees						
– Severn Trent Water	5,532	5,634	5,634	5,458	5,162	5,237
– Other	1,910	1,914	2,358	2,763	2,889	3,045

1 Excludes instruments hedging foreign currency debt

2 Includes instruments hedging foreign currency debt

3 Restated for discontinued operations (see note 38)

Gearing has been calculated as net debt divided by the sum of equity and net debt

Information for shareholders

Severn Trent shareholder helpline

The company's registrar is Equiniti Limited. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments.

If you have any queries relating to your Severn Trent Plc shareholding you should contact Equiniti.

Registrar contact details

Online: www.shareview.co.uk from here, you will be able to securely email Equiniti with your query.

Telephone: 0871 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0871 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

Corporate website

Shareholders are encouraged to visit our website www.severntrent.com which provides:

- company news and information,
- links to our operational businesses' websites,
- details of our governance arrangements,
- details of our strategy,
- details of the group's business models and business plan, and
- the company's approach to operating responsibly.

There is also a dedicated Investors' section on the website which contains up to date information for shareholders including:

- comprehensive share price information,
- financial results,
- a history of dividend payment dates and amounts, and
- access to current and historical shareholder documents such as the Annual Report and Accounts.

Electronic communications

By registering to receive shareholder documentation from Severn Trent Plc electronically shareholders can benefit from being able to:

- view the Annual Report and Accounts on the day it is published,
- receive an email alert when shareholder documents are available,
- cast their AGM vote electronically; and
- manage their shareholding quickly and securely online, through Shareview.

Electronic shareholder communications also enable the company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs.

For further information and to register for electronic shareholder communications visit www.shareview.co.uk

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account

The benefits of doing this are that you will:

- receive cleared funds in your bank account on the payment date,
- avoid postal delays, and
- remove the risk of your cheques getting lost in the post

To take advantage of this service or for further details contact Equiniti or visit www.shareview.co.uk.

Dividend reinvestment plan (DRIP)

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited

Telephone: 0871 384 2268*

Telephone number from outside the UK: +44 121 415 7173

Buying and selling shares in the UK

If you wish to buy or sell certificated Severn Trent Plc shares, you will need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online services available to you. If you are selling, you will need to present your share certificate at the time of sale. Details of low cost dealing services may be obtained from www.shareview.co.uk or 0845 603 7037**

Share price information

Shareholders can find share price information on our website and in most national newspapers. For a real-time buying or selling price, you should contact a stockbroker.

Shareholder security

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams

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- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice before you hand over any money
- Remember, if it sounds too good to be true, it probably is

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams

You can also call the FCA Consumer Helpline on 0800 111 6768

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040

Unsolicited mail

The company is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive please contact:

The Mailing Preference Service (MPS), Freepost 29 LON20771, London W1E 0ZT

Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599

American Depositary Receipts (ADRs)

Severn Trent has a sponsored Level 1 American Depositary Receipt (ADR) programme, for which The Bank of New York Mellon acts as Depositary

The Level 1 ADR programme trades on OTCQX which is the premier tier of the US over the counter (OTC) market under the symbol STRNY (it is not listed on a US stock exchange). Each ADR represents 1 Severn Trent ordinary share

If you have any enquiries regarding Severn Trent ADRs please contact The Bank of New York Mellon

By post: BNY Mellon Shareowners Services, PO Box 30170, College Station, TX 77842-3170, US

By telephone:

If calling from within the US: (888) 269 2377 (toll-free)

If calling from outside the US: +1 201 680 6825

By email: shrrelations@cpushareownerservices.com

Website: www.mybnymdr.com

* Calls cost 8 pence per minute plus network extras. Lines are open from 8.30am to 5.30pm Monday to Friday

** Lines are open Monday to Friday, 8.00am to 4.30pm for dealing, and until 6.00pm for enquiries

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Financial calendar

Ex dividend date – final dividend	18 June 2015
Record date to be eligible for the final dividend	19 June 2015
AGM	15 July 2015
Interim management statement – Q1 Year ending 31 March 2016	15 July 2015
Final dividend payment date	24 July 2015
Interim results announcement – Year ending 31 March 2016	26 November 2015
Ex dividend date – interim dividend	3 December 2015
Record date to be eligible for the interim dividend	4 December 2015
Interim dividend payment date	8 January 2016

All dates are indicative and may be subject to change.

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