

Severn Trent Water Limited

Report and financial statements for the year ended 31 March 2015

Company number 2366686

Severn Trent Water Limited

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Strategic report

At a glance

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.

Turnover
£1,581.2m (2014: £1,544.8m)

3.3m
Households and businesses serviced

Profit*
£536.6m (2014: £516.4m*)

* Before interest, tax and exceptional items

1.8bn
Litres of drinking water supplied each day

1.4bn
Litres of waste water collected per day.

5,181
Employees (as at 31 March 2015)

Who we are

At Severn Trent our role is to secure the future of water for the communities we serve.

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.

Strategic report

Chief Executive's review

Introduction

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 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 re-prioritised £35 million of investment to replace and refurbish water quality assets nearing the end of their life, that 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

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 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 are one of the few companies to have put in serious investment in the coming five year period

We have also improved our customer service performance. During the year we created approximately 100 new front line roles and have really focused on resolving customer issues faster. Together with the lowest average bills in the land, our customers increasingly feel that they are receiving good value

Strategic report

Chief Executive's review

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 the 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 business is Emma FitzGerald whom, 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

Following a reorganisation of Severn Trent Business our 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 7 years

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 5 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 5 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 £100 million of AMP6 savings from the supply chain

In addition to these structural changes, our Chief Financial Officer, Mike McKeon, has decided after nine years with Severn Trent to retire. I would like to sincerely thank Mike 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 CFO, whom 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

Strategic report

Chief Executive's review

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 over half of 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 for customers, communities and investors.

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 5 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 5 year period and in particular in anaerobic digestion and solar technologies.

This will take our self generation of renewable energy from 28% of Severn Trent Water's gross energy consumption over 2013/14 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.

How we create sustainable growth

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

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. 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

Strategic report Our strategy

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:

delivering an outstanding customer experience, the best value service and environmental leadership.

Our strategy

Sewer 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

Drive operational excellence and continuous innovation
What we mean by this

Invest responsibly for sustainable growth
What we mean by this

Change the market for the better
What we mean by this

Create an awesome place to work
What we mean by this

Our market segments

Wholesale operations and engineering
What we mean by this

Household customer services
What we mean by this

Business retail and operating services
What we mean by this

Green energy
What we mean by this

New water markets
What we mean by this

Our values

We put our customers first
What we mean by this

We are passionate about what we do
What we mean by this

We act with integrity
What we mean by this

We protect our environment
What we mean by this

We are inspired to create an awesome company
What we mean by this

Our objectives

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	⓪ ↑	4.36	4.48	4.36
ACT	Service Incentive Mechanism Quantitative (SIM) score ²	KPI 5	⓪ ↑	105	143	167
MAT	Water supply interruptions index per property mins ³	KPI 6	↓	10	16	29
	Sewerage serviceability (internal) ⁴	KPI 7	⓪ ↓	54	57	78
	Water serviceability (internal) ⁴	KPI 8	⓪ ↓	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	⓪ ↓	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	⓪ ↓	441	441	441

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] ⁹	KPI 9	⓪ ↓	542.7	583.2	541.8
ACT	Debtor days ¹¹	KPI 10	↓	34.7	34.5	36.7
ACT	Opex £m	KPI 11	⓪ ↓	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 ↓	0.21	0.21	0.21
OR	Employee engagement % ¹³	KPI 2	⓪ ↑	79	81	79

Key ⓪ 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

MAT - Moving Annual Total
OR - 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 sewerage 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.

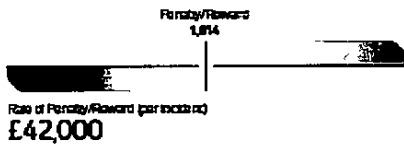
KPI 14 Security of Supply Index (SOSI) is a measure of how resilient we are against periods of drought. The index calculation is based upon the difference between the water available to use and the volume of water we expect to put into our supply network in order to meet demand.

Our objectives

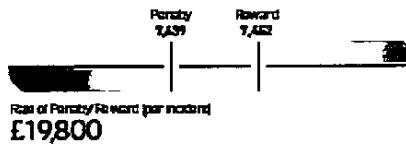
Future performance measurement - Our Outcome Delivery Incentives (ODIs)

1. Embed customers at the heart of all we do⁴

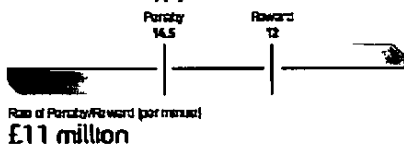
Internal sewer flooding



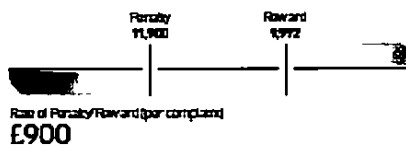
External sewer flooding



Minutes without supply



Complaints about water quality

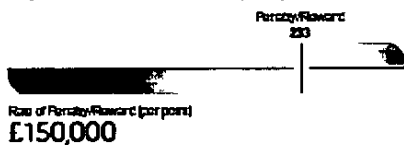


SIM - Customer experience

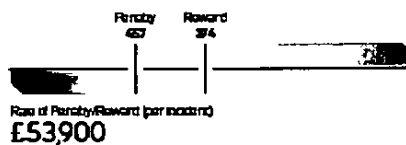
Reward and/or penalty mechanism to be decided by OFWAT July 2015

2. Drive operational excellence and continuous innovation⁴

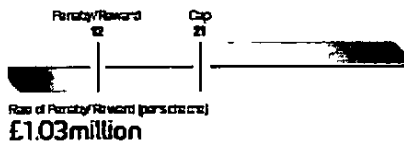
Improvements to river water quality²



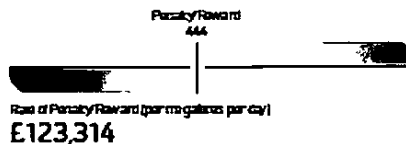
Number of pollution incidents



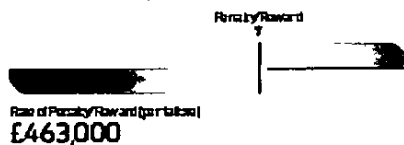
Successful catchment management schemes



Leakage



Asset Stewardship - Coliform failures



3. Invest responsibly for sustainable growth

Sewer Trent Water
See note 1

Sewer Trent Business Services
See note 1

4. Create an awesome place to work

Last time incidents per 100,000 hrs worked

Sewer Trent Water
0.21 See note 2
2013/14 0.21

Sewer Trent Business Services
0.30 See note 2
2013/14 0.30

Employee engagement

Sewer Trent Water
79 See note 2
2013/14 79

Sewer Trent Business Services
75 See note 2
2013/14 75

Notes

- 1 Illustrative positioning only. Incentive/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.sewer-trent.com

Strategic report

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 – provide water and sewerage services. The other 9 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.

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, 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 are seeing 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 Coventry every 7 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.

How the industry is regulated

Severn Trent Water is a regulated business. We work within 5 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.

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Market and industry overview

- 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 5-year (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, 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 Output 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 5 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 5 years. Companies will also be doing

Strategic report

Market and industry overview

substantially more to help people who struggle to pay their bills, for example by improving the social tariffs they offer

To ensure we meet our commitments during AMP6, we've set out our strategy Our ODIs, against which our performance will be measured The regulated performance review talks about some of the specific initiatives we'll be undertaking as part of our plan

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

Case study:

Working in partnership to protect our water courses

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 water courses 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.

Our Business Model

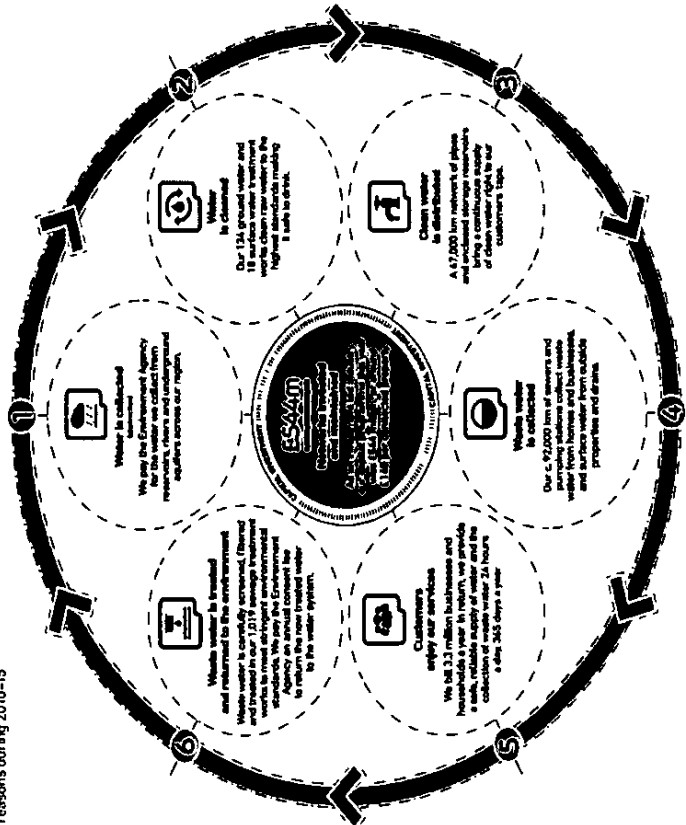
Regulated

Our Business model - The role of Severn Trent Water

Severn Trent Water is a regulated business. We work within 5 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 5 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 are included in these categories for the current 5 year period. Severn Trent has absorbed these associated costs and not sought to pass them on to our customers for reasons during 2010-15.

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 performance of other Drinking Water and Wastewater providers. Our performance will be subject to additional income or incur penalties, based on our performance (as discussed at 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 Wales Environment 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 Wales Environment Agency Health and Safety Executive
Risks	<p>Failure of key assets or processes may result in damage to property, injury to people and/or disruption to our services for our customers.</p> <p>Principal Risk Ref 6**, and 7**</p>	<p>The performance of our distribution network may fall below the standards specified by DNI in our regulatory targets or failure to meet our customers' and regulatory targets increased leakage from our network.</p> <p>Principal Risk Ref 1*</p>	<p>Failure of one of our distribution networks may result in disruption to supply to customers.</p> <p>Principal Risk Ref 7*</p>	<p>We may be unable to improve sufficiently our performance in relation to customer service in order to satisfy our customers' and regulatory targets.</p> <p>Principal Risk Ref 1*</p>	<p>Failure to deal with customer waste effectively may lead to sewer flooding.</p> <p>Principal Risk Ref 7*</p>	<p>We may suffer operational failure in our waste water operations which may result in the local environment.</p> <p>Principal Risk Ref 7***</p>
Investment and maintenance	<p>Networks investigated and maintained</p> <p>Our capital programme this year was £544 million or around £177 per connected property reflecting a decreased investment year on year (2013/14 £602 million) in our water and sewerage networks. This included finding and fixing more leaks and reducing the number of supply interruptions to our customers. We also invested in our water and sewerage assets to improve the reliability of our water and sewerage services. We will use the metrics for performance in the results we state also by borrowing money from the capital markets. Capital investment is added on to our asset base called the RCY. 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 outperforming in future years through ODS.</p>	<p>Failure of one of our distribution networks may result in disruption to supply to customers.</p> <p>Principal Risk Ref 7*</p>	<p>Failure of one of our distribution networks may result in disruption to supply to customers.</p> <p>Principal Risk Ref 7*</p>	<p>We may be unable to improve sufficiently our performance in relation to customer service in order to satisfy our customers' and regulatory targets.</p> <p>Principal Risk Ref 1*</p>	<p>Failure to deal with customer waste effectively may lead to sewer flooding.</p> <p>Principal Risk Ref 7*</p>	<p>Hazardous processes may result in people being injured.</p> <p>Principal Risk Ref 6*</p>
Regulatory framework	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate 	<ul style="list-style-type: none"> Ofwat Health and Safety Executive Environment Agency Drinking Water Inspectorate
Risks	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>	<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 changes in regulatory requirements, changes in regulatory framework and enforcement by our regulators (i.e. Ofwat, 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 unworkable.</p> <p>Principal Risk Ref 3, 4 and 6</p>

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Our goal is to provide a reliable service that our customers, communities and investors can trust. This will enable us to generate long term and 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.

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.

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.

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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

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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.

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.

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.

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Case study:

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.

Technology has an important role as we look to improve our performance during AMP6. We've started to roll out 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.

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 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 in the AMP6 plan.

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 5 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
- continuing to grow our renewable energy assets within our regulated business, by installing more combined heat and power plants.

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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 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.

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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 2014/15, renewable energy provided 28% of our regulated business's energy needs. We intend to increase this further over the next few years.

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, while 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 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 9 to 5. This gives our people more control over their roles and empowers them to do more, so they can deliver for our customers and have greater satisfaction in their work. 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

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attendees and helped to align our people on the areas of focus namely delighting our customers, providing them with the cleanest water, brilliant people who work safely, and taking a 'digital first' approach. The outcome of these areas of focus will be 'fab financials', which will fund our plans and reward our investors.

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 2014/15, our largest intake for some years. As at May 2015, Severn Trent Water is one of thejobscrowd's "Top 100 Companies for Graduates to Work for in 2015/16" ranking at no 83. Thejobscrowd is the only graduate employer ranking based on real-time 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. This will help our people to understand what great performance looks like and what they need to do to reach it. 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 and development led, and that encourages our people to achieve their full potential.

Case study:

Training the engineers of the future

Our success depends on having skilled people, so we've developed an apprentice programme that leads the industry. This year, up to 80 young people will join us in operational apprentice roles. They'll gain brand new 'Trailblazer' qualifications, which we've designed with our industry colleagues and the Sector Skills Council. The result is a programme that's truly best in class and that will create the engineers of the future.

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 holiday to suit their needs. Most of our people are shareholders in Severn Trent, meaning they benefit directly from our good performance, and take up of our sharesave scheme is high with nearly 48% of those eligible electing to join a 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. This flat 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. We're also creating a stronger central health and safety function, which will help to direct how our operations 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.

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Performance review

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 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.

Severn Trent takes a long term view of its 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 the foundations in place 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.

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Financial review

The company has delivered a good financial performance overall with year on year improvements in turnover and underlying PBIT. PBIT is profit before interest and tax, underlying PBIT is PBIT excluding exceptional items as set out in note 6

Results

Underlying PBIT increased by 3.9% to £536.6 million (2013/14 £516.4 million)

Turnover in Severn Trent Water increased by £36.4 million, or 2.4%, to £1,581.2 million, as a result of price increases of 1.5% net (£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 3.2% to £621.4 million

	2015 £m	2014 £m	Increase/ (decrease)	
			£m	%
Employee costs	249.4	242.8	6.6	2.7
Hired and contracted	163.8	154.2	9.6	6.2
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	47.7	46.6	1.1	2.4
Operating costs	621.4	602.4	19.0	3.2

Employee costs were 2.7% higher, broadly in line with annual pay inflation. The benefits of the recent re-organisation, which included a reduction of 500 roles, will be seen from 2015/16. Hired and contracted costs were 6.2% 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 growth in the asset base. Infrastructure renewals 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 £547.5 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 profit and loss account under IFRS.

Exceptional items

An exceptional charge of £21.5 million was recognised for the year (2014 £8.2 million credit). This included

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- £29.2 million of restructuring costs to transform the business for AMP6, reducing the cost base and de-layering management levels, offset by
- £7.7 million of profit on disposal of property

Net finance costs

The net finance costs were £224.1 million, down from £245.2 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 company reduced 2015/16 financing risk by repaying approximately 26% of a £535 million fixed rate intercompany loan which is due for repayment in March 2016. This led to a charge of £6.6 million in finance costs.

Profit for the year

Profit for the financial year was £107.6 million (2014: £492.2 million). The company measures its return on capital using the ratio of post tax return on regulatory capital value, which is calculated as current cost operating profit less current tax, over average regulatory capital value. For the year ended 31 March 2015 post tax return on capital was 5.6% (2014: 6.4%).

Taxation

The total tax charge for the year was £23.6 million (2013/14: credit of £163.2 million).

The current year tax charge for 2014/15 was £36.6 million (2013/14: charge of £56.9 million before exceptional tax). The deferred tax credit was £13.0 million (2013/14: charge of £14.6 million before exceptional tax). In the current year there was no exceptional tax (2013/14: credit of £234.7 million).

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 before tax and gains/(losses) on financial instruments was 17.4% (2013/14: 16.9%).

Cash flow

	2015 £m	2014 £m
Cash generated from operations	760.9	774.4
Net capital expenditure	(392.5)	(441.2)
Net interest paid	(220.3)	(198.5)
Tax paid	(24.9)	(14.5)
Payment to close out interest rate swaps	(139.2)	-
Free cash flow	(16.0)	120.2
Dividends	(195.5)	(337.6)
Net issue of shares	(2.4)	-
Change in net debt from cash flows	(213.9)	(217.4)
Non cash movements	(22.3)	(48.8)
Change in net debt	(236.2)	(266.2)
Net debt 1 April	(4,844.4)	(4,578.2)
Net debt at 31 March	(5,080.6)	(4,844.4)
Net debt comprises		
Cash and cash equivalents	119.1	19.8
Loans receivable from other group companies	108.3	107.0
Loans payable to other group companies	(3,705.8)	(4,005.4)

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Bank loans	(1,240.7)	(555.2)
Finance leases payable	(275.1)	(307.0)
Intercompany finance leases payable	(208.0)	(210.7)
Finance leases receivable from other group companies	100.8	101.3
Cross currency swaps	20.8	5.8
	(5,080.6)	(4,844.4)

Net debt at 31 March 2015 was £ 5,080.6 million (2013/14 £ 4,844.4 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 85.6% (2013/14 82.4%). The company's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.9 times (2013/14 3.5 times) by profit before interest, tax, depreciation and exceptional items, and 1.8 times (2013/14 2.3 times) by underlying PBIT.

Treasury policy and operations

The company's 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 Management Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary.

The company's 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. The company 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 company 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. The company's principal subsidiary issues notes in foreign currency under its EMTN programme and lends the proceeds to Severn Trent Water Limited. The company uses cross currency swaps to convert the funds 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 company took a number of financing steps in readiness for AMP6, aimed at reducing short term refinancing risk and increasing exposure to the 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 company repaid £140 million of a fixed rate loan from its principal finance subsidiary, due for repayment in March 2016.

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- In March 2015 the company 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 company amended and extended the revolving credit facility. 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 company continues to ensure it has adequate liquidity to support business requirements and provide headroom for downside scenarios. At 31 March 2015 the company had £119.1 million (2014 £19.8 million) in cash and cash equivalents and committed undrawn facilities amounting to £745 million (2014 £500 million).

The company 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 company's policy for the management of interest rate risk requires that not less than 45% of the company's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. Going forward, the company 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 63% (2013/14 71%) of the company's net debt of £5,080.6 million were at fixed rates of interest.

The company 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 company holds interest rate swaps with a net notional principal of £309 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

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Financial review

are taken to gains/(losses) on financial instruments in the profit and loss account. During the year there was a charge of £123.4 million in relation to these instruments.

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

Moody's *	A3
Standard & Poor's	BBB+

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

Pensions

The company is the sponsoring employer of the defined benefit pension schemes operated by the Severn Trent group for its UK employees. As there is no contractual agreement or policy statement for allocating the net defined benefit cost to individual group entities this company has recognised the full cost and deficit. However, the company only makes contributions for its own employees.

The group operates two defined benefit pension schemes, of which the UK 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 pension schemes closed to future accrual on 31 March 2015. On 1 April 2015, members of the defined benefit pension schemes were transferred to the defined contribution Severn Trent Group Personal Pension Scheme, which 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 profit and loss charge	22.8
Present value at 31 March 2015	(468.9)

Accounting policies and presentation of the financial statements

The financial statements are prepared in accordance with Financial Reporting Standard 101.

Strategic report

Risk management

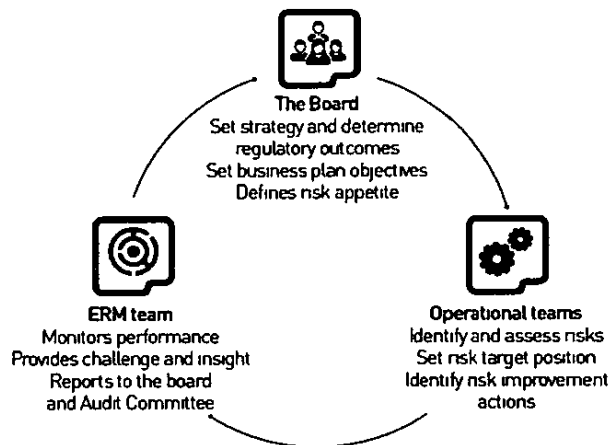
Our approach to risk:

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 '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.

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 Enterprise Risk Management 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.

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Risk management

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:

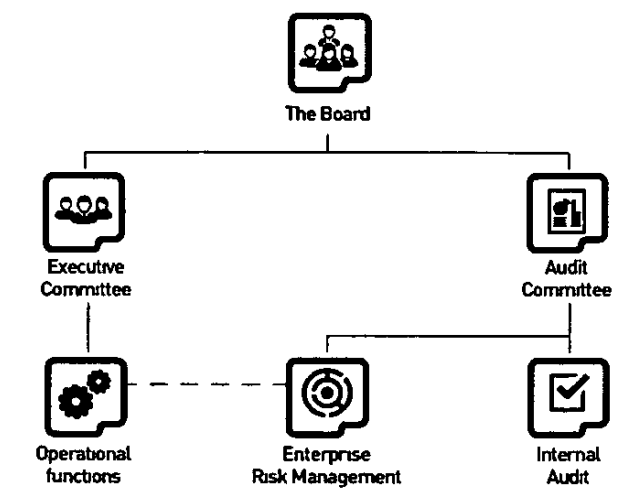
We use an established ERM process across the company to assess and manage our most significant risks, which are linked to our corporate objectives. The ERM process covers all types of risk including operational, financial and legal and regulatory. Our assessment of risk includes explicit consideration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



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Risk management

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 4). The Board receive regular updates relating to funding, solvency and liquidity matters.

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.

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Risk management

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 them

Principal Risks

Ref	What is the risk?	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	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. Failure to deliver the service customers expect will lead to customer dissatisfaction and we may suffer financial penalties under Ofwat's Service Incentive Mechanism	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. 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. 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. 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 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	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.	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. We are developing our service offering which includes, for example, services to help customers understand and reduce their water consumption. We have recently restructured our business and we believe that our new organisation is in

Strategic report

Risk management

Principal Risks

Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
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 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 future changes could have a significant impact on Severn Trent Water	<p>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>
Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
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 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 future changes could have a significant impact on Severn Trent Water	<p>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 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>

Strategic report

Risk management

Principal Risks

Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
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.	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 & People

Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
5	We may experience loss of data or interruptions to our key business system as a result of cyber threats.	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 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>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 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>

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Risk management

Principal Risks

Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
6	<p>We may fail to meet our regulatory targets, including targets from Ofwat in relation to operational performance of our assets, resulting in regulatory penalties</p>	<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 wrong things down our sewers. We are also investing in capital solutions to enable us to protect properties at risk of sewer flooding</p>
7	<p>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</p>	<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</p> <p>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>

Strategic report

Risk management

Financial Risks

Ref	What is the risk?	What does it mean for us?	What are we doing to manage the risk?
8	Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably	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

The Strategic report, as set out on pages 1 to 49, has been approved by the board
By order of the board

Bronagh Kennedy
Group General Counsel and Company Secretary
21 May 2015

Governance

Board Directors

STROK
LEADERS

Committee membership key

1 James Bowling BA, ACA (66) ♦♦

Chief Financial Officer

Appointed to the board on 1 April 2015

James is a chartered accountant having started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the board. Prior to joining Severn Trent, James was senior Chief Financial Officer of Sire plc, where he had been since 2005, first as Head of Group Reporting and from 2008 as Group Financial Controller. Prior to joining Sire, James spent nine years at Ford Motor Company in various finance roles of increasing responsibility.

2 John Dughlan BCom, ACA (57) ■♦

Independent Non-executive director

Appointed to the board on 23 May 2014

Chairman of the Treasury Committee

John is a chartered accountant and is a valuable addition to the Board's existing skill set. He became Chairman of the Audit Committee following the AGM on 16 July 2014 and Chairman of the Treasury Committee in April 2015. John brings to the board extensive financial expertise. Currently, John is also Chairman of Incharge Shipping Services and a non-executive director and Chairman of the Remuneration Committee of Lend Lease Group plc. Previously, he was a director of Edel plc for 11 years to 2006, where he was Deputy Chief Executive and Group Finance Director. Since 2008, John has been a non-executive director of various publicly-quoted and private equity owned companies.

External appointments

- Chairman of Incharge Shipping Services
- Non-executive director and Chairman of the Remuneration Committee of Lend Lease Group plc
- Chairman of Freight Transport Association Ireland Limited

3 Andrew Duff BSC, FEA (56) ▲♦♦

Non-executive Chairman

Appointed to the board on 10 May 2010 and Chairman on 20 July 2010

Chairman of the Nominations Committee

Andrew's extensive experience of international and regulated business, strategic management and customer service in high profile dynamic environments has equipped him well for the role of Chairman of the group. Andrew spent 16 years at BP in marketing, strategy and oil trading. He joined National Power in 1998 and the board of Innogy plc upon its demerger from National Power in 2001. He played a leading role in its restructuring and transformation through the opening of competition in energy markets culminating in its subsequent sale to RWE in 2003. He became CEO of the successor company RWE npower and a member of the RWE Group Executive Committee. He was a non-executive director of Wolsley plc from July 2004 until November 2013. Andrew was appointed non-executive Deputy Chairman of Elements plc on 1 April 2014 and became non-executive Chairman of Elements plc on 7 April 2014.

External appointments

- Non-executive Chairman and Chairman of the Nominations Committee of Elements plc
- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support and Earth Trust
- Fellow of the Energy Institute

4 Gordon Fryett (61) ▲

Independent Non-executive director

Appointed to the board on 1 July 2007

Chairman of the Corporate Responsibility Committee

Gordon has extensive experience working in and with international businesses, managing significant capital expenditure. His in-depth retail expertise in both executive and operational level in a customer facing highly competitive environment has led him to hold senior roles in both executive and operational level in the position of Group Property Director at Tesco plc until his retirement in November 2013. He previously held a number of international roles within the Tesco Group, including Operations Director International Support Director and CEO Republic of Ireland.

External appointments

- Alumnus of INSEAD
- Non-executive director of Linney Group Ltd

5 Olivia Garfield BA (Hons) (39) ♦♦

Chief Executive

Appointed to the board on 11 April 2014

Olivia (Liv) brings to the board a wealth of experience managing customer service delivery and complex infrastructure and organisations in a regulated environment. Before joining Severn Trent, she was Chief Executive Officer of Openreach, part of the BT Group, where she spearheaded and oversaw the commercial roll-out of fibre broadband to two thirds of the country. She joined BT in 2007 and held the pivotal roles of Group Director of Strategy and Regulation, Managing Director Commercial and Brands, Global Services and UK Customer Services Director from 1998 to 2007. Liv worked for Accenture as a consultant in the Communications and High Tech Market Unit, designing and implementing business change solutions across a number of industry sectors. On 28 February 2015, Liv retired from the board of Tesco plc as Non-executive director. In October 2014, Liv stepped down as a member of the Nominations Committee of Severn Trent.

6 Martin Lamb BSc, MBA (55) ♦♦♦

Senior Independent Non-executive director

Appointed to the board on 29 February 2008

Chairman of the Audit Committee

Martin brings extensive experience to the board of managing and developing large engineering businesses in all parts of the world. His strong engineering expertise, commercial acumen, experience of managing complex projects, and familiarity with current market pressures, have helped him to add value to the Severn Trent business. In May 2014, Martin left the Board of IMI plc having served as Chief Executive for 13 years and after 33 years with the Company. On 1 March 2014, Martin was appointed Chairman of Evoqua Water Technologies and on 14 January 2015, he was appointed non-executive director of Merca Technologies plc. On 26 April 2015, Martin was appointed Chairman of Robotiq Inc. Previously, Martin was a non-executive director of Spectris plc.

External appointments

- Chairman of Robotiq Inc
- Chairman of Evoqua Water Technologies LLC
- Non-executive director of Merca Technologies plc
- Member of the Advisory Board of IEA Investors Management (UK) Limited

7 The Hon. Philip Rembrandt CBE, ACA, MA (60) ■♦♦♦

Independent Non-executive director

Appointed to the board on 31 March 2014

Chairman of the Remuneration Committee

Philip is a senior investment banker and brings substantial advisory and regulatory experience to the board. A chartered accountant, he is Senior Independent Director of Prudential plc, Deputy Chairman of the Takeover Panel, Senior Independent Director of UK Financial Investments Limited and Chairman of City of London Investment Trust plc. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010. Previously he served on the board of Northern Rock plc and from 2007 to 2012 was Chairman of the Shareholder Executive.

External appointments

- Senior Independent Director and member of the Audit, Nominations and Remuneration Committees of Prudential plc
- Deputy Chairman of the Takeover Panel
- Non-executive director of UK Financial Investments Limited
- Non-executive Chairman of City of London Investment Trust plc
- Governor of Goodenough College
- Trustee of St Paul's Cathedral Foundation

8 Dr Angela Strank BSc, PhD (62) ▲♦♦

Independent Non-executive director

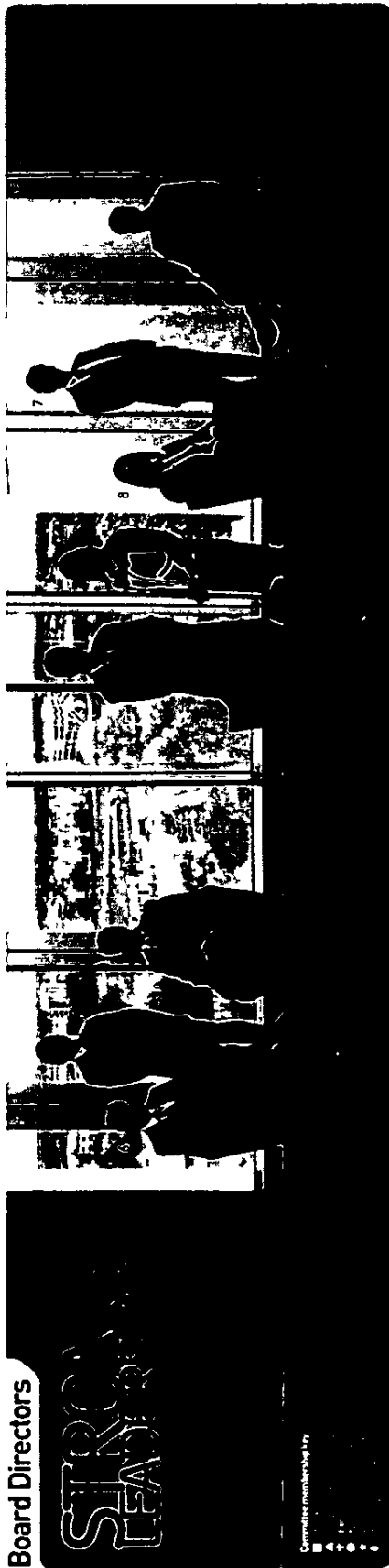
Appointed to the board on 24 January 2014

Chairman of the Audit Committee

Angela brings a wealth of strategic, technical and commercial experience to the board. Angela was appointed as Head of Technology Downstream at BP Group, effective 1 June 2015. In this role, Angela will be responsible for the delivery of the Downstream strategic agenda through the development of sustainable technology solutions, whilst retaining her current responsibilities as BP's chief scientist. She has held various other senior leadership roles at BP, since joining in 1992, most notably as Deputy Vice President and Head of the Chief Executive's Office. In 2010 Angela was the winner of the UK First Women Award in Science and Technology, recognition of pioneering UK women in business and industry. Her track record and experience in strategy, operations, technology and international change are a complementary addition to the Board's skill set.

External appointments

- Board of Governors of the University of Manchester
- College London
- Energy Institute International Advisory Board



Governance

Chairman's letter

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.

In January 2014, Ofwat published 'Board leadership, transparency and governance – principles' which it considered should apply to regulated water companies. Severn Trent Water is fully supportive of Ofwat's objective of raising standards in this area.

Severn Trent Plc is the ultimate holding company of Severn Trent Water Limited. Severn Trent Plc is a listed company and during the year ended 31 March 2015 was compliant with the UK Corporate Governance Code 2012 (the 'Governance Code'), with the exception that the adequacy of arrangements in relation to whistleblowing procedures falls within the remit of the Corporate Responsibility Committee rather than the Audit Committee. The governance section of the Severn Trent Plc Annual Report and Accounts sets out how Severn Trent Plc applies the principles of the Governance Code.

Severn Trent Water's code on complying with Ofwat's principles is to continue to comply with the Governance Code at Severn Trent Plc level, with the exception that the adequacy of arrangements in relation to whistleblowing procedures will continue to fall within the remit of the Corporate Responsibility Committee rather than the Audit Committee. As a company Severn Trent Water has voluntarily chosen to apply the principles of the Governance Code to its governance arrangements. Where appropriate and reasonably practicable, Severn Trent Water will, except as stated above in relation to whistleblowing arrangements, continue to comply with the Governance Code with the exception that the board committees will continue to operate at the Severn Trent Plc level rather than duplicating the arrangements at the company level. The board considers that these arrangements are appropriate and effective.

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. 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

Governance

Remuneration Committee After almost ten years in post, Michael McKeon retired as Chief Financial Officer and was succeeded by James Bowling

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 each of Richard, Mike, 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

Compliance with the UK Corporate Governance Code

As Severn Trent Water is not a listed company it is not required to comply with the Governance Code. However, we have voluntarily chosen to apply the principles of the Governance Code to our governance arrangements, where appropriate and reasonably practicable.

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

The boards of Severn Trent Water and Severn Trent Plc have the same directors. 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 is therefore voluntarily complying with the 2012 UK Corporate Governance Code to ensure these high standards also apply to it.

For the whole of the financial year ended 31 March 2015, Severn Trent Water Limited was compliant with the Governance Code, with the following exceptions:

- the board committees operate at the Severn Trent Plc level rather than the company level. Whilst the board committees are not duplicated at the company level, in practice their remit includes work in respect of the company. In particular the Audit Committee reviews Severn Trent Water's
 - Processes for producing regulatory submissions, and
 - Statutory and regulatory accounts prior to their approval by the Severn Trent Water board
- The board committees are all led by independent non-executive directors who comprise the majority of membership of each committee. Details of the committees are reported publicly in the Severn Trent Plc Annual Report and Accounts.
- the adequacy of arrangements in relation to the company's whistleblowing procedures falls within the remit of the Severn Trent Plc Corporate Responsibility (CR) Committee, rather than the Severn Trent Plc 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.
- the company does not comply with the provisions relating to Relations with Shareholders which covers Dialogue with Shareholders and Constructive use of the AGM, as it would not be appropriate to do so, however Severn Trent Plc does fully comply.

The two companies operate as distinct legal entities. The boards comply with the Severn Trent Plc Matters Reserved to the Board and the Severn Trent Water Limited Matters Reserved to the board. They are assisted through the management of separate agendas 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 regulating requirements are complied with in respect of all transactions between them, or with third parties.

Governance

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 Severn Trent 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.

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.

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.

Governance

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.

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

Governance

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.

Effectiveness

Board meetings

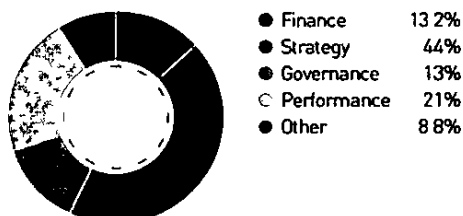
There are regular scheduled meetings of the board and of its permanent committees throughout the year and any additional meetings and ad hoc committee meetings are convened as and when required.

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

Board activities by % 2014/15



- 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.

Governance

- Non Standing Items – Strategic Discussion Topics and ad hoc matters requiring approval, discussion or noting by the Board

The board monitors the performance of the Severn Trent Water at every meeting and receives monthly updates on performance against the KPIs and ODI's. 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, PR14 Five Year Plan and dividend payments and all changes to the composition of the board and its committees.

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 Water. 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 board committees operate at the ultimate parent company level rather than the company level. The Severn Trent Plc board has established an effective committee structure to assist in the discharge of its responsibilities to the group. The terms of reference of Audit, Remuneration and Nominations Committees comply with the provisions of the Governance Code, 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.

Treasury Committee

In March 2015 the Severn Trent Plc 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 risk measurement and management of interest rate, funding, counterparty credit, liquidity and operational risk, 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.

Governance

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.

ARA 2014/15 Board Effectiveness Disclosure Performance

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
- 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

Governance

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.

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.severntrent.com). During the year, we have completed the annual review of the policies and our behaviours model to ensure they are fit for purpose.

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 interests

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.

In March 2014, the board approved the authorisation of the potential situational conflict arising as a consequence of the appointment of Martin Lamb as Chairman of Evoqua Water Technologies and agreed to consider the management of such conflicts if and when they arose. With the disposal of the Water Purification business, which was announced on 13 May 2015, this will no longer be necessary.

Directors' Report

Directors' Report

The directors present their report, together with the audited financial statements of the company, for the year ended 31 March 2015. The Governance section set out on pages 33 to 42 forms part of this report.

Principal activity

The principal activities of the company are the provision and the treatment of water and the removal of waste water in the UK. There have not been any significant changes to the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

Business Review

The Strategic report on pages 1 to 49 provides detailed information relating to the company, its business model and strategy, the operation of its business and the results and financial position for the year ended 31 March 2015.

Details of the principal risks and uncertainties facing the company are set out in the Risk management section on pages 25 to 32.

Directors and their interests

Biographies of the directors currently serving on the board are set out on page 33. In addition, Michael McKeon and Richard Davey served as directors during the year ended 31 March 2015.

All of the directors at the year end are also directors of Severn Trent Plc. In accordance with the UKLA Listing Rule 9.8.6, their interests in the share capital of Severn Trent Plc are disclosed in the Annual Report and Accounts of that company for the year ended 31 March 2015.

None of the directors retain any notifiable interest in the shares of the company or any other subsidiaries as at 31 March 2015.

Details of directors' service agreements and the interests of the directors in the shares of Severn Trent Plc are shown on pages 69 to 85 of the Severn Trent Plc Remuneration Report.

Remuneration details

The Severn Trent Plc Remuneration Committee (the 'Remuneration Committee') addresses the need to balance risk and reward. The Remuneration Committee monitors the variable pay arrangements to take account of the risk levels ensuring an emphasis on long term and sustainable performance. The Remuneration 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.

Directors' remuneration and annual bonus scheme

Remuneration for executive directors comprises the following elements:

- base salary and benefits,
- annual bonus scheme,
- long term incentive plan, and
- pension plan.

As all directors are also directors of Severn Trent Plc, details of their emoluments can be found in the Annual Report and Accounts of Severn Trent Plc available on the Severn Trent Plc website.

Directors' Report

As outlined in the Severn Trent Plc Annual Report and Accounts, the non-executive Chairman, Andrew Duff, and non-executive plc directors, do not participate in the company's incentive arrangements, i.e. annual bonus or share schemes

Base salaries and benefits

Base salaries for directors are reviewed annually by the Remuneration Committee and take effect from 1 July. 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.

In addition to base salary, directors receive a benefits package which contractually includes car allowance, membership of company pension scheme or cash allowance in lieu, private medical insurance, life assurance and incapacity benefits scheme. Directors may also take advantage of the Severn Trent flexible benefit scheme open to all employees.

Annual Bonus Scheme 2014/15

The directors' Annual Bonus Scheme (ABS) focuses on the achievement of specific strategic goals which are intended to drive the creation of operational efficiencies and improvements in business performance. The bonus scheme operates on

- 1) A balanced scorecard of measures based on the company Key Performance Indicators (KPIs), which include operational performance, leakage and customer service. The scheme attributes score points to each KPI and the bonus outturn is determined by reference to the aggregate number of points awarded across all the KPIs. Bonus targets were set and measured for the period 1 April 2014 to 31 March 2015.
- 2) A set of Business Unit Objectives that are designed to transform the business for the future, are concretely measurable and deliver bottom line improvements or positively improve one of our customer measures. Bonus targets were set and measured for the period 1 April 2014 to 31 March 2015.

Each executive director 50% of their maximum bonus opportunity linked to the KPI, 40% to the Business Unit objectives and 10% measured against personal performance. The Finance Director and CEO of Severn Trent Services were also measured against the performance of Severn Trent Services.

The ABS is designed to encourage improved performance, with targets established by the Severn Trent Plc Remuneration Committee to align executive directors' interests with shareholders. The maximum annual bonus opportunity for the executive directors is 120% of salary. For the achievement of target performance, 60% of salary is awarded.

Directors' Report

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 • Developing a confident and productive workforce	KPI 1	Lost time incidents per 100,000 hrs worked	0 19	0 15	0 21	85
	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 • Management of cost base	KPI 9	Capital Expenditure (net) versus final determination – % outperformance	0%	2%	0 0%	100
	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

1 For KPI4 the Ofwat introduced new methodology (an Ofwat pilot) to determine the outturn 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 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					Target	Stretch	Outturn	% Payable
		Ballance	Garfield	Kane	McKeon	Smith				
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	✓	✓	✓	✓	✓	£25m	£40m	£25 5m	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			✓		✓	£60m	£58 4m	£59 4m	68 8%
11	Capital Blocks Net Spend £m Waste			✓			£97m	£95m	£84 2	100 0%
12	Creating an investment fund to enable the ST Green Business Plan				✓		£20m	£22 5m	£13 4m	8 8%

Directors' Report

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 bonus payments awarded are detailed below. Please note that they incorporate amounts in respect of personal targets and, in the case of Liv Garfield, Mike, McKeon, Martin Kane and Andy Smith Severn Trent Services' performance.

Director	Value of bonus award
Tony Ballance	£100,691
Liv Garfield	£405,483
Martin Kane	£198,804
Michael McKeon	£276,157
Andy Smith	£177,872

Half of the above bonus awards are deferred into shares to be held for three years following payment and subject to continued employment. If the executive is summarily dismissed without notice under his/her employment contract then the deferred bonuses are forfeited. In all other cases of cessation of employment the deferred bonus is not lost and the shares automatically vest on the dealing day after the cessation of employment. The Remuneration Committee determines whether it is appropriate to release the shares in 'good leaver' cases. A clawback provision continues to operate. Annual bonus payments to executive directors are not pensionable.

Annual Bonus Targets for 2015/16

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.

Share Matching Plan

Under the Share Matching Plan ('SMP') for 2012 directors were eligible to receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus scheme as described above that would vest in 2015. For each share deferred, half a matching share is awarded subject to satisfying the Total Shareholder Return ('TSR') performance criteria. Further details of the 2012 SMP can be found in the Severn Trent Plc Annual Report and Accounts. Please note that following investor feedback and our aim to simplify the executive reward package, no further awards will be made under the share matching plan from 2014.

Directors' Report

Long Term Incentive Plan

Directors may also participate in the Long Term Incentive Plan ('LTIP') Under this plan conditional awards of performance shares are made to directors up to an annual maximum limit and vest after three years subject to out performance of the Return on Regulatory Capital Value ("RoRCV") set by Ofwat RoRCV replaced TSR in 2011 to focus attention towards the creation of long term value to align with the interests of shareholders and Ofwat Shareholder approval is being sought at the Severn Trent Plc AGM in July 2015 to replace the RoRCV measure with Ofwat's new key financial measure Return on Regulatory Equity (RORE) Further details are contained in the Severn Trent Plc Annual Report and Accounts

Share Incentive Plan

A company-wide Share Incentive Plan ('SIP') operates which includes a performance condition based on the award of points for the 10 balanced scorecard KPIs used for the ABS For the year 2014/15 awards of shares to the value of £347 will be made to all eligible employees

No further awards will be made from SIP after 2015 following the introduction of a new bonus plan for Severn Trent Water employees

Shareholding Requirements

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 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

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, in November 2011 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 company

Indemnities were also entered into with James Bowling and John Coghlan, to the board in April and May 2014 respectively

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

Employees

The average number of employees in the company is 5,532 (2014 5,634)

Severn Trent Water 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 employees

The Company 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,

Directors' Report

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 2 (e) to the financial statements on page 63

Details of research and development activities conducted by the company/group are contained on page 15 of the Strategic Report

Regulation. 'Ring fencing'

In accordance with the requirements of Ofwat, the board confirmed that, as at 31 March 2015, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made

Regulation. 'Cross directorships'

It is the policy of the company that directors and employees of the company may be directors of related companies when this is in the best interest of the company, and where appropriate arrangements are in place to avoid conflicts of interest

Post balance sheet events

There are no post balance sheet events

Dividends

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations. The amount declared is expected to vary each year further to consideration of these obligations. The ordinary dividend declared by the company in 2015 amounted to £204 million (2014 £340 million)

Contributions for political purposes

The company'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 we have not made any political donations or incurred political expenditure in the financial year under review

Internal control and risk management

The board is responsible for the company's system of internal control and for reviewing its effectiveness. The board reviews the effectiveness of the system of internal control, including risk management, financial, operational and compliance aspects, at least annually 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 board reviews risk management and the adequacy of the system of internal control through the Severn Trent Plc Audit Committee. The board also keeps under review ways in which to enhance the control and audit arrangements in the company. The Audit Committee receives reports every six months from the Chief Executive on the significant risks faced by the company. These include an assessment of the effectiveness of controls over each of those risks. Action plans to improve controls where necessary are monitored regularly. Any significant control weaknesses that have been identified are also reported to the Audit Committee. The Internal Audit department provides objective assurance and advice on risk management and control. The external auditors also report on significant control issues to this committee

Directors' Report

The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks faced by the company have been in place for the year to 31 March 2015 and up to the date of the approval of the Annual Report and Accounts

Key elements of the company's processes and procedures are

- the formulation and communication of company 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 company's operating businesses are required to implement as a minimum,
- deployment of a company 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 company's compliance with its disclosure obligations, and
- monthly reviews by the board of financial reports from the company's operating businesses

Auditors

Deloitte LLP have indicated their willingness to continue as auditors and, in accordance with Section 487 of the Companies Act 2006, are deemed to be reappointed

The directors have confirmed that

- 1 So far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware, and
- 2 Each of them has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Relevant audit information means information needed by the company's auditors in connection with preparing their report. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Going concern

The company operates in an industry that is currently subject to economic regulation rather than market competition although Ofwat have signaled 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 company is well placed to manage its business risks successfully. The company is funded for its investment and cash flow needed at least for next year.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, we continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the board

Bronagh Kennedy
General Counsel and Company Secretary
21 May 2015

Directors' Report

Directors' responsibility 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 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 financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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.

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.

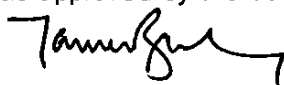
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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,
- the strategic report includes a fair review of the development and performance of the business and the position of the company taken as a whole, together with a description of the principal risks and uncertainties that they face, and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

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



Andrew Duff
Chairman
21 May 2015

James Bowling
Chief Financial Officer

Independent auditor's report to the members of Severn Trent Water Limited

<p>Opinion on financial statements of Severn Trent Water Limited</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> • the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit for the year then ended; • have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and • have been prepared in accordance with the requirements of the Companies Act 2006.
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The financial statements comprise the Profit and Loss Accounts, the Statements of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statements of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

<p>Going concern</p>	<p>We have reviewed the directors' statement contained within the Directors' Report on page 43 that the company 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 company's ability to continue as a going concern.
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However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

<p>Our assessment of risks of material misstatement</p>	<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>
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Risk	How the scope of our audit responded to the risk
<p><i>Determination of the provision for impairment of trade receivables (£122.5 million) (note 3)</i> A proportion of Severn Trent Water'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</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 in the period using data analytics to understand the</p>

Independent auditor's report to the members of Severn Trent Water Limited

<p>estimation of future cash collection Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories</p>	<p>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 (£192.5 million) (note 3)

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 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 (note 5)

Severn Trent Water has a substantial capital programme (fixed asset additions in the year £423.8 million which has been agreed with the regulator ('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 company'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 company'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 retirement benefit obligations (£468.9 million deficit) (note 23)

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

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 23, specifically regarding the discount rate,

Independent auditor's report to the members of Severn Trent Water Limited

assumptions concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners	inflation rate and mortality assumptions with reference to comparable market and other third party data
Determination of current and deferred tax balances (£23.6 million) (note 12)	
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 Severn Trent plc Audit Committee's consideration of these risks is set out on page 63 of the Severn Trent plc Annual Report and Accounts

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

Our application of materiality	<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 company to be £15 million (2014 £15 million), which is approximately 5.0% (2014 approximately 5.0%) 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 company's underlying trading performance, consistent with the company's internal and external reporting.</p> <p>We agreed with the Severn Trent plc 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 Severn Trent plc Audit Committee on disclosure judgements that we identified when assessing the overall presentation of the financial statements.</p>
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An overview of the scope of our audit	Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
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Opinion on other	In our opinion the information given in the Strategic Report and the
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Independent auditor's report to the members of Severn Trent Water Limited

matters prescribed by the Companies Act 2006	Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements
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Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

Directors' remuneration

We have nothing to report in respect of these matters

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made We have nothing to report arising from this matter

Other matters

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code We reviewed the part of the Corporate Governance Statement relating to the company's compliance with the nine provision of the UK Corporate Governance Code We have nothing to report arising from our review

Our duty to read other information in the Annual Report

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

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

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

Independent auditor's report to the members of Severn Trent Water Limited

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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

Jane Whitlock (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK

21 May 2015

Severn Trent Water Limited

Profit and loss account For the year ended 31 March 2015

	Notes	2015 £m	2014 £m
Turnover	4	1,581 2	1,544 8
Operating costs before exceptional items	5	(1,044 6)	(1,028 4)
Exceptional operating items	6	(21 5)	8 2
Total operating costs		(1,066 1)	(1,020 2)
Profit before interest and tax		515 1	524 6
Interest receivable and similar income	9	100 9	87 0
Interest payable and similar charges	10	(325 0)	(332 2)
Net finance costs		(224 1)	(245 2)
(Losses)/gains on financial instruments	11	(159 8)	49 6
Profit on ordinary activities before tax		131 2	329 0
Current tax excluding exceptional tax credit		(36 6)	(56 9)
Deferred tax excluding exceptional credit		13 0	(14 6)
Exceptional tax credit		-	234 7
Total taxation on profit on ordinary activities	12	(23 6)	163 2
Profit for the financial year		107 6	492 2

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

Severn Trent Water Limited

Statement of comprehensive income For the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	107 6	492 2
Other comprehensive (loss)/income		
Items that will not be reclassified to the profit and loss account		
Net actuarial (loss)/gain on defined benefit pension schemes	(139 1)	13 2
Tax on net actuarial gain/loss	26 3	(2 6)
Deferred tax arising on change of rate	-	(11 3)
	(112 8)	(0 7)
Items that may be reclassified to the profit and loss account		
(Loss)/gain on cash flow hedges	(10 5)	11 2
Deferred tax on gain/loss on cash flow hedges	2 1	(2 2)
Amounts on cash flow hedges transferred to the profit and loss account in the period	41 6	3 3
Deferred tax on transfers to the profit and loss account	(8 3)	(0 7)
	24 9	11 6
Other comprehensive (loss)/income for the period	(87 9)	10 9
Total comprehensive income for the period	19 7	503 1

Severn Trent Water Limited

Balance sheet As at 31 March 2015

	Notes	2015 £m	2014 £m
Fixed assets			
Goodwill		1 3	1 3
Intangible fixed assets	14	62 5	69 3
Tangible fixed assets	15	7,190 7	6,988 3
Investments	16	347 9	347 9
Derivative financial assets	22	13 5	30 2
		7,615 9	7,437 0
Current assets			
Stocks		6 1	6 4
Debtors amounts falling due after more than one year	17	293 8	296 9
Debtors amounts falling due within one year	17	457 0	438 2
Derivative financial assets	22	11.5	9 4
Cash at bank and in hand		119 1	19 8
		887 5	770 7
Creditors amounts falling due within one year	19	(909 7)	(732 3)
Net current (liabilities)/assets		(22 2)	38 4
Total assets less current liabilities		7,593 7	7,475 4
Creditors amounts falling due after more than one year	20	(5,612 2)	(5,406 3)
Retirement benefit obligation	23	(468 9)	(348 3)
Provisions for liabilities and charges	24	(656 0)	(687 2)
Net assets		856 6	1,033 6
Capital and reserves			
Called up share capital	26	100 0	100 0
Hedging reserve	27	(98 4)	(123 3)
Profit and loss account		855 0	1,056 9
Total shareholder's funds		856 6	1,033 6

The financial statements were approved by the board of directors on 21 May 2015. They were signed on its behalf by



Andrew Duff
Chairman
21 May 2015
Company Number 02366686

James Bowling
Finance Director

Severn Trent Water Limited

Statement of changes in equity For the year ended 31 March 2015

	Share capital £m	Hedging reserves £m	Profit and loss account £m	Total £m
At 1 April 2013	100 0	(134 9)	902 4	867 5
Profit for the year	-	-	492 2	492 2
Gains on cash flow hedges	-	11 2	-	11 2
Deferred tax on gains on cash flow hedges	-	(2 2)	-	(2 2)
Amounts on cash flow hedges transferred to the profit and loss account	-	3 3	-	3 3
Deferred tax on transfers to the profit and loss account	-	(0 7)	-	(0 7)
Actuarial gains	-	-	13 2	13 2
Deferred tax on actuarial gains	-	-	(2 6)	(2 6)
Deferred tax arising from rate change	-	-	(11 3)	(11 3)
Total comprehensive income for the year	-	11 6	491 5	503 1
Share options and LTIPs				
- value of employees' services	-	-	5 8	5 8
- shares purchased	-	-	(2 8)	(2 8)
Dividends paid	-	-	(340 0)	(340 0)
At 31 March 2014	100 0	(123 3)	1,056 9	1,033 6
Profit for the year	-	-	107 6	107 6
Loss on cash flow hedges	-	(10 5)	-	(10 5)
Deferred tax on loss on cash flow hedges	-	2 1	-	2 1
Amounts on cash flow hedges transferred to the profit and loss account	-	41 6	-	41 6
Deferred tax on transfers to the profit and loss account	-	(8 3)	-	(8 3)
Actuarial losses	-	-	(139 1)	(139 1)
Deferred tax on actuarial gains	-	-	26 3	26 3
Total comprehensive income for the year	-	24 9	(5 2)	19 7
Share options and LTIPs				
- value of employees' services	-	-	7 6	7 6
- shares purchased	-	-	(2 4)	(2 4)
Current tax on share based payments	-	-	1 3	1 3
Deferred tax on share based payments	-	-	0 5	0 5
Dividends paid	-	-	(203 7)	(203 7)
At 31 March 2015	100 0	(98 4)	855 0	856 6

Severn Trent Water Limited

Cash flow statement For the year ended 31 March 2015

	Note	2015 £m	2014 £m
Cash generated from operations	29	760 9	774 4
Tax paid		(24 9)	(14 5)
Net cash generated from operating activities		736 0	759 9
Investing activities			
Interest received		1 1	2 5
Interest received from intercompany finance leases		5 2	5 2
Dividends received from subsidiaries		8 2	2 4
Proceeds on disposal of intangible and tangible assets		10 5	10 1
Purchases of intangible assets		(15 4)	(8 2)
Purchases of tangible assets		(423 8)	(473 4)
Contributions and grants received		36 2	30 3
Net cash used in investing activities		(378 0)	(431 1)
Financing activities			
Interest paid		(206 5)	(187 6)
Interest element of finance lease payments		(8 8)	(7 3)
Interest element of intercompany finance lease payments		(11 3)	(11 3)
Closed out swaps		(139 2)	–
Dividends paid		(203 7)	(340 0)
Repayments of borrowings		–	(168 6)
Repayments of intercompany borrowings		(348 9)	(320 2)
New loans raised		684 3	–
New intercompany loans raised		11 9	412 7
Repayments of obligations under finance leases		(31 9)	(10 4)
Repayments of obligations under intercompany finance leases		(2 7)	(2 6)
Receipts from intercompany finance lease		0 5	0 5
Purchase of shares in ultimate parent company		(2 4)	(2 8)
Net cash used in financing activities		(258 7)	(637 6)
Increase/(decrease) in cash and cash equivalents		99 3	(308 8)
Net cash and cash equivalents at beginning of period		19 8	328 6
Net cash and cash equivalents at end of period		119 1	19 8

Severn Trent Water Limited

Notes to the financial statements

1. Accounting policies

a) Accounting convention

The financial statements have been prepared on the going concern basis (see Directors' report) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value, and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the United Kingdom Companies Act 2006 ('the Act'). The principal accounting policies, which have been applied consistently in the current and preceding year are set out below

b) Basis of preparation

The company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated accounts of Severn Trent Plc. Consequently, the directors have taken advantage of the exemption available under section 400 of the United Kingdom Companies Act 2006 from preparing group accounts

The 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 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 and also where required, equivalent disclosures are given in the group accounts of Severn Trent Plc. The group accounts of Severn Trent Plc are available to the public and can be obtained as set out in note 33

c) Turnover

Turnover represents the fair value of consideration receivable, excluding value added tax, in the ordinary course of business for services provided

Turnover is not recognised until the service has been provided 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

d) Interest receivable and similar income

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

Dividend income from investments is recognised when the company's rights to receive payment have been established. Interest and dividend income are included in interest receivable and similar income

Severn Trent Water Limited

Notes to the financial statements

e) 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

f) Taxation

Current tax payable is based on taxable profit for the year. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

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

g) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill

Goodwill is tested for impairment in accordance with the policy set out in note 1i) below and carried at cost less accumulated impairment losses

h) Intangible fixed 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 profit and loss account through operating costs

Intangible assets are reviewed for impairment where indicators of impairment exist, (see 1i) below)

Development expenditure is capitalised as an intangible fixed 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 cost can be measured reliably

Research expenditure is expensed when it is incurred

Severn Trent Water Limited

Notes to the financial statements

i) Tangible fixed assets

Tangible fixed assets are held at cost (or at deemed cost for infrastructure assets on transition to FRS 101) less accumulated depreciation. Expenditure on tangible fixed assets relating to research and development projects is capitalised and written off over the expected useful lives of those assets.

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

Where tangible fixed assets are transferred to the company 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.

Tangible fixed assets are depreciated to their estimated residual values over their estimated useful lives, with the exception of freehold land which is not depreciated. Assets under 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 company obtains assets which transfer substantially all the risks and rewards of ownership of an asset to the company 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 and a corresponding liability representing the obligation to the lessor is recognised. 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 profit and loss account 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 company at the end of the lease.

Severn Trent Water Limited

Notes to the financial statements

Where the company transfers substantially all the risks and rewards of ownership of an asset to a lessee (finance lease), the assets are accounted for as if they had been sold, and the net investment in the lease is shown as a receivable due from the lessee. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance lease income, such that finance lease income produces a constant rate of return on the net cash investment in the lease. Finance lease income is included within interest receivable and similar income.

k) Grants and contributions

Grants and contributions received in respect of fixed 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 fixed 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 fixed assets

If the recoverable amount of goodwill, a tangible fixed asset, or any other fixed asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Severn Trent Water is considered to be a single cash-generating unit. Therefore where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the company as a whole. 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 company's estimated cost of capital.

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 fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised immediately in the profit and loss account.

m) Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Investments in subsidiaries are reviewed for impairment in line with note 1l) when indicators of impairment have been identified.

n) Stocks

Stock 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 debtors

Trade debtors, 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.

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

Severn Trent Water Limited

Notes to the financial statements

p) Retirement benefits

(i) Defined benefit scheme

The company is the sponsoring employer of the Severn Trent group's defined benefit pension schemes. As there is no contractual agreement or stated policy for allocating the net defined benefit cost to individual group entities this company has recognised the full cost and net deficit relating to the 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, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is included in operating costs. Finance income and cost are calculated by applying the discount rate used to determine the present value of the scheme liabilities at the opening balance sheet date to the value of the scheme assets or liabilities respectively.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to equity and recorded in the statement of comprehensive income. Contributions made by other Severn Trent group companies have been disclosed within actuarial gains and losses in the statement of changes in comprehensive income.

(ii) Defined contribution scheme

The company participates in the Severn Trent group's defined contribution pension schemes. Contributions to defined contribution pension schemes are charged to the profit and loss in the period in which they fall due.

q) 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.

Self-insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the parent company'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.

r) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 1s).

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 profit and loss account 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.

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Notes to the financial statements

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.

s) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 22 d). 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 profit and loss account.

Derivatives designated as hedging instruments

The company 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 company 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 company 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 profit and loss account. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the profit and loss account 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 profit and loss account 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 profit and loss account. When the gain or loss from the hedged underlying transaction is recognised in the profit and loss account, 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 profit and loss account.

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

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Notes to the financial statements

financial instruments in the profit and loss account 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 profit and loss account. 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 profit and loss account 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 profit and loss account.

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

t) Share based payments

The Severn Trent 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 charge is adjusted to reflect shares that are not expected to vest as a result of failing to meet a non-market condition.

The grant of awards of shares of the ultimate parent company is treated as a capital contribution and credited to reserves. When awards vest, payments made to the ultimate parent company for the issue of shares are charged against the capital contributions previously received in respect of the same awards. Any payments in excess of capital contributions are treated as distributions.

u) Foreign currency

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 profit and loss account.

2. New accounting policies and future requirements

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

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

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

IFRS 15 "Revenue from contracts with customers" will affect the measurement and recognition of revenue with effect from 1 April 2019 subject to adoption by the EU. The impacts of the changes arising from the standard have not yet been quantified.

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Notes to the financial statements

3. Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies, the company 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. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the tax authority.

The key accounting estimates were

a) Depreciation and carrying amounts of tangible fixed assets

Calculating the depreciation charge and hence the carrying value for tangible fixed assets requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the company's experience of similar assets. Details are set out in note 1i).

b) Retirement benefit obligations

As the sponsoring employer of the Severn Trent group's defined benefit pension scheme, the company recognises the full cost and net deficit relating to the schemes. Determining the amount of 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 company makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 23 a) to the financial statements.

c) Unbilled revenue

The company 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 is dependent upon 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 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.

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Notes to the financial statements

4. Revenue

The principal activity of the company is the treatment and the provision of water and the removal of waste water in England and Wales

	2015 £m	2014 £m
Regulated water and sewerage services	1,572.7	1,536.6
Other services	8.5	8.2
Total turnover	1,581.2	1,544.8
Dividend income (note 9)	8.2	2.4
Interest receivable (note 9)	12.6	8.6
	1,602.0	1,555.8

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Notes to the financial statements

5 Operating costs

	2015			2014		
	Before Exceptional costs	Exceptional costs	Total	Before Exceptional costs	Exceptional costs	Total
	£m	£m	£m	£m	£m	£m
Wages and salaries	193 1	10 6	203 7	189 2	-	189 2
Social security costs	17 5	0 1	17 6	17 3	-	17 3
Pension costs	31 2	17 9	49 1	30 3	-	30 3
Share based payments	7 6	-	7 6	6 1	-	6 1
Total employee costs	249 4	28 6	278 0	242 9	-	242 9
Power	63 9	-	63 9	65 3	-	65 3
Carbon reduction commitment	7 3	-	7 3	5 9	-	5 9
Raw materials and consumables	47 4	-	47 4	42 5	-	42 5
Rates	73 4	-	73 4	74 8	-	74 8
Charge for bad and doubtful debts	28 4	-	28 4	31 3	-	31 3
Service charges	32 6	-	32 6	31 6	-	31 6
Depreciation of tangible fixed assets	276 7	-	276 7	267 5	-	267 5
Amortisation of intangible fixed assets	22 2	-	22 2	28 0	-	28 0
Infrastructure maintenance expenditure	134 8	-	134 8	140 3	-	140 3
Hired and contracted services	152 3	-	152 3	140 3	-	140 3
Operating lease rentals						
- land and buildings	0 2	-	0 2	0 4	-	0 4
- other	-	-	-	0 3	-	0 3
Hire of plant and machinery	-	-	-	3 1	-	3 1
Profit on disposal of fixed assets	(0 4)	(7 7)	(8 1)	(0 3)	(8 2)	(8 5)
Research and development	4 6	-	4 6	4 1	-	4 1
Ofwat license fees	5 3	-	5 3	3 7	-	3 7
Other operating costs	49 0	0 6	49 6	48 8	-	48 8
	1,147 1	21 5	1,168 6	1,130 5	(8 2)	1,122 3
Release from deferred income	(10 1)	-	(10 1)	(9 5)	-	(9 5)
Own work capitalised	(92 4)	-	(92 4)	(92 6)	-	(92 6)
	1,044 6	21 5	1,066 1	1,028 4	(8 2)	1,020 2

Further details of exceptional costs are given in note 6

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 2
- other assurance services	0 3	0 4
Total audit fees	0 5	0 6
Fees payable to the company's auditors for non-audit services	0 1	0 1
	0 6	0 7

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Notes to the financial statements

6. Exceptional items before tax

	2015	2014
	£m	£m
Restructuring costs	29.2	-
Profit on disposal of fixed assets	(7.7)	(8.2)
	21.5	(8.2)

7 Employee information

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

	2015	2014
	Number	Number
Average number of employees	5,532	5,634

8. Directors' interests and remuneration

a) Directors' interests

All of the directors as at the end of the year are also directors of Severn Trent Plc, the ultimate parent undertaking, and their interests in the share capital of that company are disclosed in the Severn Trent Plc Annual Report and Accounts of that company for the year ended 31 March 2015. Share options were granted and exercised in accordance with the Severn Trent Sharesave Scheme as appropriate.

The executive directors have further interests in Severn Trent Plc ordinary shares of 97¹⁷/₁₉ p each by virtue of having received contingent awards of shares under the Severn Trent Long Term Incentive Plan (LTIP), deferred shares under the Severn Trent Annual Bonus Scheme and contingent shares under the Share Matching Plan.

The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are disclosed in the Annual Report and Accounts of Severn Trent Plc for the year ended 31 March 2015.

b) Directors' remuneration

The following table shows the remuneration due to directors for their services to the company during the year.

	2015	2014
	£m	£m
Aggregate directors' emoluments during the year (excluding pension contributions)	4.3	4.6
Pension contributions	0.1	0.1
	4.4	4.7

The emoluments of the non-executive directors are paid by Severn Trent Plc.

There were no retirement benefits accruing to directors (2014: one director) under a defined benefit scheme and four directors (2014: one director) under a defined contribution scheme.

Six directors (2014: five directors) exercised share options or received LTIP awards which vested during the year.

Severn Trent Water Limited

Notes to the financial statements

8. Directors' interests and remuneration (continued)

c) Highest paid director

	2015 £m	2014 £m
Aggregate emoluments (excluding pension contributions)	1 0	1 3

The highest paid director at 31 March 2015 was not a member of the defined benefit pension scheme and did not have an accrued pension at that date (2014 £30,743 per annum)

9. Interest receivable and similar income

	2015 £m	2014 £m
Interest revenue earned on		
- bank deposits	0 4	1 2
- amounts due from group undertakings	1 6	1 9
- amounts due from group undertakings for finance leases	5 2	5 2
Other finance income	5 4	0 3
Total interest receivable	12 6	8 6
Dividend income	8 2	2 4
Interest income on defined benefit scheme assets	80 1	76 0
Total interest receivable and similar income	100 9	87 0

10 Interest payable and similar charges

	2015 £m	2014 £m
Interest payable and similar charges on		
- amounts payable to group undertakings	(191 0)	(201 3)
- amounts payable to group undertakings from finance leases	(11 2)	(11 3)
- finance leases	(8 7)	(9 7)
- bank and other loans	(19 5)	(15 1)
Total borrowing costs	(230 4)	(237 4)
Other finance expenses	(0 1)	(3 1)
Pension interest cost	(94 5)	(91 7)
Total interest payable and similar charges	(325 0)	(332 2)

Borrowing costs of £19.1 million (2014 £13.8 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.00% (2014 5.11%). Tax relief of £4.0 million ((2014 £3.2 million) was claimed on these cost which was credited to the profit and loss account, offset by a related deferred tax charge of £3.8 million (2014 £2.8 million)

Severn Trent Water Limited

Notes to the financial statements

11 (Losses)/gains on financial instruments

	2015 £m	2014 £m
Gain/(loss) on cross currency swaps used as hedging instruments in fair value hedges	0.2	(16.9)
Gain arising on adjustment for foreign currency debt in fair value hedges	0.3	16.3
Exchange gain on other loans	2.5	11.7
Loss on cash flow hedges transferred from equity	(41.6)	(3.3)
Hedge ineffective on cash flow hedges	2.3	1.7
(Loss)/gain arising on swaps where hedge accounting is not applied	(123.5)	40.1
	(159.8)	49.6

12. Tax on profit on ordinary activities

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

	2015			2014
	Before exceptional tax £m	Before exceptional tax £m	Exceptional tax £m	Total £m
Current tax				
UK corporation tax at 23% (2014 24%)				
- current year	48.2	47.5	-	47.5
- adjustment in respect of prior years	(11.6)	9.4	(59.2)	(49.8)
Total current tax	36.6	56.9	(59.2)	(2.3)
Deferred tax				
Origination and reversal of temporary differences				
- current year	(19.5)	25.4	-	25.4
- adjustment in respect of prior years	6.5	(10.8)	(56.2)	(67.0)
Exceptional credit arising from rate change	-	-	(119.3)	(119.3)
Total deferred tax	(13.0)	14.6	(175.5)	(160.9)
	23.6	71.5	(234.7)	(163.2)

The current tax charge was £36.6 million (2014 charge of £56.9 million before exceptional tax). This includes a credit of £11.6 million (2014 charge of £9.4 million) arising from adjustments to prior year tax computations.

In the prior year an exceptional 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 has 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 a deferred tax credit of £119.3 million in the income statement and a deferred tax charge of £11.3 million in reserves.

Severn Trent Water Limited

Notes to the financial statements

12. Tax on profit on ordinary activities

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

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

	2015 £m	2014 £m
Profit on ordinary activities before tax	131.2	329.0
Profit on ordinary activities multiplied by the standard UK corporation rate of 21% (2014 23%)	27.6	75.7
Tax effect of expenditure not deductible/(income not taxable) in determining taxable profits	1.1	2.6
Current year impact of rate change	-	(5.4)
Exceptional deferred tax credit arising from rate change	-	(119.3)
Adjustments to tax charge in respect of prior periods	(5.1)	(116.8)
Total tax charge/(credit) for the year	23.6	(163.2)

c) Tax credited to equity

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

	2015 £m	2014 Restated £m
Current tax		
Tax on share based payments	(1.3)	-
Tax on pension contributions in excess of profit and loss charge	(2.1)	-
Total current tax credited to equity	(3.4)	-
Deferred tax		
Tax on actuarial gains/losses	(24.2)	(2.6)
Tax on share based payments	(0.5)	-
Effect of change in tax rate	-	(11.3)
Tax on transfers to the profit and loss account	8.3	(0.7)
Tax on cash flow hedges	(2.1)	(2.2)
Total deferred tax credited to equity	(18.5)	(16.8)

Severn Trent Water Limited

Notes to the financial statements

13. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period

	2015		2014	
	Pence per share	£m	Pence per share	£m
Interim dividend	20.4	203.7	34.0	340.0
	20.4	203.7	34.0	340.0

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, future cash flow requirements and balance sheet considerations

The amount declared is expected to vary each year as the impact of these factors changes

14. Intangible fixed assets

	Computer software		Other	Total £m
	Internally generated £m	Purchased £m	Internally generated £m	
Cost				
At 1 April 2014	173.1	67.2	12.0	252.3
Additions	5.7	9.7	-	15.4
Disposals	-	(21.4)	-	(21.4)
At 31 March 2015	178.8	55.5	12.0	246.3
Amortisation				
At 1 April 2014	(137.3)	(35.6)	(10.1)	(183.0)
Amortisation for year	(10.8)	(10.8)	(0.6)	(22.2)
Disposals	-	21.4	-	21.4
At 31 March 2015	(148.1)	(25.0)	(10.7)	(183.8)
Net book value				
At 31 March 2015	30.7	30.5	1.3	62.5
At 31 March 2014	35.8	31.6	1.9	69.3

Severn Trent Water Limited

Notes to the financial statements

15. Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Total £m
Cost					
At 1 April 2014	2,900 0	4,540 3	3,844 6	48 9	11,333 8
Additions	122 5	152 9	200 6	5 5	481 5
Disposals	(10 0)	-	(76 4)	(4 8)	(91 2)
At 31 March 2015	3,012 5	4,693 2	3,968 8	49 6	11,724.1
Depreciation					
At 1 April 2014	(971 5)	(1,182 2)	(2,161 5)	(30 3)	(4,345 5)
Charge for the year	(67 5)	(32 0)	(172 4)	(4 8)	(276 7)
Disposals	8 2	-	76 3	4 3	88 8
At 31 March 2015	(1,030 8)	(1,214 2)	(2,257 6)	(30 8)	(4,533.4)
Net book value					
At 31 March 2015	1,981 7	3,479 0	1,711 2	18 8	7,190 7
At 31 March 2014	1,928 5	3,358 1	1,683 1	18 6	6,988 3

The carrying amount of tangible fixed assets includes the following amounts in respect of assets held under finance leases

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value				
At 31 March 2015	177 0	118 7	26 6	322 2
At 31 March 2014	180 6	119 6	38 5	338 7

Tangible fixed assets under construction of £559.4 million (2014 £589.8 million) which are not depreciated. Cumulative borrowing costs capitalised included in the cost of tangible fixed assets amount to £67.6 million (2014 £48.5 million).

The net book value of land and buildings is analysed as follows

	2015 £m	2014 £m
Freehold	1,981 4	1,928 2
Short leasehold	0 3	0 3
	1,981 7	1,928 5

Severn Trent Water Limited

Notes to the financial statements

16. Fixed asset investments

Shares in subsidiary undertakings
£m

Cost and net book value

At 1 April 2014 and 31 March 2015

347.9

The company has the following subsidiary undertakings

Subsidiary undertakings	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
East Worcester Water Limited	England and Wales	Finance company	100% Ordinary and 100% non-voting
Severn Trent General Partnership Limited	Scotland	Finance company	100% Ordinary
Severn Trent LCP Limited	England and Wales	Leasing company	100% Ordinary
Severn Trent Leasing Limited	England and Wales	Leasing company	100% Ordinary
Severn Trent Reservoirs Limited	England and Wales	Finance company	100% Ordinary
Severn Trent Utilities Finance Plc	England and Wales	Finance company	100% Ordinary

The company also has an indirect investment in Severn Trent Limited Partnership, a limited partnership registered in Scotland, as a result of Severn Trent General Partnership Limited being the general partner

In the opinion of the directors the fair values of the company's investments are not less than the amount at which they are stated in the balance sheet

17. Debtors

Amounts falling due within one year

	2015 £m	2014 £m
Trade debtors	279.0	267.1
Doubtful debt provision	(122.5)	(118.2)
Net trade debtors	156.5	148.9
Amounts receivable from group undertakings under finance leases	0.5	0.5
Other amounts due from group companies	16.5	6.3
Other debtors	30.9	23.2
Corporation tax	25.6	50.7
Prepayments and accrued income	227.0	208.6
	457.0	438.2

Amounts falling due after more than one year

	2015 £m	2014 £m
Loans to group companies	108.3	107.0
Amounts receivable from group undertakings under finance leases	100.3	100.8
Prepayments and accrued income	85.2	89.1
	293.8	296.9

Severn Trent Water Limited

Notes to the financial statements

18. Finance lease receivables

Minimum lease payments receivable are as follows

	2015 £m	2014 £m
Within one year	5 7	5 7
Between one and two years	5 7	5 7
Between two and five years	17 0	17 0
After five years	244 1	249 8
	272 5	278 2
Less unearned interest receivable	(171 7)	(176 9)
	100 8	101 3

The present values of minimum lease payments receivable are as follows

	2015 £m	2014 £m
Within one year	0 5	0 5
Between one and two years	0 6	0 5
Between two and five years	1 8	1 7
After five years	97 9	98 6
	100 8	101 3

Disclosed in the balance sheet as

Debtors amounts falling due within one year	0 5	0 5
Debtors amounts falling due after one year	100 3	100 8
	100 8	101 3

The company has granted finance leases of between 44 and 57 years in respect to concrete settling tanks. The interest terms were set at the inception of the leases. Leases bear interest at a weighted average interest rate of 5.1% (2014 5.1%).

Severn Trent Water Limited

Notes to the financial statements

19. Creditors: amounts falling due within one year

	2015 £m	2014 £m
Loans due to parent and fellow subsidiary undertakings	470 8	306 2
Amounts owed to parent and fellow subsidiary undertakings under finance leases	2 8	2 7
Obligations under finance leases	50 1	32 0
Borrowings	523 7	340 9
Trade creditors	25 4	15 6
Other amounts owed to parent and fellow subsidiary undertakings	62 7	70 0
Other creditors	6 6	5 9
Other taxation and social security	5 2	5 2
Accruals and deferred income	285 6	270 0
Derivative financial liabilities	0 5	24 7
	909 7	732 3

20. Creditors: amounts falling due after more than one year

	2015 £m	2014 £m
Bank loans	1,240 7	555 2
Loans due to parent and fellow subsidiary undertakings	3,235 0	3,699 2
Amounts owed to parent and fellow subsidiary undertakings under finance leases	205 3	208 1
Obligations under finance leases	224 9	274 9
Borrowings	4,905 9	4,737 4
Other creditors	-	0 1
Accruals and deferred income	541 7	488 5
Derivative financial liabilities	164 6	180 3
	5,612 2	5,406 3

Borrowings are repayable as follows

	2015			2014		
	Loans not repayable by instalments £m	Finance leases £m	Total £m	Loans not repayable by instalments £m	Finance leases £m	Total £m
Financial liabilities due within one year	(470.8)	(52.9)	(523.7)	(306.2)	(34.7)	(340.9)
Between one and two years	(150.0)	(43.4)	(193.4)	(567.7)	(52.8)	(620.5)
Between two and five years	(1,033.5)	(67.9)	(1,101.4)	(697.9)	(86.8)	(784.7)
After more than five years	(3,292.2)	(318.9)	(3,611.1)	(2,988.8)	(343.4)	(3,332.2)
Total financial liabilities due after one year	(4,475.7)	(430.2)	(4,905.9)	(4,254.4)	(483.0)	(4,737.4)
	(4,946.5)	(483.1)	(5,429.6)	(4,560.6)	(517.7)	(5,078.3)

Severn Trent Water Limited

Notes to the financial statements

20. Creditors: amounts falling due after more than one year (continued)

Loans repayable partly or wholly after five years comprise

2015	5-10 years £m	10-15 years £m	15-20 years £m	>20 years £m	£m
Loans due to parent and fellow subsidiary undertakings					
Fixed rate	296 6	913 3	196 0	246 9	1,652 8
Floating rate	75 0	33 5	-	-	108 4
RPI linked	37 2	149 6	-	888 5	1,075 3
	408 8	1,096 4	196 0	1,135 4	2,836 5
Bank loans					
Fixed rate	150 0	-	-	-	150 0
Floating rate	199 3	-	-	-	199 3
RPI linked	106 4	-	-	-	106 4
	455 7	-	-	-	455 7
	864 4	1,096 4	196 0	1,135 4	3,292 2
2014					
	5-10 years £m	10-15 years £m	15-20 years £m	>20 years £m	£m
Loans due to parent and fellow subsidiary undertakings					
Fixed rate	296 2	494 0	606 3	246 8	1,643 3
Floating rate	-	20 0	13 7	-	33 7
RPI linked	-	182 3	-	874 3	1,056 6
	296 2	696 2	620 0	1,121 1	2,733 6
Bank loans					
Fixed rate	150 0	-	-	-	150 0
Floating rate	-	-	-	-	-
RPI linked	105 2	-	-	-	105 2
	255 2	-	-	-	255 2
	551 5	696 2	620 0	1,121 1	2,988 8

The weighted average interest rate on borrowings is 3.57% (2014 5.44%)

Severn Trent Water Limited

Notes to the financial statements

21. Finance lease creditor

The minimum payments under finance leases are as follows

	2015 £m	2014 £m
Within one year	71 7	53 2
Between one and two years	60 9	71 7
Between two and five years	116 9	137 6
After five years	470 1	496 5
	719 6	759 0
Less future finance charges	(236 5)	(241 3)
Present value of lease obligations	483 1	517 7

The present values of minimum lease payments are disclosed within note 20

The remaining terms of finance leases ranged from 1 to 18 years at 31 March 2015. Interest terms are set at the inception of the leases. Leases which bear fixed interest at a weighted average rate of 5.2% (2014 5.4%) have capital outstanding of £388.0 million (2014 £415.0 million). 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.

22. Financial instruments

a) Categories of financial assets held at fair value

	2015 £m	2014 £m
Fair value through profit and loss		
Interest rate swaps - not hedge accounted	4 2	12 1
	4 2	12 1
Derivatives designated as hedging instruments		
Cross currency swaps - fair value hedges	20 8	27 5
	20 8	27 5
Total derivative financial assets	25 0	39 6

b) Categories of financial liabilities held at fair value

	2015 £m	2014 £m
Fair value through profit and loss		
Cross currency swaps - not hedge accounted	-	(21 7)
Interest rate swaps - not hedge accounted	(164 3)	(140 7)
	(164 3)	(162 4)
Derivatives designated as hedging instruments		
Interest rate swaps - cash flow hedges	-	(39 6)
Energy swaps - cash flow hedges	(0 8)	(3 0)
	(0 8)	(42 6)
	(165 1)	(205 0)

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Notes to the financial statements

22. Financial instruments (continued)

c) Derivatives

The company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. These risks are managed centrally by the Severn Trent group treasury department. Derivative financial instruments are not held for trading.

Interest rate swaps - unhedged

The company has interest rate swaps in place to manage its exposure to interest rate risk arising from its anticipated borrowing requirements. Under the terms of the interest rate swaps, the company agrees with other parties to exchange, mainly semi-annually, the difference between fixed contract and floating rate interest rate swaps to hedge future debt. Economically these act to fix the interest cost of debt which is denominated as floating rate, but do not achieve hedge accounting under the strict criteria of IAS 39.

In March 2015 the group cancelled interest rate swaps with a notional principal amount of £275 million, paying an average fixed rate interest of 5.2%, for a cash payment of £139.2 million. The cash payment represented the fair value of the swaps at the date of termination and so extinguished the derivative liability on the balance sheet. The unamortised balance in reserves relating to these instruments, which arose on transition to FRS 101, has been recycled to the profit and loss account as required by IAS 39.

Interest rate swaps - hedged

At the beginning of AMP 5 the company entered into a number of interest rate contracts with future start dates during the regulatory period to hedge the interest rate risk on debt which was highly probable to be issued during the AMP to fund the company's capital programme. In the second half of the year swaps with a notional value of £225 million reached their start dates and hedge accounting was terminated from 1 October 2014 because the company was not able to identify specific debt instruments that would qualify as the hedge items in a future hedging relationship.

Cross currency swaps

The company holds cross currency swaps to manage the exchange rate risk arising from foreign currency borrowings. Under the terms of the contracts, the company agrees with other parties to swap the foreign currency 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 these are expected to be effective hedges. These are accounted for as fair value hedges where the criteria of IAS 39 are met. In March 2015 the year the company bought back 26% of €700 million European Medium Term Notes. The same proportion of the corresponding cross currency swap was terminated on the same date.

Forward foreign exchange contracts

The company does not have a significant transactional exposure to exchange rates but holds a small number of forward foreign exchange contracts which are not material. These are not in designated hedge relationships and so are classified as 'Held for trading'.

Energy swaps

The company 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.

Severn Trent Water Limited

Notes to the financial statements

22. Financial instruments (continued)

d) Fair value measurements recognised in the balance sheet

The fair values of financial instruments that are measured subsequent to initial recognition at fair value, are based on observable inputs other than quoted prices for identical instruments

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. 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

Cross currency swaps are valued by reference to 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 at the year end

Forward exchange contracts are valued by reference to observable forward exchange rates at the year end and contract forward rates discounted at a rate that reflects the credit risk of counterparties

e) Changes in value of financial instruments at fair value

Changes in fair value which are included in the profit and loss account are set out in note 11

23. Retirement benefit scheme

a) Defined benefit pension schemes

The company is the sponsoring employer of the defined benefit pension schemes operated by the Severn Trent group in the UK. As there is no contractual agreement or stated policy for allocating the net defined benefit cost to individual group entities this company has recognised the full cost and deficit

(i) Background

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

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

	<u>Date of last formal actuarial valuation</u>
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

Severn Trent Water Limited

Notes to the financial statements

23. Retirement benefit scheme (continued)

a) Defined contribution scheme (continued)

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

	2015	2014
	£m	£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

Severn Trent Water Limited

Notes to the financial statements

23. Retirement benefit scheme (continued)

a) Defined contribution scheme (continued)

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

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
Company contributions	68 4	63 6
Contribution from intra-group asset backed funding arrangement	8 2	8 2
Other contributions from Severn Trent group companies	4 4	1 2
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

Other contributions from Severn Trent group companies are included in actuarial gains/losses recognised in the statement of comprehensive income

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

	2015 £m	2014 £m
Present value at 1 April	2,171 9	2,108 0
Service cost	22 8	22 4
Past service cost	18 1	0 1
Interest cost	94 5	91 7
Contributions from scheme members	4 8	5 1
Actuarial gains arising from changes in demographic assumptions	-	(15 7)
Actuarial losses arising from changes in financial assumptions	366 2	37 0
Actuarial gains arising from experience adjustments	(29 4)	-
Benefits paid	(93 2)	(76 7)
Present value at 31 March	2,555 7	2,171 9

Severn Trent Water Limited

Notes to the financial statements

23 Retirement benefit scheme (continued)

a) Defined contribution scheme (continued)

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

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 profit and loss account 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 £270.5 million (2014: gain of £97.2 million).

Actuarial gains and losses for the current and prior year are reported in the statement of comprehensive income. The cumulative amount of actuarial gains and losses recognised in equity since the adoption of the recognition and measurement principles of IFRS is a net loss of £459.1 million (2014: net loss of £315.7 million).

In addition, contributions made by other Severn Trent group entities are also included in actuarial gains and losses recognised in the statement of comprehensive income.

Severn Trent Water Limited

Notes to the financial statements

23. Retirement benefit scheme (continued)

a) Defined contribution scheme (continued)

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:

The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows:

Severn Trent Water Limited

Notes to the financial statements

23 Retirement benefit scheme (continued)

a) Defined contribution scheme (continued)

v) Actuarial assumptions (continued)

	2015		2014	
	Men	Women	Men	Women
Mortality table used	'SAPS'		'SAPS'	
Mortality table compared with standard table	S1NMA_L	S1NFA_L	S1NMA_L	S1NFA_L
Future improvement per annum	116%	92%	116%	92%
Remaining life expectancy for members currently aged 65 (years)	1 0%	1 0%	1 0%	1 0%
Remaining life expectancy at age 65 for members currently aged 45 (years)	21 4	24 5	21 3	24 4
	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

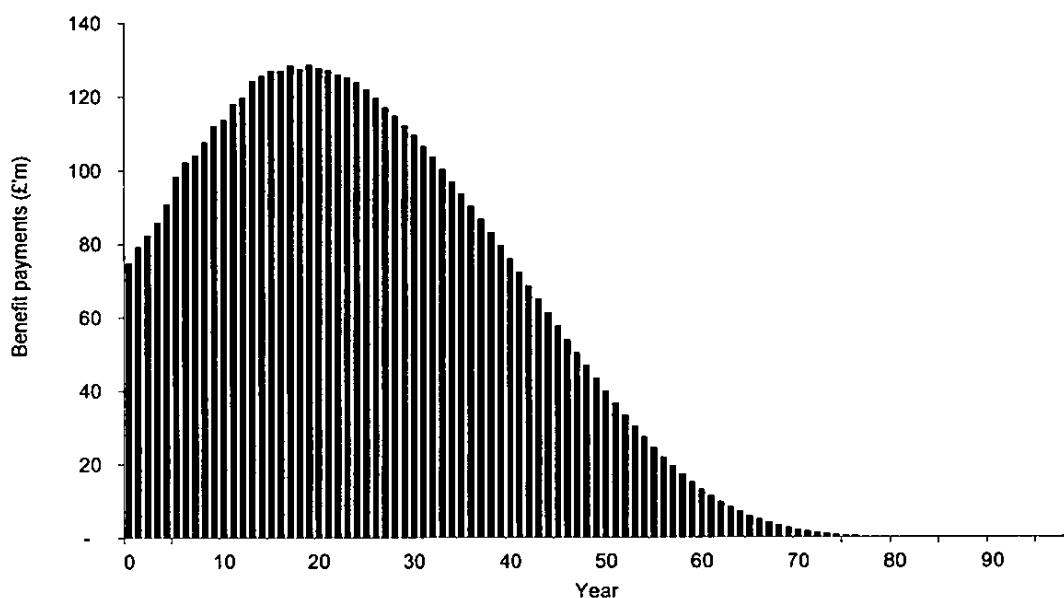
Contribution rates are set in consultation with the trustees for each scheme and each participating employer.

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.

Severn Trent Water Limited

Notes to the financial statements

Expected benefit payments



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 £8.2m will also be made through an asset backing funding arrangement for at least 12 years from 31 March 2015.

b) Defined contribution pension scheme

The company participates in the group defined contribution scheme. The Severn Trent Stakeholder Pension scheme was opened on 1 April 2005. This was replaced by the Severn Trent Group Personal Pension scheme from 1 April 2015 and all members of other pension schemes were transferred. The scheme has been open since 1 April 2012 and new employees were automatically enrolled from this date. The pension charge for this scheme for the year ended 31 March 2015 was £8.2 million (2014: £7.7 million). As at 31 March 2015, contributions amounting to £2.4 million (2014: £2.4 million) in respect of the current reporting period were owed to the schemes.

24. Provisions for liabilities and charges

	Deferred taxation £m	Restructuring £m	Other provisions £m	Total £m
At 1 April 2014	683.0	0.4	3.8	687.2
(Credited)/charged to profit and loss account	(13.0)	10.7	0.1	(2.2)
Utilised in year	-	(9.8)	(0.8)	(10.6)
Charged to other comprehensive income	(18.5)	-	-	(18.5)
Unwinding of discount	-	-	0.1	0.1
At 31 March 2015	651.5	1.3	3.2	656.0

Severn Trent Water Limited

Notes to the financial statements

The restructuring provision reflects costs to be incurred in respect of committed programmes. The associated outflows are expected to arise over the next 12 months from the balance sheet date.

Other provisions consist of dilapidation costs and onerous leasehold property costs. The associated outflows are estimated to arise over a period of up to six years (2014: seven years) from the balance sheet date.

25. Deferred tax

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	Retirement benefit obligation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2013	891.0	(88.1)	(53.7)	77.9	827.1
Reclassification	52.5	-	-	(52.5)	-
Credit to profit and loss account	(61.1)	4.5	10.4	4.6	(41.6)
Credit to profit and loss account arising from rate change	(123.1)	4.1	3.3	(3.6)	(119.3)
Charge to other comprehensive income	-	2.6	2.9	-	5.5
Charge to other comprehensive income arising from rate change	-	7.4	3.7	0.2	11.3
At 1 April 2014	759.3	(69.5)	(33.4)	26.6	683.0
Credit to profit and loss account	13.1	-	(30.4)	4.3	(13.0)
Credit to other comprehensive income	-	(24.2)	6.2	(0.5)	(18.5)
At 31 March 2015	772.4	(93.7)	(57.6)	30.4	651.5

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	(151.3)	(110.0)
Deferred tax liability	802.8	793.0
	651.5	683.0

26. Share capital

	2015 £m	2014 £m
Total issued and fully paid		
1,000,000,000 ordinary shares of 10p each	100.0	100.0
	100.0	100.0

27. Hedging reserve

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.

Severn Trent Water Limited

Notes to the financial statements

28. Share based payments

At 31 March 2015 there were no options exercisable under any of the share based remuneration schemes (2014 nil)

a) Long Term Incentive Plan (LTIP)

Under the LTIP annual conditional awards of shares in the ultimate parent company may be made to executive directors and senior staff Awards are subject to performance conditions and continued employment throughout the vesting period

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%)

The weighted average remaining contractual life of the awards is 1.31 (2014 1.22)

b) Employee Sharesave Scheme

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

The weighted average share price at the date of exercise for share options exercised during the period was £19.74 (2014 £18.12) The options outstanding at 31 March 2015 had a weighted average option price of £16.81 (2014 £11.25) and a weighted average remaining contractual life of 2.14 years (2014 1.87 years)

c) Share Matching Plan (SMP)

Under the terms of the Share Matching Plan members of the Executive Committee 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

d) 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

Severn Trent Water Limited

Notes to the financial statements

29. Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2015 £m	2014 £m
Profit before interest and tax	515 1	524 6
Depreciation of tangible fixed assets	276 7	267 5
Amortisation of intangible fixed assets	22 2	28 0
Pension service cost	40 9	22 5
Pension contributions	(68 4)	(63 6)
Pension administration costs	2 9	3 0
Share based payments charge	7 6	5 8
Profit on sale of tangible fixed assets	(8 1)	(8 5)
Deferred income movement	(10 1)	(9 5)
Provisions charged to the profit and loss account	10 8	0 4
Utilisation of provisions for liabilities and charges	(10 6)	(1 4)
Operating cashflows before movements in working capital	779 0	768 8
Decrease/(increase) in stocks	0 2	(0 4)
(Increase)/decrease in debtors	(34 2)	2 5
Increase in creditors	15 9	3 5
Cash generated from operations	760 9	774 4
Tax paid	(24 9)	(14 5)
Net cash generated from operating activities	736 0	759 9

b) Non-cash transactions

No additions to fixed assets during the year were financed by new finance leases (2014 nil) Assets transferred from developers were £29.8 million (2014 £24.7 million)

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the profit and loss account

	2015 £m	2014 £m
Restructuring costs	(24 1)	—
Proceeds on disposal of fixed assets	9 4	9 4
	(14 7)	9 4

Severn Trent Water Limited

Notes to the financial statements

29 Cash flow statement (continued)

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
Cash and cash equivalents	19 8	99 3	–	–	–	–	119 1
Loans receivable from other group companies	107 0	–	–	–	–	1 3	108 3
Loans payable to other group companies	(4,005 4)	337 0	0 3	(18 7)	2 6	(21 6)	(3,705 8)
Bank loans	(555 2)	(684 3)	–	(1 2)	–	–	(1,240 7)
Finance leases payable	(307 0)	31 9	–	–	–	–	(275 1)
Intercompany finance leases payable	(210 7)	2 7	–	–	–	–	(208 0)
Finance leases receivable from other group companies	101 3	(0 5)	–	–	–	–	100 8
Cross currency swaps	5 8	–	(3 4)	–	–	18 4	20 8
Net debt	(4,844 4)	(213 9)	(3 1)	(19 9)	2 6	(1 9)	(5,080 6)

30. Financial commitments

a) Investment expenditure commitments

Capital commitments are as follows

	2015 £m	2014 £m
Contracted for but not provided for	73 3	158 0

In addition to these contractual commitments, the company 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 company had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows

	2015 £m	2014 £m
Within one year	1.8	1 7
Between two and five years	4 0	4 0
After five years	4 7	4 8
	10.5	10 5

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

Severn Trent Water Limited

Notes to the financial statements

31. Contingent liabilities

The banking arrangements of the company operate on a pooled basis with certain fellow group undertakings. Under these arrangements participating companies guarantee each others' balances only to the extent that their credit balances can be offset against overdrawn balances of other Severn Trent group companies. At 31 March 2015 the company's maximum liability under this arrangement was £4.1 million (2014: £6.7 million).

32. Related party transactions

Directors' remuneration is disclosed in note 8.

The retirement benefit schemes entered into by the company are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 23.

33. Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the smallest and largest group to consolidate these financial statements. Copies of the Severn Trent Plc consolidated financial statements can be obtained from Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Regulatory accounts – current cost financial statements

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Statement of disclosure of information to auditor

In the case of each of the persons who are directors of the company at the date when this report was approved so far as each of the directors are aware, there is no relevant audit information of which the company's auditor is unaware, and each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Relevant audit information means information needed by the company's auditor in connection with preparing their report. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Water Industry Act 1991

Further to the requirements of company law, the directors are required to prepare financial statements which comply with the requirements of Condition F Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the

Water Services Regulation Authority. This additionally requires the directors to

- a) Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve months,
- b) Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company,
- c) Report to the Water Services Regulation Authority changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities,

d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length, and

e) Keep proper accounting records which comply with Condition F

Diversification and the protection of the core business – Condition F6a

Severn Trent Water hereby advises

a) That in the opinion of the directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment), and

b) That in the opinion of the directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions

Regulatory accounts – current cost financial statements

Ring Fencing – Condition K3 1

In accordance with the requirements of the Water Services Regulation Authority, the board confirmed that, as at 31 March 2015, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made

Liv Garfield
Chief Executive

For and on behalf of the board
22 May 2015

Report of the auditor

To the Water Services Regulation Authority and the Directors of Severn Trent Water Limited

Independent auditor's report to the Water Services Regulation Authority ("WSRA") and Directors of Severn Trent Water Limited

We have audited the Regulatory Accounts of Severn Trent Water Limited for the year ended 31 March 2015 on pages 100 to 126 which comprise

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts and the related notes to the historical cost accounting statements including the statement of accounting policies, and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA,

for our audit work, for this report or for the opinions we have formed

Respective responsibilities of the WSRA, the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 Regulatory Accounts. In addition, we read all the financial and non-financial information presented with the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in

Report of the auditor

To the Water Services Regulation Authority and the Directors of Severn Trent Water Limited

respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland)

The Company has presented the allocation of operating costs and assets in accordance with

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA, in respect of the Accounting Separation Tables the Methodology Statement, and the accounting policies set out on page 61, the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended,
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies and the Methodology statement

Emphasis of matter - Basis of preparation

Without modifying our opinion on the Regulatory Accounts, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') Financial information other

the accounting separation policy set out in note 2 to the accounts and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2015, (the "Methodology Statement") We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland)

than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 100 to 103 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 103

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F, and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts

Report of the auditor

To the Water Services Regulation Authority and the Directors of Severn Trent Water Limited

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Jane Whitlock (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
21 May 2015

Regulatory accounts – historical cost financial statements

Profit and loss account year ended 31 March 2015

	2015			2014		
	Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	Total £m
Turnover	1,560.9	11.8	1,572.7	1,524.6	12.0	1,536.6
Operating costs	(638.2)	(4.9)	(643.1)	(593.5)	(3.6)	(597.1)
Infrastructure renewals charge	(133.9)	-	(133.9)	(134.8)	-	(134.8)
Historical cost depreciation	(262.6)	-	(262.6)	(260.6)	-	(260.6)
Other operating income	8.1	-	8.1	8.5	-	8.5
Operating profit	534.3	6.9	541.2	544.2	8.4	552.6
Other income	1.2	1.8	3.0	1.8	1.8	3.6
Net interest payable*	(366.1)	-	(366.1)	(238.0)	-	(238.0)
Profit on ordinary activities before taxation	169.4	8.7	178.1	308.0	10.2	318.2
Taxation on profit on ordinary activities						
- Current tax	(34.8)	(1.8)	(36.6)	4.6	(2.3)	2.3
- Deferred tax	4.1	-	4.1	141.5	-	141.5
Taxation	(30.7)	(1.8)	(32.5)	146.1	(2.3)	143.8
Profit on ordinary activities after taxation	138.7	6.9	145.6	454.1	7.9	462.0
Dividends	(196.8)	(6.9)	(203.7)	(332.1)	(7.9)	(340.0)
Retained (loss)/ profit for the financial year	(58.1)	-	(58.1)	122.0	-	122.0

*Net interest payable includes dividends receivable

Regulatory accounts – historical cost financial statements

Statement of total recognised gains and losses year ended 31 March 2015

	2015			2014		
	Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	Total £m
Profit for the financial year	138 7	6 9	145 6	454 1	7 9	462 0
Actuarial (loss)/gain	(156 1)	-	(156 1)	(16 1)	-	(16 1)
Tax credit/(charge) on actuarial (loss)/gain	31 2	-	31 2	3 2	-	3 2
Adjustment in respect of tax rate on deferred tax	-	-	-	(11 3)	-	(11 3)
Total recognised gains and losses for the financial year*	13 8	6 9	20 7	429 9	7 9	437 8

*These exclude share based payments and dividends

Regulatory accounts – historical cost financial statements

Balance sheet as at 31 March 2015

	2015			2014		
	Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	Total £m
Fixed assets						
Tangible assets	6,598.7	-	6,598.7	6,454.2	-	6,454.2
Intangible assets	0.7	-	0.7	1.0	-	1.0
Investments-loan to group company	65.6	-	65.6	65.6	-	65.6
Investments-other	347.9	-	347.9	347.9	-	347.9
	7,012.9	-	7,012.9	6,868.7	-	6,868.7
Current assets						
Infrastructure renewal prepayment	1.8	-	1.8	0.8	-	0.8
Other current assets						
Stock	6.1	-	6.1	6.4	-	6.4
Debtors	571.2	-	571.2	592.1	-	592.1
Corporation tax receivable	25.6	-	25.6	50.7	-	50.7
Short term deposits	115.0	-	115.0	13.1	-	13.1
Cash at bank and in hand	0.2	3.9	4.1	1.2	5.5	6.7
	719.9	3.9	723.8	664.3	5.5	669.8
Creditors amounts falling due within one year						
Borrowings	(516.7)	-	(516.7)	(355.3)	-	(355.3)
Other creditors	(368.5)	(3.9)	(372.4)	(346.0)	(5.5)	(351.5)
	(885.2)	(3.9)	(889.1)	(701.3)	(5.5)	(706.8)
Net current liabilities	(165.3)	-	(165.3)	(37.0)	-	(37.0)
Total assets less current liabilities	6,847.6	-	6,847.6	6,831.7	-	6,831.7
Creditors amounts falling due after one year						
Borrowings	(4,892.4)	-	(4,892.4)	(4,784.6)	-	(4,784.6)
Other creditors	(1.3)	-	(1.3)	(1.5)	-	(1.5)
	(4,893.7)	-	(4,893.7)	(4,786.1)	-	(4,786.1)
Provisions for liabilities and charges	(4.4)	-	(4.4)	(4.2)	-	(4.2)
Deferred taxation	(341.6)	-	(341.6)	(351.6)	-	(351.6)
Deferred income	(35.5)	-	(35.5)	(37.5)	-	(37.5)
Pension deficit	(279.8)	-	(279.8)	(184.8)	-	(184.8)
Net assets	1,292.6	-	1,292.6	1,467.5	-	1,467.5
Capital and reserves						
Called up share capital	100.0	-	100.0	100	-	100.0
Profit and loss account	1,192.6	-	1,192.6	1,367.5	-	1,367.5
Shareholders' funds	1,292.6	-	1,292.6	1,467.5	-	1,467.5

Regulatory accounts – historical cost financial statements

Reconciliation between statutory accounts and historical cost regulatory accounts

	2015 £m
Profit and Loss Account / Income Statement	
Turnover	
Per FRS101 statutory accounts	1,581 2
Renewables Obligation Certificate (ROC) income included in operating costs in regulatory accounts	(8 5)
Per regulatory accounts	1,572 7
Per FRS101 statutory accounts	515 1
Items in FRS101 operating profit not in regulatory operating profit	
Non operating income	(3 0)
Amortisation of development costs which have previously been written off in the regulatory accounts	0 6
Depreciation of infrastructure assets	30 6
Depreciation arising on capitalised borrowing costs	2 0
Deferred income recognised relating to fixed assets	(7 0)
Items in regulatory operating profit not in FRS101 operating profit	
Difference between infrastructure renewals charge and infrastructure renewals expenditure	0 9
Goodwill amortisation	(0 3)
Other	4 4
Measurement differences	
Impairment of trade debtors	(3 1)
Difference in pension charge	1 0
Per regulatory accounts	541 2
Balance Sheet	
Tangible assets	
Net book value per FRS101 statutory accounts	7,190 7
Items in FRS101 tangible assets not in regulatory tangible assets	
Remeasurement of infrastructure assets on transition to FRS101	(378 0)
Cumulative impact of transferring assets from customers	(206 1)
Cumulative infrastructure asset depreciation	268 1
Grants and contributions deducted from fixed assets	(290 4)
Cumulative capitalised borrowing costs	(62 3)
Items in regulatory tangible assets not in FRS101 tangible assets	
Cumulative difference between infrastructure renewals charge and infrastructure renewals expenditure	20 4
Infrastructure renewals accrual	(5 9)
Recognition of intangible assets	62 5
Other	(0 3)
Per regulatory accounts	6,598.7

Regulatory accounts – current cost financial statements

Current cost profit and loss account: appointed business year ended 31 March 2015

	Notes	2015			2014		
		Water £m	Sewerage £m	Total £m	Water £m	Sewerage £m	Total £m
Turnover	4a						
Unmeasured - household		350 9	375 9	726 8	351 1	371 5	722 6
Unmeasured - non-household		2 8	8 2	11 0	3 6	9 6	13 2
Measured - household		208 5	195 7	404 2	200 9	186 3	387 2
Measured - non-household		137 5	181 5	319 0	133 7	170 5	304 2
Trade effluent		-	13 2	13 2	-	10 9	10 9
Bulk supplies/intercompany payments		5 3	-	5 3	5 3	-	5 3
Other third party services		37 3	37 7	75 0	36 6	39 6	76 2
Other sources		1 7	4 7	6 4	1 1	3 9	5 0
Total Turnover		744.0	816 9	1,560 9	732 3	792 3	1,524 6
Current operating cost - wholesale	4c	(486 7)	(480 1)	(966 8)	(462 7)	(456 7)	(919 4)
Current operating cost - retail	4c	(65 2)	(64 4)	(129 6)	(60 4)	(66 8)	(127 2)
Other operating income		1 7	1 7	3 4	2 5	2 8	5 3
Working capital adjustment		(0 2)	(0.2)	(0 4)	(2 6)	(2 9)	(5 5)
Current cost operating profit		193 6	273 9	467 5	209 1	268 7	477 8
Other income				1 2			1 8
Net interest payable*				(366 1)			(238 0)
Financing adjustment				31 4			80 5
Current cost profit before taxation				134 0			322 1
Taxation on profit on ordinary activities				-			-
- Current tax				(34 8)			4 6
- Deferred tax				4 1			141 5
Taxation				(30 7)			146 1
Current cost profit attributable to shareholders after taxation				103 3			468 2
Dividend				(196 8)			(332 1)
Current cost retained (loss)/profit for the year				(93 5)			136 1
Net revenue movement out of tariff basket		(0 2)	(0 3)	(0 5)	(1 0)	1 0	-
Back-billing amount identified**		-	-	-	-	-	-

*Net interest payable includes dividends receivable

**Prior year numbers have been updated in line with the expected back billing incentives

Regulatory accounts – current cost financial statements

Statement of total recognised gains and losses: appointed business year ended 31 March 2015

	2015	2014
	£m	£m
Profit for the financial year	103 3	468 2
Actuanal (loss)/gain	(156 1)	(16 1)
Tax on actuanal loss/(gain)	31 2	3 2
Adjustment in respect of change of tax rate on deferred tax	-	(11 3)
Total recognised gains and losses for the financial year*	(21 6)	444 0

*These exclude share based payments and dividends

Regulatory accounts – current cost financial statements

Current Cost Balance sheet: appointed as at 31 March 2015

		2015	2014
		Total	Restated*
	Notes	£m	£m
Fixed assets			
Tangible assets	5	75,129.1	74,317.1
Grants and contributions		(23,065.0)	(22,795.8)
Intangible assets		0.7	1.0
Investments - loan to group company		65.6	65.6
Investments - other		347.9	347.9
		52,478.3	51,935.8
Current assets			
Infrastructure renewal prepayment		1.8	0.8
Other current assets			
Working capital	7	81.9	45.3
Debtors		143.5	209.4
Corporation tax receivable		25.6	50.7
Short term deposits		115.0	13.1
Cash at bank and in hand		0.2	1.2
		368.0	320.5
Creditors' amounts falling due within one year			
Borrowings		(516.7)	(355.3)
Other creditors		(16.7)	(2.2)
		(533.4)	(357.5)
Net current liabilities			
		(165.4)	(37.0)
Total assets less current liabilities			
		52,312.9	51,898.8
Creditors' amounts falling due after more than one year			
Borrowings		(4,892.4)	(4,784.6)
Other creditors		(1.3)	(1.5)
		(4,893.7)	(4,786.1)
Provisions for liabilities and charges			
Deferred taxation		(341.6)	(351.6)
Pension deficit		(279.8)	(184.8)
		(4.4)	(4.2)
Net assets			
		46,793.4	46,572.1
Capital and reserves			
Called up share capital		100.0	100.0
Profit and loss account		907.4	1,118.6
Current cost reserve		45,786.0	45,353.5
		46,793.4	46,572.1
Shareholder's funds			
		46,793.4	46,572.1

*Fixed assets for 2014 have been restated to be shown gross of grants and contributions

Regulatory accounts – current cost financial statements

Current cost cash flow statement: appointed business year ended 31 March 2015

	Notes	2015 Appointed business £m	2014 Appointed business £m
Net cash inflow from operating activities	8	891 5	903 2
Returns on investments and servicing of finance*		(358 8)	(195 4)
Taxation paid		(24 9)	(12 2)
Capital expenditure			
Gross cost of purchase of tangible fixed assets		(449 5)	(489 9)
Grants and contributions received		45 0	38 6
Infrastructure renewals expenditure		(134 9)	(140 3)
Proceeds on disposal of fixed assets		10 5	10 1
Net cash outflow from investing activities		(528 9)	(581 5)
Equity dividends received		8 2	2 4
Equity dividends paid		(196 8)	(332 1)
Net cash outflow before management of liquid resources and financing		(209 7)	(215 6)
Management of liquid resources		(101 9)	313 6
Net cash flow before financing		(311 6)	98 0
Net cash flow from financing		310 6	(91 4)
Net (decrease)/ increase in cash		(1 0)	6 6

*Includes £139.2m in respect of payment to terminate interest rate swaps

Notes to the regulatory accounts

1 Regulatory reporting

The regulatory accounts as reported on pages 102 to 126 should be read in conjunction with the financial review on pages 20 to 24 for further understanding of the performance of the business

In particular, attention is drawn to pages 43 to 47 of the Directors' report which sets out the link between Directors' pay and standards of performance

2 Accounting policies for historical cost and current cost financial statements

a) Basis of preparation

The regulatory financial statements are separate from the statutory financial statements of the company. They have been prepared on a going concern basis (see Directors' Report on page 49)

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the WSRA

Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. IN13 does not permit the regulatory accounts to be based on the new FRS100 accounting framework issued by the Financial Reporting Council and therefore UK GAAP prior to FRS100 has been applied in preparing these regulatory accounts. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006

Following the adoption of FRS101 the company no longer prepares consolidated statutory accounts. These regulatory accounts have therefore been prepared for the company as a stand alone entity and do not include the results or net assets of its subsidiaries

b) Turnover

Turnover represents income receivable from regulated water activities, excluding value added tax

Turnover includes an estimation 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. There have been no changes in methodology in the year.

The Water Industry Act 1991, Chapter 1 A 'Licensing of Water Suppliers' describes the duties imposed on a water and sewage undertaker and the license conditions involved. Regulated activities are consequently those activities that are necessary in order for the appointee to fulfil the functions and duties of a water and sewerage undertaker.

Non - appointed income includes tankered waste income, mast rentals, car park income, marketing income

Turnover is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when

- The company is informed that a customer has left a property and it is not expected to be reoccupied immediately,
- New properties are connected but are not occupied,
- Properties are disconnected following a customer's request, or
- The identity of the customer is unknown

The following activities are undertaken to ensure properties classified as unoccupied are in fact not occupied

- Where the company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the company
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection
- Meter readings are taken for metered unoccupied properties, where

Notes to the regulatory accounts

consumption is recorded, a letter is sent to the property

- Inspections are organised throughout the year by geographical area

c) Operating costs

Income from electricity generation including Renewable Obligation Certificate income is deducted from operating costs

d) Bad and doubtful debts

Provisions are charged to operating costs to reflect the company's assessment of the risk of non recoverability of debtors. Provisions are calculated based on the age of the debtor balance and the company's previous collection experience for balances of that age. The bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system

The company's bad debt write off policy has remained unchanged and has been consistently applied in the current and the prior years

The policy specifies that debt can only be written off if the following criteria are met

- The debt is actually a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note, and
- All available economic options for collection of the debt have been pursued or that debt recovery procedures have proved to be abortive or uneconomic to continue. Uneconomic circumstances are those where, following the application of debt recovery procedures
 - the customer could not be traced without incurring an unreasonable degree of expenditure,
 - the company has an insufficiently sound case to justify further expenditure on debt recovery procedures,

- the likelihood of recovering the debt is so small in particular circumstances that further expenses on debt recovery cannot be justified, or

- The customer does not have any assets or has insufficient assets on which to levy execution, or
- The customer is bankrupt or has gone into liquidation and no dividend has been, or is likely to be, received, or
- The customer has died without leaving an estate or has left an insufficient estate on which to levy execution, and
- The company has been unable to prove its case in court

The above write-off rules apply primarily to customers to whom the company has ceased to provide a service. Only in exceptional circumstances is debt relating to continuing customers considered for write off

e) Research and development

Expenditure on research and development projects is charged to the profit and loss account in the year in which it is incurred

f) Leased assets

Where the company obtains assets under leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are accounted for as if they had been purchased and the fair value of the minimum lease payments is shown as an 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 profit and loss account 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

Where the company obtains assets under leasing arrangements where substantially all the risks and rewards of ownership remain with the lessor, these are classified as operating leases. Rental costs arising under operating

Notes to the regulatory accounts

leases are expensed on a straight line basis over the term of the lease

Where the company transfers substantially all the risks and rewards of ownership of an asset to a lessee (finance lease), the assets are accounted for as if they had been sold, and the net investment in the lease is shown as a receivable due from the lessee. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance lease income, such that finance lease income produces a constant rate of return on the net cash investment in the lease. Finance lease income is included within interest receivable and similar income

g) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill

Goodwill is amortised over its estimated useful life which is 5 years. Provision for any impairment is made as described below

h) Impairment of goodwill and fixed assets

Impairments of goodwill and fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate investments and goodwill, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken

Net realisable value represents the net amount that can be generated through sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit

Impairment reviews are carried out if there is some indication that impairment may have occurred, or, where otherwise required, to ensure that goodwill and fixed assets are not carried above their estimated recoverable amounts

Impairments are recognised in the profit and loss account and, where material, are disclosed as exceptional

i) Investments

Investments held as fixed assets are stated at cost less amounts written off

j) Stock

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

k) 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

Self-insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the parent company'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

l) Pension costs

The company operates both defined benefit and defined contribution schemes

For defined benefit schemes the amounts charged to operating profit are the current and past service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets is shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee

Notes to the regulatory accounts

administered funds Pension scheme assets are measured at bid price and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately

Costs of defined contribution pension schemes are charged to the profit and loss account when they fall due

m) Current and deferred taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in respect of timing differences between the treatment of certain items for taxation and accounting purposes only to the extent that the company has an obligation to pay more tax in the future or a right to pay less tax in the future Deferred tax is measured 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 tax asset is realised or the deferred tax liability is settled

Material deferred tax balances are discounted using an appropriate risk - free discount rate For the purpose of discounting, the period over which accelerated capital allowances in respect of infrastructure assets reverse is determined by the annual costs of maintaining the operating capability of the network based on an allocation of the infrastructure renewals charge to existing and future infrastructure assets

n) Derivatives and other financial instruments

Debt instruments

The costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount Such costs include the cost of issue and any

discount to face value arising on issue, or any premium arising on maturity

Derivative financial instruments

Financial instruments, in particular, interest rate swaps and currency swaps, are used to manage the financial risks arising from the business activities of the company and the financing of those activities

Energy swaps are used to manage the risks of future fluctuations in electricity prices There is no trading activity in financial instruments

Financial instruments are accounted for as follows

Interest rate swaps are used to hedge the company's exposure to movements in interest rates The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings Interest rate swaps are not revalued to fair value

Currency swaps are used to hedge the company's exposure to movements in foreign exchange rates The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings Currency swaps are not revalued to fair value but are recognised in the balance sheet at the difference between the swap rate and the spot rate at the balance sheet date and offset against the associated hedged borrowings Energy swaps are not revalued to fair value

o) Share based payments

The company operates a number of equity settled, share based compensation plans for employees utilising the shares of the ultimate parent company 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 company The charge is adjusted to reflect shares that do not

Notes to the regulatory accounts

vest as a result of failing to meet a non-market condition

p) Foreign currency

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 profit and loss account

The following policies apply to the historical cost financial statements only:

q) Basis of preparation

The historical cost financial statements have been prepared under the historical cost convention

r) Tangible fixed assets and depreciation

Tangible fixed assets comprise

Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams, and sludge pipelines

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with the defined standards of service is treated as an addition and included at cost after deducting grants and contributions (see note 2t)

The depreciation charged for infrastructure assets is the estimated, anticipated level of annual expenditure required to maintain the operating capability of the network less the estimated, anticipated level of relevant annual grants and contributions, calculated over a medium to long period (being 15 years). In accordance with RAG 105 the difference between the infrastructure renewals charge and infrastructure renewals expenditure is held as an accrual or prepayment on the balance sheet. This is a departure from the provisions of FRS 15, which requires the infrastructure renewals charge to be recorded as a depreciation charge and deducted from the carrying amount of the asset, and FRS 12 which does not allow provisions for future maintenance

Other assets

Other assets are included at cost less accumulated depreciation

Cost includes all costs which are directly attributable to bringing the asset into working condition for its intended use. Directly attributable costs on self constructed assets include an element of the 'overhead burden', which is the cost of overheads which would not have been incurred in the absence of capital works. Directly attributable costs on self constructed assets are capitalised up to the point where the asset is capable of operating in the manner intended by management

Finance costs are not capitalised

Freehold land is not depreciated. Assets in the course of construction are not depreciated until commissioned. Other assets are depreciated on a straight line basis over their estimated economic lives, which are principally as follows

	Years
Buildings	30 - 80
Fixed plant and equipment	20 - 40
Vehicles, mobile plant and computers	2 - 15

s) Grants and contributions

Grants and contributions received in respect of non infrastructure assets are treated as deferred income and are recognised in the profit and loss account over the useful economic life of those assets

In accordance with industry practice, grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets

Those grants and contributions relating to the maintenance of the operating capability of the infrastructure network are taken into account in determining the depreciation charged for infrastructure assets

The following policies apply to the current cost financial statements only.

t) Basis of preparation

These accounts have been prepared for the Appointed Business in accordance with guidance issue by the WSRA for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are

Notes to the regulatory accounts

valued at their current cost value to the business, with the exception of specialised operational and infrastructure assets

The accounting policies used are the same as those applied in the historical cost accounts except where set out below

u) **Tangible fixed assets**

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of the tangible fixed assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts

An Asset Management Plan (AMP) survey of existing assets as at 31 March 2008 was undertaken during 2008/09 and the adjustments to asset values as a result of that exercise were included within tangible fixed assets. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation, as measured by changes in Retail Price Index (RPI), and any other significant changes in asset records identified during the year

i) **Non infrastructure assets**

Specialised operational assets

The gross replacement cost of specialised operational assets has been derived using the latest cost information provided by the AMP

The unamortised portion of third party contributions received is deducted in arriving at net operating assets

Non-specialised operational assets

Non-specialised operational assets are valued on the basis of open market value for existing use at 31 March 1991 and have been expressed in current terms by adjusting for movements in property values

ii) **Infrastructure assets**

Mains, sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines are valued at replacement cost, determined principally on the basis of unit cost data provided by the AMP

iii) **Other assets**

All other assets are valued on the basis of data provided by the AMP

iv) **Surplus land**

Surplus land was valued at the current market value for the purposes of the AMP. Any proceeds on disposal to be passed onto customers will be taken into account, in accordance with the requirements contained in Condition B of the Instruments of Appointment as Water and Sewerage Undertakers

v) **Grants and other third party contributions**

Grants, infrastructure and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year and treated as a reduction to fixed assets

w) **Real financial capital maintenance adjustments**

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms

Working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors

Financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable

x) **Transferred assets**

Assets transferred to the company include assets transferred at 1 October 2011 under the Private Drains and Sewers Transfer Regulations (June 2011). These are included

Notes to the regulatory accounts

in fixed assets at their Modern Equivalent Asset value with a corresponding credit to third party contributions

y) Accounting separation

The tables presenting the analysis of operating costs and fixed assets (the 'accounting separation' tables, as described in note 4 and 5) have been prepared in accordance with our

Accounting Separation Methodology Statement which can be found at www.severntrentwater.co.uk. The methodology statement explains the bases for allocations of costs and assets and has been updated for changes to the requirements in the year. There have otherwise been no major changes. Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied as described in the methodology.

3 Directors' Remuneration

Information regarding Directors' Remuneration can be found on page 43 of the Severn Trent Water Limited Annual Report and Accounts 2015, including details of the link to performance, how remuneration was calculated and details of amounts paid.

Notes to the current cost financial statements

4 Analysis of current cost turnover and operating costs

a) Reconciliation of current cost turnover to actual outturn per Final Determination (FD).

	2015
	£m
Final Determination (appointed only)	1,429.4
Impact of higher/(lower) inflation	98.3
Final Determination adjusted for inflation movement	1,527.7
Optants	0.8
New properties	(11.1)
Demolitions	(2.3)
Consumption changes - commercial	19.0
Consumption changes - domestic	13.2
Other	13.6
Actual outturn (appointed only)	1,560.9

Actual income for year ended 31 March 2015 is £131.5m more than allowed for in the final determination. Of this, £98.3m is driven by higher RPI. Higher consumption accounts for £32.2m. The remaining £1.0m of increase is accounted for by a combination of optants, new properties, demolitions and other items of £2.1m, net of a £1.1m provision for accrued income on void properties.

b) Reconciliation of amounts billed and amounts recorded as historical cost turnover

	2015
	£m
Billed	1,562.5
Movement in accrual	10.2
Total turnover (appointed and non-appointed)	1,572.7

Notes to the current cost financial statements

4 Analysis of current cost turnover and operating costs (continued)

c) Analysis of operating costs

2015	Water				Water total £m
	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	
Operating expenditure					
Power	8.9	2.3	26.0	7.4	44.6
Income treated as negative expenditure	(0.2)	-	-	-	(0.2)
Service charges	11.0	-	0.3	-	11.3
Bulk supply imports	7.4	-	4.4	-	11.8
Other operating expenditure	11.0	1.8	53.2	87.4	153.4
Local authority rates	4.9	1.6	20.6	18.0	45.1
Exceptional items	1.6	0.2	5.4	7.4	14.6
Total operating expenditure excluding third party services	44.6	5.9	109.9	120.2	280.6
Capital maintenance					
Infrastructure renewals charge	0.7	2.7	-	80.5	83.9
Current cost depreciation	9.0	4.2	52.2	52.3	117.7
Recharges to other business units	-	-	-	-	-
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	(0.1)	(0.1)	(0.7)	(0.6)	(1.5)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	9.6	6.8	51.5	132.2	200.1
Third party services					
Operating expenditure	3.5	-	1.3	0.6	5.4
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	0.2	-	0.4	-	0.6
Total operating costs	57.9	12.7	163.1	253.0	486.7

Notes to the current cost financial statements

4 c) Analysis of current cost turnover and operating costs (continued)

2015	Sewerage				Sewerage total £m
	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	
Operating expenditure					
Power	8.8	23.7	(2.2)	-	30.3
Income treated as negative expenditure	-	(6.4)	(6.5)	-	(12.9)
Service charges	3.5	5.6	-	-	9.1
Bulk supply imports	-	-	-	-	-
Other operating expenditure	45.0	74.5	42.3	13.4	175.2
Local authority rates	0.2	22.2	3.9	-	26.3
Exceptional items	2.0	5.7	2.7	0.2	10.6
Total operating expenditure excluding third party services	59.5	125.3	40.2	13.6	238.6
Capital maintenance					
Infrastructure renewals charge	50.0	-	-	-	50.0
Current cost depreciation	32.5	130.5	27.6	0.5	191.1
Recharges to other business units	-	-	-	-	-
Recharges from other business units	-	-	-	-	-
Amortisation of deferred credits	(1.3)	(0.2)	-	-	(1.5)
Amortisation of intangible assets	-	-	-	-	-
Total capital maintenance excluding third party services	81.2	130.3	27.6	0.5	239.6
Third party services					
Operating expenditure	-	-	1.9	-	1.9
Infrastructure renewals charge	-	-	-	-	-
Current cost depreciation	-	-	-	-	-
Total operating costs	140.7	255.6	69.7	14.1	480.1

Notes to the current cost financial statements

4 c) Analysis of current cost turnover and operating costs (continued)

2015	Water	Sewerage	Wholesale
	total £m	total £m	total £m
Operating expenditure			
Power	44.6	30.3	74.9
Income treated as negative expenditure	(0.2)	(12.9)	(13.1)
Service charges	11.3	9.1	20.4
Bulk supply imports	11.8	-	11.8
Other operating expenditure	153.4	175.2	328.6
Local authority rates	45.1	26.3	71.4
Exceptional items	14.6	10.6	25.2
Total operating expenditure excluding third party services	280.6	238.6	519.2
Capital maintenance			
Infrastructure renewals charge	83.9	50.0	133.9
Current cost depreciation	117.7	191.1	308.8
Recharges to other business units	-	-	-
Recharges from other business units	-	-	-
Amortisation of deferred credits	(1.5)	(1.5)	(3.0)
Amortisation of intangible assets	-	-	-
Total capital maintenance excluding third party services	200.1	239.6	439.7
Third party services			
Operating expenditure	5.4	1.9	7.3
Infrastructure renewals charge	-	-	-
Current cost depreciation	0.6	-	0.6
Total operating costs	486.7	480.1	966.8
			Retail
			Retail
	Household	Non-	total
	£m	household	£m
			£m
2015			
Operating expenditure			
Customer services	31.2	2.8	34.0
Debt management	9.6	2.6	12.2
Doubtful debts	26.1	5.4	31.5
Meter reading	5.4	1.0	6.4
Services to developers	-	(0.1)	(0.1)
Other operating expenditure	23.7	2.4	26.1
Local authority rates	0.7	-	0.7
Exceptional items	2.2	0.8	3.0
Total operating expenditure excluding third party services	98.9	14.9	113.8
Third party services operating expenditure	-	-	-
Total operating expenditure	98.9	14.9	113.8
Capital maintenance			
Current cost depreciation	14.5	1.3	15.8
Amortisation of deferred credits	-	-	-
Amortisation of intangible assets	-	-	-
Total capital maintenance	14.5	1.3	15.8
Total operating costs	113.4	16.2	129.6
Debt written off	20.4	4.0	24.4

Notes to the current cost financial statements

5 Analysis of tangible fixed assets by asset type within service

	Water				£m
	Resources	Raw water	Treatment	Treated	
	£m	distribution £m	£m	distribution £m	
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	425.4	125.9	1,834.7	1,975.7	4,361.7
Reclassification adjustment	1.9	(0.8)	(5.0)	(9.2)	(13.1)
RPI adjustment	3.8	1.0	15.5	16.7	37.0
Disposals	(33.8)	(14.5)	(44.3)	(26.6)	(119.2)
Additions	3.8	0.4	74.0	76.0	154.2
At 31 March 2015	401.1	112.0	1,874.9	2,032.6	4,420.6
Depreciation					
At 1 April 2014	299.5	79.9	1,053.6	1,235.0	2,668.0
AMP adjustment					
Reclassification adjustment	(1.8)	0.7	5.3	6.6	10.8
RPI adjustment	2.5	0.6	9.5	11.3	23.9
Disposals	(33.6)	(14.5)	(43.0)	(24.9)	(116.0)
Charge for the year	9.2	4.2	52.6	52.3	118.3
At 31 March 2015	275.8	70.9	1,078.0	1,280.3	2,705.0
Net book value					
At 31 March 2015	125.3	41.1	796.9	752.3	1,715.6
At 1 April 2014	125.9	46.0	781.1	740.7	1,693.7
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	1,087.3	1,413.7	4.6	12,562.8	15,068.4
Reclassification adjustment	-	-	-	-	-
RPI adjustment	9.8	12.8	0.1	114.0	136.7
Disposals	-	-	-	-	-
Additions	0.4	1.3	-	70.2	71.9
At 31 March 2015	1,097.5	1,427.8	4.7	12,747.0	15,277.0

Notes to the current cost financial statements

5 Analysis of tangible fixed assets by asset type within service (continued)

	Sewerage				
	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	£m
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	1,016.3	4,365.9	786.0	6.5	6,174.7
Reclassification adjustment	(4.3)	3.2	1.3	(0.1)	0.1
RPI adjustment	8.7	36.8	7.8	0.1	53.4
Disposals	(49.8)	(109.8)	(26.3)	(0.6)	(186.5)
Additions	42.1	102.3	39.8	-	184.2
At 31 March 2015	1,013.0	4,398.4	808.6	5.9	6,225.9
Depreciation					
At 1 April 2014	600.9	2,362.3	451.7	4.6	3,419.5
Reclassification adjustment	3.1	(2.8)	(0.8)	-	(0.5)
RPI adjustment	5.3	20.8	4.6	-	30.7
Disposals	(49.2)	(108.5)	(25.9)	(0.5)	(184.1)
Charge for the year	32.5	130.5	27.6	0.5	191.1
At 31 March 2015	592.6	2,402.3	457.2	4.6	3,456.7
Net book value					
At 31 March 2015	420.4	1,996.1	351.4	1.3	2,769.2
At 1 April 2014	415.4	2,003.6	334.3	1.9	2,755.2
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	54,704.5	13.8	-	-	54,718.3
Reclassification adjustment	-	-	-	-	-
RPI adjustment	494.0	-	-	-	494.0
Disposals	-	-	-	-	-
Additions	62.7	2.6	-	-	65.3
At 31 March 2015	55,261.2	16.4	-	-	55,277.6

Notes to the current cost financial statements

5 Analysis of tangible fixed assets by asset type within service (continued)

	Water	Sewerage	Wholesale
	£m	£m	£m
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	4,361.7	6,174.7	10,536.4
Reclassification adjustment	(13.1)	0.1	(13.0)
RPI adjustment	37.0	53.4	90.4
Disposals	(119.2)	(186.5)	(305.7)
Additions	154.2	184.2	338.4
At 31 March 2015	4,420.6	6,225.9	10,646.5
Depreciation			
At 1 April 2014	2,668.0	3,419.5	6,087.5
Reclassification adjustment	10.8	(0.5)	10.3
RPI adjustment	23.9	30.7	54.6
Disposals	(116.0)	(184.1)	(300.1)
Charge for the year	118.3	191.1	309.4
At 31 March 2015	2,705.0	3,456.7	6,161.7
Net book value			
At 31 March 2015	1,715.6	2,769.2	4,484.8
At 1 April 2014	1,693.7	2,755.2	4,448.9
Infrastructure assets			
Gross replacement cost			
At 1 April 2014	15,068.4	54,718.3	69,786.7
RPI adjustment	136.7	494.0	630.7
Additions	71.9	65.3	137.2
At 31 March 2015	15,277.0	55,277.6	70,554.6
At 1 April 2014			
	Household	Non-household	Retail
	£m	£m	Total
			£m
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	242.6	22.1	264.7
Reclassification adjustment	13.1	(0.1)	13.0
RPI adjustment	2.3	0.1	2.4
Disposals	(15.5)	(1.1)	(16.6)
Additions	1.9	0.2	2.1
At 31 March 2015	244.4	21.2	265.6
Depreciation			
At 1 April 2014	168.7	14.5	183.2
Reclassification adjustment	(10.1)	(0.2)	(10.3)
RPI adjustment	1.7	0.1	1.8
Disposals	(13.7)	(0.9)	(14.6)
Charge for the year	14.5	1.3	15.8
At 31 March 2015	161.1	14.8	175.9
Net book value			
At 31 March 2015	83.3	6.4	89.7
At 1 April 2014	73.9	7.6	81.5

Notes to the current cost financial statements

6 Analysis of capital expenditure, grants and land sales

	2015			2014		
	Gross £m	Grants and contributions £m	Net £m	Gross £m	Grants and contributions £m	Net £m
Capital expenditure - water						
Base						
Infrastructure renewals expenditure (IRE)	89 3	(6 6)	82 7	97 7	(8 9)	88 8
Maintenance non-infrastructure (MNI)	113 1	(0 8)	112 3	101 3	(2 9)	98 4
Enhancements						
Infrastructure enhancements	71 9	(22 6)	49 3	65 8	(15 5)	50 3
Non-infrastructure enhancements	42 1	(0 1)	42 0	37 9	-	37 9
Total capital expenditure - water	316 4	(30 1)	286 3	302 7	(27 3)	275 4
Grants and contributions - water						
Developer contributions		(14 2)			(11 7)	
Infrastructure charge receipts - new connections		(9 3)			(6 6)	
Other contributions		(6 6)			(9 0)	
Total grants and contributions - water		(30 1)			(27 3)	
Capital expenditure - sewerage						
Base						
Infrastructure renewals expenditure (IRE)	54 4	(2 2)	52 2	54 7	(3 2)	51 5
Maintenance non-infrastructure (MNI)	140 7	(0 1)	140 6	183 9	-	183 9
Enhancements						
Infrastructure enhancements	42 6	(12 7)	29 9	37 5	(8 0)	29 5
Non-infrastructure enhancements	37 5	0 1	37 6	59 0	(0 1)	58 9
Large projects capex						
Infrastructure enhancements	-	-		-	-	-
Non-infrastructure enhancements	-	-		-	-	-
Total capital expenditure - sewerage	275 2	(14 9)	260 3	335 1	(11 3)	323 8
Grants and contributions - sewerage						
Developer contributions		(2 9)			(1 1)	
Infrastructure charge receipts - new connections		(9 8)			(7 0)	
Other contributions		(2 2)			(3 2)	
Total grants and contributions - sewerage		(14 9)			(11 3)	
Total capital expenditure - water and sewerage	591 6	(45 0)	546 6	637 8	(38 6)	599 2
Land sales - Proceeds-disposals of protected land			9 7			10 1

Notes to the current cost financial statements

7 Working capital

	2015 £m	2014 £m
Stock	6 1	6 4
Trade debtors		
Measured household	47 8	45 5
Unmeasured household	75 5	74 0
Measured non-household	20 0	21 8
Unmeasured non-household	0 6	0 6
Other	12 6	6 6
Measured income accrual	183 9	174 0
Prepayments and other debtors	87 3	60 2
Trade creditors	(25 4)	(15 6)
Deferred income - customer advance receipts	(136 4)	(138 0)
Capital creditors and accruals	(50 0)	(41 4)
Accruals and other creditors	(140 1)	(148 8)
Working capital	81 9	45 3
Total revenue outstanding - household	223 9	218 2
- non-household	33 0	32 5

There has been 2.5% movement in the Company's total revenue outstanding, which is not significant

8 Reconciliation of appointed business current cost operating profit to net cash inflow from operating activities

	2015 £m	2014 £m
Current cost operating profit	467 5	477 8
Working capital adjustment	0 4	5 5
Movement in working capital	(26 1)	7 6
Receipts from other income	1 2	1 8
Current cost depreciation after amortisation of deferred income	322 2	319 1
Current cost profit on disposal of tangible fixed assets	(3 4)	(5 3)
Infrastructure renewals charge	133.9	134 8
Movement in provisions	0 2	-
Other non-cash profit and loss items	(4.4)	(38 1)
Net cash inflow from operating activities	891 5	903 2

Notes to the current cost financial statements

	Fixed interest rate £m	Floating rate £m	Index linked £m	Total £m
Bank Loans	150 0	984 3	106 4	1,240 7
Loans due from parent and fellow subsidiary undertakings	-	(108 3)	-	(108 3)
Loans due to parent and fellow subsidiary undertakings	2,447 3	162 4	1,075 3	3,685 0
Finance lease receivables	(100 8)	-	-	(100 8)
Finance lease payables	388 1	95 0	-	483 1
Total net borrowings	2,884 6	1,133 4	1,181 7	5,199 7
Impact of interest rate swaps entered into by the company	318 1	(318 1)	-	-
Total borrowings	3,202 7	815 3	1,181 7	5,199 7
Net debt is comprised as follows				
Total borrowings	-	-	-	5,199 7
Cash	-	-	-	(4 1)
Short term deposits	-	-	-	(115.0)
Net Debt	-	-	-	5,080 6
Regulatory capital value				7,739 5
Gearing				65 6%
Full year equivalent nominal interest cost	172 0	7 1	33 4	212 5
Full year equivalent cash interest payment	172 0	7 1	22 5	201 6
Indicative interest rates				
Indicative weighted average nominal interest rate	5 3%	0 9%	2 8%	4 1%
Indicative weighted average cash interest rate	5 3%	0 9%	1 9%	3 9%
Weighted average years to maturity	9 6	4 0	34 4	14 0

Notes to the current cost financial statements

9. Analysis of net debt

The Severn Trent Water Regulatory accounts have been prepared on a single company basis for 2014/5. The table below sets out a reconciliation between net debt on a single company basis and net debt on a consolidated basis, as well as the resultant effect on gearing.

	£m
Severn Trent Water Limited net debt as at 31 March 2015	5,080.6
Intra group loans and leases	(378.5)
Cash held in Severn Trent Water Limited subsidiaries	(0.9)
Severn Trent Water Limited net debt as at 31 March 2015-consolidated basis	4,701.0
Year end RCV	7,739.5
Gearing based on net debt on a consolidated basis	60.7%

Notes to the current cost financial statements

Information in respect of transactions during the year with any other business or activity of the appointee or any associated company

a) Borrowings and intercompany lending

There was a material transaction during the year made by Severn Trent Water Limited on behalf of Severn Trent Utilities Finance Plc, which was a payment of £139.2m in respect of an interest rate swap close out. This was settled by means of intercompany transactions between the two group entities. There were no further cash or non-cash loans by Severn Water to other group entities.

Sums borrowed and repaid by the appointee during the year from associated companies in cash were as disclosed in the table below.

Loans to Severn Trent Water appointed business, by associated businesses during the year ended 31 March 2015

	During year Borrowed/ Repaid	2015 £m	Interest rates %	Year ended 31 March 2015	Year ended Balance £m
East Worcester Water Limited	Borrowed	11.5	3 Mth LIBID	Owed	75.0
East Worcester Water Limited	Repaid	8.1	3 Mth LIBID		
Severn Trent Leasing Limited	Borrowed	8.9	4.75	Owed	196.0
Severn Trent Leasing Limited	Repaid	0.8	4.75		
Severn Trent Plc	Borrowed	58.5	LIBOR +6%	Owed	27.0
Severn Trent Plc	Repaid	97.5	LIBOR +6%		
Severn Trent Reservoirs Limited	Borrowed	0.4	3 Mth LIBID	Owed	12.9
Severn Trent Utilities Finance Plc	Repaid	0.1	3 Mth LIBID	Owed	0.6

b) Dividends

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of factors changes. The ordinary dividend declared and paid by the company in 2014/15 amounted to £203.7 million (2014: £340.0 million), being 20.4 p per share (2014: 34.0 p per share).

c) Transfer of assets/liabilities, omissions, waivers, guarantees

There were no transfers of assets or liabilities to associated companies, no guarantees were issued in favour of associated companies. There were no rights omitted to be exercised resulting in a reduction in the value of net assets of the company and no waivers of any consideration, remuneration, or any other payment receivable by the company.

d) Supply of services

Supplementary Regulatory Accounting Disclosures – unaudited

Year ended 31 March 2015

Services supplied by the appointee to associated companies are outlined in the table below. Water tankering, reception, treatment and disposal of waste is supplied at market rates. Other services are supplied at cost.

Service	Company	Turnover of the associate in the period	Terms of supply	Value
		£m		£m
Service charges, payroll, legal, other	Various	Various	Cost	0.7
Water tankering treatment, waste disposal	Various	Various	Third party	0.8
Sale of crops	Severn Trent Green Power Ltd		Cost	0.6
Pass through of management charges	Severn Trent Plc		Cost	6.3
				8.4

Services supplied to the appointee by associated companies are outlined in the table below. Third party terms of supply of materials and other engineering services by Severn Trent Water are supplied using a competitive letting process. Other market testing is used to determine third party terms used to supply services from Derwent Insurance Ltd and Severn Trent Green Power Ltd. Severn Trent Plc recharges cost by means of management charges.

Service	Company	Turnover of associate in the periods	Terms of Supply	Value
		£m		£m
Insurance services	Derwent Insurance Ltd	7.8	Market tested	6.2
Supply of materials, engineering services	Severn Trent Services Ltd	5.8	Competitive let	1.6
Supply of electricity	Severn Trent Green Power Ltd	4.8	Market tested	1.9
Pass through costs-management charges	Severn Trent Plc	1,801.3	Costs	1.1
		N/A	N/A	10.8

Supplementary Regulatory Accounting Disclosures – unaudited

Year ended 31 March 2015

Directorships

Severn Trent Water conducts its appointed business so as to ensure arm's length trading and avoid cross-subsidy in the spirit of the Condition F of the instrument of Appointment. No directorships are held by Severn Trent Water directors in circumstances which might in practice result in conflicts of interest in intra-group trading relationships. The company discloses the following information as part of its compliance with RAG 5.05, listing those directors of the company who held directorships in the following group companies during the year ended 31 March 2015 and up to the date of signing the Annual report and financial statements 2015.

Director of Severn Trent Water Ltd During year ended 31 March 2015	Resigned	Other group directorships held
Andrew Duff		Severn Trent Plc
Michael McKeon	1 April 2015	Severn Trent Holdings Ltd
Michael McKeon	12 May 2015	Severn Trent Luxembourg Overseas Holdings SARL
Michael McKeon	12 May 2015	Severn Trent Holdings SA
Martin Kane	23 January 2015	Severn Trent Italia SPA
Martin Kane	23 January 2015	Severn Trent Environment Services Inc
Martin Kane	23 January 2015	Severn Trent Services Inc
Martin Kane	23 January 2015	Severn Trent Water Purification Inc
Martin Kane	23 January 2015	Exel Technologies International Corporation
Martin Kane	23 January 2015	Severn Trent Water Technologies (Shanghai) Co Limited
Martin Kane	23 January 2015	Severn Trent Denora Technologies (Shanghai) Ltd
Andy Smith	23 January 2015	Severn Trent Services Limited
Andy Smith	23 January 2015	Severn Trent Denora Ltd
Andy Smith	23 January 2015	Severn Trent Services (Water and Sewage) Limited

On 12 May 2015 James Bowling was appointed to the following directorship

Severn Trent Luxembourg Overseas Holdings Sarl

Analysis of properties

	2015		2014	
	Water	Sewerage	Water	Sewerage
Number of properties ('000s)				
Households billed	3,147.6	3,590.2	3,138.4	3,580.3
Non-households billed	182.1	195.0	182.8	197.8
Household voids	143.1	135.0	132.6	149.6
Non-household voids	31.4	77.9	29.9	50.2
Properties served by new appointee in supply area as at 1 April 2009	0.9	0.9	8.0	8.0
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	134.9	-	138.3	-
Measured household	112.0	-	112.6	-
Volume (Ml/d)				
Bulk supply export	57.0	-	55.2	-
Bulk supply import	350.4	-	351.6	-
Distribution input	1,814.3	-	1,817.9	-