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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Severn Trent Plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes to the consolidated financial statements 1 to 46 and the related notes to the parent company financial statements 1 to 18.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRCs') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: • valuation of the provision for trade receivables in Severn Trent Water Limited; • valuation of the Group's retirement benefit obligation; and • classification and valuation of capital expenditure in Severn Trent Water Limited. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £18 million which was determined on the basis of profit before tax, gains/losses on financial instruments and exceptional items.
Scoping	Our audit scoping has resulted in over 95% of the Group's net operating assets and profit before tax being subject to audit testing.
Significant changes in our approach	In the year ended 31 March 2018, we reported the "accuracy of wholesale revenue for non-household customers in the new water market" as a key audit matter. As the year ended 31 March 2019 represents the second year of the operation of this market, and processes and controls are embedded within the business, we no longer consider this to be a reportable key audit matter.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 2 a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 56 to 61 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 56 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 62 and 63 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the provision for trade receivables in Severn Trent Water Limited	
Key audit matter description	A portion of household 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. Management makes estimates regarding the expected future loss rate when calculating the bad debt provision. The provision for trade receivables as at 31 March 2019 was £115.2 million (31 March 2018: £124.5 million). Changes have been made to the basis of estimation of the bad debt provision for the year ended 31 March 2019 as a result of the adoption of IFRS 9 Financial Instruments. Provisions are made against Severn Trent Water Limited's trade receivables based on historical cash collection rates of debt now aged over seven years, which is considered by management to be representative of collection risk on the whole population of household debtors. The key audit matter, which is also a potential fraud risk, has been focused on the valuation of the household bad debt provision, specifically cash collection reflected in the model for debt aged greater than seven years. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee report on page 88. The provision for trade receivables is discussed in note 2 p) and 21 to the Group financial statements.
How the scope of our audit responded to the key audit matter	We have audited and critically reviewed the assumptions used in the calculation of the bad debt provision as follows: • assessed the design and implementation of key management review controls over the bad debt provision model; • assessed the allocation of cash collected on years seven to ten debt to ensure that it has not inappropriately been allocated to this ageing bucket to reduce the overall provisioning rate; • reviewed management's assumptions applied to the provision for trade receivables and challenged whether they reflect the lifetime expected credit loss applied to trade receivables, including a review of cash collection trends, demographic and economic trends; and • reconciled the debtor ageing for each debt category to source data.
Key observations	We are satisfied that the assumptions applied in assessing the overall bad debt provision are reasonable and we consider changes to the basis of estimation of the bad debt provision to be appropriate.

Valuation of the Group's retirement benefit obligation	
Key audit matter description	Valuation of retirement benefit obligations is an area involving significant estimation because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning the discount rate, inflation rate, pension increases, and the longevity of current pensioners in order to determine the value of the schemes' liabilities. The key audit matter is focused on the valuation of the pension scheme liabilities and the appropriateness of the actuarial assumptions that are used to calculate it, specifically with reference to the discount rate. The Group's retirement benefit obligation as at 31 March 2019 is £452.9 million (31 March 2018: £519.8 million) as per note 28 Retirement benefit schemes. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee report on page 89. Management has included this as a key source of estimation uncertainty in note 4 to the Group financial statements.
How the scope of our audit responded to the key audit matter	We have challenged the assumptions applied by performing the following procedures: • evaluated the design and implementation of management's key control; • with the support of our pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 28 specifically challenging the discount rate with reference to comparable market and other third party data; and • assessed whether there had been any changes in the methodology to determine the assumptions since the prior year.
Key observations	We are satisfied that management's assumptions in the valuation of the retirement benefit obligation are appropriate with consistent valuation methodology to previous periods.

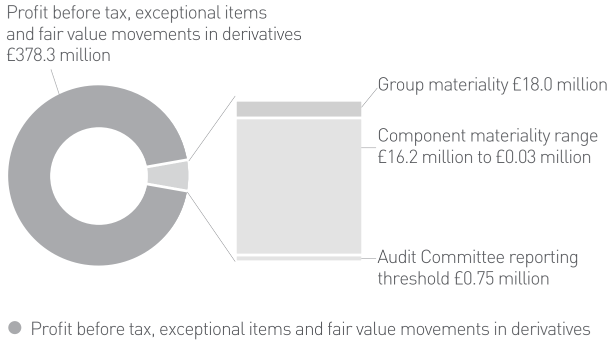
Classification and valuation of capital expenditure in Severn Trent Water Limited	
Key audit matter description	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator (Ofwat) and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Severn Trent Water Limited property, plant and equipment ("PPE") external additions in the year were £838.2 million (2018: £663.2 million) of the total additions of £861.4 million (2018: £691.2 million) disclosed in note 18. As the classification of capital expenditure, operating expenditure and infrastructure renewals expenditure directly affects the Group's reported financial performance, we identified a key audit matter relating to an overstatement of capital expenditure, whether caused by changing the Group's capex implementation guidance and/or incorrect application of this guidance. Due to the level of judgment involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit Committee also considered this a significant issue as discussed in the Audit Committee report on page 88. Management has included this as a key source of estimation uncertainty in note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures to respond to the key audit matter: • reviewed Severn Trent Water Limited's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; • evaluated the design and implementation and operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the Group's capital programme during the year; • tested whether there have been any changes in the application of the policy; and • for a sample of capital projects, assessed the application of the capitalisation policy to the costs incurred by reviewing the business cases and invoices and obtained further explanations and evidence for significant changes in capital expenditure from budget.
Key observations	We are satisfied that the classification and valuation of assets capitalised in the year is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£18 million (2018: £18 million)	£16.2 million (2018: £16.2 million)
Basis for determining materiality	Approximately 4.8% (2018: approximately 5.6%) of profit before tax, exceptional items and fair value movements in derivative financial instruments. Whilst underlying profit has increased, the business has not changed significantly and therefore materiality has been retained at £18 million.	3.0% of net assets (2018: 3.0%) capped at 90% of Group materiality.
Rationale for the benchmark applied	As in 2018, profit before tax, gains/losses on financial instruments and exceptional items has been used in order to focus on the Group's underlying trading performance consistent with the Group's internal and external reporting.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2018: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig which were subject to a full scope audit using a materiality of £15 million and £0.6 million respectively (2018: £15 million and £0.4 million). We have audited a further nine components using statutory materialities which range from £34,000 to £9 million (2018: ten components using statutory materialities which ranged from £44,000 to £9 million). Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

This represents over 95% (2018: over 90%) of the Group's net operating assets and profit before tax, gains/losses on financial instruments and exceptional items.

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

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, and financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of the provision for trade receivables in Severn Trent Water Limited, classification and valuation of capital expenditure in Severn Trent Water Limited, and accuracy of wholesale revenue for wholesale customers in the non-household retail market; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified valuation of the provision for trade receivables in Severn Trent Water Limited and, classification and valuation of capital expenditure in Severn Trent Water Limited as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Accuracy of wholesale revenue for wholesale customers in the non-household retail market has remained a significant risk due to fraud whilst no longer being a key audit matter. In response to the risk identified, we have:

- evaluated the design and implementation of key management controls around the accuracy of the wholesale revenue for wholesale customers in the non-household market;
- performed an analytical review of total wholesale revenue by calculating an expectation based on prior year revenue, adjusted for tariff changes;
- completed substantive testing of the consumption uplift model in order to obtain assurance over the accuracy and completeness of the MOSL data populated within the model; and
- challenged whether the refinements to the model, including removing the adjustment relating to large and intermediate customers, are appropriate.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgments made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years, covering the years ending 31 March 2006 to 31 March 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Kari Hale, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
20 May 2019

Consolidated income statement
For the year ended 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Turnover	5,6	**1,767.4**	1,696.4
Other income		**19.9**	3.9
Operating costs before charge for bad and doubtful debts, amortisation of acquired intangible assets and exceptional items		**(1,188.1)**	(1,134.7)
Charge for bad and doubtful debts		**(25.6)**	(25.8)
Operating costs before amortisation of acquired intangible assets and exceptional items		**(1,213.7)**	(1,160.5)
Amortisation of acquired intangible assets		**(0.7)**	–
Exceptional items	8	**(9.6)**	(12.6)
Total operating costs		**(1,224.0)**	(1,173.1)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items		**573.6**	539.8
Amortisation of acquired intangible assets		**(0.7)**	–
Exceptional items	8	**(9.6)**	(12.6)
Profit before interest and tax		**563.3**	527.2
Finance income	10	**68.9**	67.7
Finance costs	11	**(263.1)**	(287.2)
Net finance costs		**(194.2)**	(219.5)
Net gains/(losses) on financial instruments	12	**16.0**	(6.7)
Share of net (loss)/profit of joint ventures accounted for using the equity method	19	**(0.4)**	0.2
Profit on ordinary activities before taxation		**384.7**	301.2
Current tax	13	**(31.8)**	(32.9)
Deferred tax	13	**(37.6)**	(28.7)
Taxation on profit on ordinary activities	13	**(69.4)**	(61.6)
Profit for the year from continuing operations		**315.3**	239.6
Profit for the year from discontinued operations		**–**	13.2
Profit for the year		**315.3**	252.8

Earnings per share (pence)

	Note	2019	2018 (restated)
From continuing operations			
Basic	15	**133.4**	101.8
Diluted	15	**133.2**	101.5
From continuing and discontinued operations			
Basic	15	**133.4**	107.4
Diluted	15	**133.2**	107.1

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 (restated see note 2 a) £m
Profit for the year	**315.3**	252.8
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gains	**57.9**	29.1
Tax on net actuarial gains	**(9.8)**	(7.6)
	48.1	21.5
Items that may be reclassified to the income statement:		
(Losses)/gains on cash flow hedges	**(8.6)**	5.8
Deferred tax on losses/gains on cash flow hedges	**1.5**	(1.0)
Amounts on cash flow hedges transferred to the income statement	**8.2**	8.2
Deferred tax on transfer to the income statement	**(1.3)**	(1.4)
Exchange movement on translation of overseas results and net assets	**–**	(1.6)
Cumulative exchange gains taken to the income statement	**–**	(29.8)
	(0.2)	(19.8)
Other comprehensive income for the year	**47.9**	1.7
Total comprehensive income for the year	**363.2**	254.5

Consolidated statement of changes in equity
For the year ended 31 March 2019

	Equity attributable to owners of the company				
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
As at 1 April 2017 as previously reported	234.7	112.5	121.8	454.3	923.3
Restatement	–	–	–	4.1	4.1
As at 1 April 2017 restated	234.7	112.5	121.8	458.4	927.4
Profit for the year	–	–	–	252.8	252.8
Gains on cash flow hedges	–	–	5.8	–	5.8
Deferred tax on gains on cash flow hedges	–	–	(1.0)	–	(1.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.4)	–	(1.4)
Exchange movement on translation of overseas results and net assets	–	–	(1.6)	–	(1.6)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	29.1	29.1
Tax on net actuarial gains	–	–	–	(7.6)	(7.6)
Transfer between reserves	–	–	(9.0)	9.0	–
Total comprehensive income/(loss) for the year	–	–	(28.8)	283.3	254.5
Share options and LTIPs					
– proceeds from shares issued	0.4	5.2	–	–	5.6
– value of employees' services	–	–	–	6.9	6.9
Current tax on share based payments	–	–	–	0.8	0.8
Deferred tax on share based payments	–	–	–	(1.3)	(1.3)
Dividends paid	–	–	–	(197.0)	(197.0)
As at 31 March 2018 restated	235.1	117.7	93.0	551.1	996.9
As at 1 April 2018 as previously reported	235.1	117.7	93.0	547.9	993.7
Restatement (see note 2 a)	–	–	–	3.2	3.2
As at 1 April 2018 restated	235.1	117.7	93.0	551.1	996.9
Profit for the year	–	–	–	315.3	315.3
Losses on cash flow hedges	–	–	(8.6)	–	(8.6)
Deferred tax on losses on cash flow hedges	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.3)	–	(1.3)
Net actuarial gains	–	–	–	57.9	57.9
Tax on net actuarial gains	–	–	–	(12.2)	(12.2)
Total comprehensive income/(loss) for the year	–	–	(0.2)	361.0	360.8
Share options and LTIPs					
– proceeds from shares issued	0.8	10.3	–	–	11.1
– value of employees' services	–	–	–	8.1	8.1
– own shares purchased	–	–	–	(1.1)	(1.1)
Current tax on share based payments	–	–	–	0.2	0.2
Dividends paid	–	–	–	(211.9)	(211.9)
As at 31 March 2019	**235.9**	**128.0**	**92.8**	**707.4**	**1,164.1**

Consolidated balance sheet
At 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Non-current assets			
Goodwill	16	**90.9**	62.2
Other intangible assets	17	**124.2**	88.4
Property, plant and equipment	18	**9,085.6**	8,471.9
Investments in joint ventures	19	**37.0**	37.6
Derivative financial instruments	20	**68.4**	36.0
Trade and other receivables	21	**204.0**	185.3
Retirement benefit surplus	28	**18.6**	18.2
		9,628.7	8,899.6
Current assets			
Inventory		**20.8**	18.5
Trade and other receivables	21	**513.5**	456.4
Derivative financial instruments	20	**0.1**	0.2
Cash and cash equivalents	22	**41.0**	51.1
		575.4	526.2
Current liabilities			
Borrowings	23	**(197.0)**	(308.7)
Trade and other payables	26	**(496.7)**	(462.6)
Current tax payable		**(9.3)**	(8.6)
Provisions for liabilities	29	**(32.2)**	(40.6)
		(735.2)	(820.5)
Net-current liabilities		**(159.8)**	(294.3)
Non-current liabilities			
Borrowings	23	**(5,857.2)**	(5,259.1)
Derivative financial instruments	25	**(126.5)**	(116.0)
Trade and other payables	26	**(1,082.9)**	(1,009.4)
Deferred tax	27	**(747.5)**	(675.2)
Retirement benefit obligations	28	**(471.5)**	(538.0)
Provisions for liabilities	29	**(19.2)**	(10.7)
		(8,304.8)	(7,608.4)
Net assets		**1,164.1**	996.9
Equity			
Called up share capital	30	**235.9**	235.1
Share premium account	31	**128.0**	117.7
Other reserves	32	**92.8**	93.0
Retained earnings		**707.4**	551.1
Total equity		**1,164.1**	996.9

Signed on behalf of the Board who approved the accounts on 20 May 2019.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company Number 02366619

Consolidated cash flow statement
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash generated from operations	40	**826.3**	773.3
Tax received	40	**–**	8.0
Tax paid	40	**(21.3)**	(14.5)
Net cash generated from operating activities		**805.0**	766.8
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired	38	**(50.9)**	(0.2)
Investments in associates and joint ventures		**(6.2)**	–
Purchases of property, plant and equipment		**(782.1)**	(608.5)
Purchases of intangible assets and goodwill		**(35.1)**	(27.3)
Contributions and grants received		**46.5**	36.8
Proceeds on disposal of subsidiaries net of cash disposed	39	**–**	25.1
Proceeds on disposal of property, plant and equipment		**1.4**	8.0
Net loans advanced to joint ventures and associates		**–**	(26.6)
Interest received		**0.8**	6.4
Net cash from investing activities		**(825.6)**	(586.3)
Cash flow from financing activities			
Interest paid		**(158.0)**	(183.4)
Interest element of finance lease payments		**(4.4)**	(5.1)
Dividends paid to shareholders of the parent		**(211.9)**	(197.0)
Repayments of borrowings		**(166.5)**	(552.6)
Repayments of obligations under finance leases		**(1.7)**	(1.8)
New loans raised		**554.2**	789.2
Issues of shares		**11.1**	5.6
Swap termination payment		**–**	(40.0)
Purchase of own shares		**(1.1)**	–
Net cash flow from financing activities		**21.7**	(185.1)
Net movement in cash and cash equivalents		**1.1**	(4.6)
Net cash and cash equivalents at the beginning of the year		**38.5**	44.6
Effect of foreign exchange rates		**–**	(1.5)
Net cash and cash equivalents at end of year		**39.6**	38.5
Cash and cash equivalents	22	**41.0**	34.7
Bank overdrafts		**(1.4)**	(12.6)
Short-term deposits		**–**	16.4
		39.6	38.5

Notes to Group financial statements
For the year ended 31 March 2019

1. General information

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

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

Severn Trent Plc is listed on the London Stock Exchange.

2. Accounting policies

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see Strategic report on page 16) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value.

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2019.

(ii) Parent company financial statements

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

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

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

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

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

(iii) Changes in accounting policies – IFRS 9 and IFRS 15

In the current financial year the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of IFRS 9 has not resulted in any significant changes to the Group's existing accounting practices for financial instruments.

IFRS 9 affects the Group's measurement and disclosure of financial instruments with effect from 1 April 2018. The classification of its financial assets and liabilities has not changed significantly as a result of the adoption of IFRS 9. The Group has not retrospectively applied the hedge accounting criteria of IFRS 9 to hedging relationships established under IAS 39 accounting. Existing hedges that qualify for hedge accounting under IAS 39 continue to qualify for hedge accounting under IFRS 9. For new hedges established following adoption of IFRS 9 the Group will determine on a case-by-case basis whether to apply the hedge accounting provisions of IFRS 9.

Provisions against trade receivables were calculated under the previous accounting policy using historical collection information and losses expected as a result of future events were not recognised. Under IFRS 9 the Group recognises a provision for the lifetime expected credit losses for trade receivables. The bad debt charge or provision is not materially different as a result.

The Group has elected to restate comparative information for prior periods upon adoption of IFRS 15.

The core principle of IFRS 15 is that an entity should recognise revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods and services. The impact of the adoption of IFRS 15 on the Group's segments is set out below.

Regulated Water and Waste Water

There was no change to the recognition of revenue from charges for water or waste water services. The policy for recognition of charges for water and waste water services is set out in note 2 c). The performance obligations are satisfied by the provision of water and waste water services and this was also the basis for recognising revenue under the previous accounting standard.

There was no change to the recognition of contributions from developers. The policy for recognition of contributions from developers is set out in note 2 k). The performance obligations for this income are satisfied through the ongoing supply of water and waste water services to the relevant property and this was also the basis for recognising revenue under the previous accounting standard.

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

a) Basis of preparation continued

(iii) Changes in accounting policies – IFRS 9 and IFRS 15 continued

Business Services

The Operating Services business operates under a series of bespoke contracts with specific performance obligations. The Group applied the methodology set out in IFRS 15 to each of these contracts in order to identify differences from the previous accounting policy. The most significant differences arose in relation to the Group's contract to provide water and waste water services to the Ministry of Defence (MOD). The Group acts as the service provider under the MOD Project Aquatrine Package C – a 25 year contract spanning 1,295 sites across England covering the eastern sea border and from Lancashire in the North West to West Sussex on the South coast.

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

Under IFRS 15, the expected revenue over the life of the contract is allocated to the performance obligations based on an expected margin for each performance obligation over the life of the contract under the following headings:

- operating and maintaining the MOD infrastructure assets;
- upgrading the MOD infrastructure assets;
- administrating the services received from statutory water and sewerage undertakers; and
- administrating billing services of the MOD's commercial and Non Base Dependent customers.

Revenue is recognised in line with the delivery of each performance obligation. The expected whole-life revenues and costs on the contract are updated regularly. Any changes to revenue relating to performance obligations already delivered are recognised in the period in which they are identified.

The previous accounting policy for this contract was to recognise revenue billed under the volumetric tariff at the point of billing. The expected costs for the upgrade services were recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract. The resulting asset was recognised as a financial asset in accordance with IFRIC 12.

The tables below show the effect of the IFRS 15 adoption on the income statement, balance sheet and earnings per share for the year ended 31 March 2018.

Consolidated income statement (extract)

Year ended 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Turnover	1,694.1	2.3	1,696.4
Operating costs	(1,165.7)	(3.5)	(1,169.2)
Profit before interest and tax	528.4	(1.2)	527.2
Net finance costs, losses on financial instruments and results of joint ventures	(226.0)	–	(226.0)
Profit on ordinary activities before taxation	302.4	(1.2)	301.2
Taxation on profit on ordinary activities	(61.9)	0.3	(61.6)
Profit for the period from continuing operations	240.5	(0.9)	239.6

Earnings per share

Year ended 31 March 2018

	As previously reported pence	IFRS 15 impact pence	Restated pence
Underlying earnings per share (see note 15)			
Underlying basic earnings per share	121.0	(0.5)	120.5
Underlying diluted earnings per share	120.6	(0.5)	120.1
Earnings per share from continuing operations			
Basic earnings per share	102.2	(0.4)	101.8
Diluted earnings per share	101.9	(0.4)	101.5
Earnings per share from continuing and discontinued operations			
Basic earnings per share	107.8	(0.4)	107.4
Diluted earnings per share	107.5	(0.4)	107.1

Consolidated balance sheet (extract)

As at 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Non-current trade and other receivables	181.3	4.0	185.3
Deferred tax	(674.4)	(0.8)	(675.2)
Retained earnings	547.9	3.2	551.1

2. Accounting policies continued

b) Basis of consolidation

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

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

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

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

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

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

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

c) Revenue recognition

Revenue includes turnover and interest income.

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

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

Water and waste water revenue is recognised when the service is provided and 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.

Operating services revenue is recognised in line with the delivery of each performance obligation. Further details of the performance obligations are detailed in note 2 a(iii). The expected turnover over the life of a contract is allocated to each performance obligation based on the expected margin for each obligation. Any changes to the revenue relating to performance obligations already delivered are recognised in the period in which they are identified. Differences between amounts recognised as revenue and amounts billed are recognised as contract assets or liabilities.

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

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

d) Exceptional items

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

e) Taxation

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

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 income tax asset is realised or the deferred tax liability is settled.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in interests in associates or joint ventures respectively. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves. Following the disposal of the US Operating Services business on 30 June 2017, all acquisitions prior to 1 April 1998 that were included in goodwill have now been sold. Purchased goodwill arising on acquisitions of subsidiaries after 31 March 1998 is treated as an intangible fixed asset.

2. Accounting policies continued

f) Goodwill continued

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

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

g) Other intangible non-current assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3 – 10
Other intangible assets	15

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

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 l) below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

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

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

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered.

All other costs of obtaining contracts are written off to the income statement as incurred.

i) Property, plant and equipment

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

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

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

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

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

The estimated useful lives are:

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

j) Leased assets

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

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

2. Accounting policies continued

k) Grants and contributions

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

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

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

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

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

Impairments are recognised in the income statement.

m) Parent company investments

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

n) Inventory

Inventory is stated at the lower of cost and net realisable value. For properties held for resale, the cost includes the cost of acquiring and developing the sites.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

p) Trade receivables and accrued income

Trade receivables and accrued income 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.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs.

q) Retirement benefits

(i) Defined benefit schemes

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

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

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

Changes in the retirement benefit obligation that arise from:

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

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

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

q) Retirement benefits continued

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies. Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

(ii) Defined contribution schemes

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

r) Provisions

Provisions are recognised where:

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

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

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

s) Purchase of own shares

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

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

t) Borrowings

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

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

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

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments.

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 a). 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.

(i) Derivatives not designated as hedging instruments

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

(ii) Derivatives designated as hedging instruments

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

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

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

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

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

(iii) Fair value hedges

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

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

2. Accounting policies continued

u) Derivative financial instruments continued

(iv) Cash flow hedges

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

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

(v) Embedded derivatives

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

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

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

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

v) Share based payment

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

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

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

w) Cash flow statement

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

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

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

x) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures.

y) Discontinued operations and assets held for sale

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

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

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

then the component is classified as a discontinued operation.

z) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above; and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out under note 2 y) above.

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

z) Business combinations continued
Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any interest in the acquiree previously held by the Group over the net of the amounts of the assets and liabilities acquired. If the amount of the assets and liabilities acquired exceeds the amount of the consideration, this is immediately recognised in the income statement as a bargain purchase gain.

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3. New accounting policies and future requirements
At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective:

IFRS 16 Leases
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 April 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements.

a) Impact of the new definition of a lease
The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Group will apply the definition of a lease and guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

b) Impact on lessee accounting

(i) Operating leases
IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17 which were off balance sheet.

On initial application of IFRS 16, for all leases (except as noted below) the Group will:

- recognise right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments;
- recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement; and
- separate the total amount of cash paid into a principal portion and an interest portion in the consolidated cash flow statement.

Lease incentives will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they were recognised as a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of £16.9 million.

A preliminary assessment indicates that £16.7 million of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of £23.4 million and a corresponding lease liability of £23.4 million in respect of all these leases. The impact on profit or loss is to decrease operating costs by £2.9 million, to increase depreciation by £2.7 million and to increase interest expense by £0.7 million. There are no lease liability incentives or provision for onerous lease contracts recognised under IAS 17 to be derecognised.

The preliminary assessment indicates that £0.2 million of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £2.9 million and to decrease net cash used in financing activities by the same amount.

(ii) Finance leases
The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liabilities only the amount expected to be payable under the residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

3. New accounting policies and future requirements continued

b) Impact on lessee accounting continued

(ii) Finance leases continued

Based on an analysis of the Group's finance leases as at 31 March 2019 on the basis of the facts and circumstances that exist at that date, the Group has assessed that this change will not have a material impact on the amounts recognised in the Group's consolidated financial statements.

c) Impact on lessor accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has increased the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

The Group does not believe there to be any impact with regards to the above.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain judgments, 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.

a) Critical accounting judgments

(i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies.

b) Sources of estimation uncertainty

(i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment is around 46 years. A five year change in the average useful lives would result in a £38 million change in the depreciation charge.

(ii) Retirement benefit obligations

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

5. Segmental analysis

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses in the UK & Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including affinity and searches.

In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

On 30 November 2018 the Group completed the acquisition of Agrivert Holdings Limited. This business has been included in the Business Services segment with effect from that date. Further details of the acquisition are set out in note 38.

Surplus land in the regulated business is, in certain cases, sold to group companies outside the regulatory ring-fence where its full development potential can be realised. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the development potential. In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore, the current period results have been presented on both the old and new basis of segmentation, in accordance with IFRS 8.

The disposal of the Group's Operating Services businesses in Italy and the USA were classified as discontinued operations in the prior year. These transactions were completed on 23 February and 30 June 2017 respectively.

Notes to Group financial statements continued
For the year ended 31 March 2019

5. Segmental analysis continued

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Regulated Water and Waste Water's operations are described on pages 34 to 45 of the Strategic Review and those of Business Services on pages 46 to 47.

Results from interests in joint ventures and associates are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT (see note 45). A segmental analysis of turnover and underlying PBIT is presented below.

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

a) Segmental results

The tables below show the changes from the old to the new segmentation for turnover and underlying PBIT for the year ended 31 March 2019:

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Regulated Water and Waste Water (new basis) £m
External turnover	1,637.6	(54.5)	–	1,583.1
Inter-segment turnover	–	–	–	–
Total turnover	1,637.6	(54.5)	–	1,583.1
Profit before interest, tax and exceptional items	544.3	(8.7)	(8.6)	527.0
Exceptional items	(8.9)	–	–	(8.9)
Profit before interest and tax	535.4	(8.7)	(8.6)	518.1

Business Services	Business Services (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Business Services (new basis) £m
External turnover	128.9	54.5	–	183.4
Inter-segment turnover	17.5	–	–	17.5
Total turnover	146.4	54.5	–	200.9
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	35.5	8.7	19.9	64.1
Exceptional items and amortisation of acquired intangible assets	(1.0)	–	–	(1.0)
Profit before interest and tax	34.5	8.7	19.9	63.1

Corporate and other	Corporate and other (old basis) £m	Property Development[2] £m	Corporate and other (new basis) £m
External turnover	–	–	–
Inter-segment turnover	0.4	–	0.4
Total turnover	0.4	–	0.4
Profit before interest, tax and exceptional items	3.1	(11.3)	(8.2)
Exceptional items	(0.4)	–	(0.4)
Profit before interest and tax	2.7	(11.3)	(8.6)

1 In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These combined activities are now managed as a single Bioresources business within Business Services.

2 In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

5. Segmental analysis continued

a) Segmental results continued

The following table shows the segmental turnover and PBIT on the old segmentation:

	2019		2018 (restated)	
Year ended 31 March	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
External turnover	1,637.6	128.9	1,574.1	122.2
Inter-segment turnover	–	17.5	0.5	18.8
Total turnover	1,637.6	146.4	1,574.6	141.0
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	544.3	35.5	514.9	34.8
Exceptional items (see note 8) and amortisation of acquired intangible assets	(8.9)	(1.0)	(11.1)	(1.8)
Profit before interest and tax	535.4	34.5	503.8	33.0

The reportable segments' turnover is reconciled to Group turnover as follows:

Year ended 31 March	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	1,583.1	1,637.6	1,574.6
Business Services	200.9	146.4	141.0
Corporate and other	0.4	0.4	9.0
Consolidation adjustments	(17.0)	(17.0)	(28.2)
	1,767.4	1,767.4	1,696.4

Included in revenues of Regulated Water and Waste Water of £1,637.6 million (2018: £1,574.6 million) is £335.0 million (2018: £354.9 million) which arose from sales to Water Plus Select Limited. No other single customer contributed 10% or more to the Group's revenue for either 2019 or 2018.

Segmental underlying PBIT is reconciled to the Group's profit before tax as follows:

Year ended 31 March	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	527.0	544.3	514.9
Business Services	64.1	35.5	34.8
Corporate and other	(8.2)	3.1	(9.7)
Consolidation adjustments	(9.3)	(9.3)	(0.2)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	573.6	573.6	539.8
Exceptional items and amortisation of acquired intangible assets:			
Regulated Water and Waste Water	(8.9)	(8.9)	(11.1)
Business Services	(1.0)	(1.0)	(1.8)
Corporate and other	(0.4)	(0.4)	0.3
Net finance costs	(194.2)	(194.2)	(219.5)
Net gains/(losses) on financial instruments	16.0	16.0	(6.7)
Share of (loss)/profit of joint ventures	(0.4)	(0.4)	0.2
Profit before tax	384.7	384.7	301.2

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

Notes to Group financial statements continued
For the year ended 31 March 2019

5. Segmental analysis continued

b) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed. The tables below show the changes from the old to the new segmentation for capital employed as at 31 March 2019:

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Property Development £m	Regulated Water and Waste Water (new basis) £m
Operating assets	9,501.9	(287.5)	–	9,214.4
Goodwill	63.5	–	–	63.5
Segment assets	9,565.4	(287.5)	–	9,277.9
Segment operating liabilities	(1,993.4)	7.1	–	(1,986.3)
Capital employed	7,572.0	(280.4)	–	7,291.6

Business Services	Business Services (old basis) £m	Bioresources £m	Property Development £m	Business Services (new basis) £m
Operating assets	314.7	287.5	20.1	622.3
Goodwill	28.7	–	–	28.7
Interests in joint ventures and associates	37.0	–	–	37.0
Segment assets	380.4	287.5	20.1	688.0
Segment operating liabilities	(55.2)	(7.1)	(6.4)	(68.7)
Capital employed	325.2	280.4	13.7	619.3

Corporate and other	Corporate and other (old basis) £m	Property Development £m	Corporate and other (new basis) £m
Segment operating assets	24.1	(20.1)	4.0
Segment operating liabilities	(68.7)	6.4	(62.3)
Capital employed	(44.6)	(13.7)	(58.3)

The following table shows segmental capital employed on the old basis:

	2019		2018 (restated)	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	9,501.9	314.7	8,900.8	200.6
Goodwill	63.5	28.7	63.5	–
Interests in joint ventures and associates	–	37.0	–	37.6
Segment assets	9,565.4	380.4	8,964.3	238.2
Segment operating liabilities	(1,993.4)	(55.2)	(1,957.6)	(42.7)
Capital employed	7,572.0	325.2	7,006.7	195.5

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

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

5. Segmental analysis continued

b) Segmental capital employed continued

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

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Segment assets			
Regulated Water and Waste Water	**9,277.9**	**9,565.4**	8,964.3
Business Services	**688.0**	**380.4**	238.2
Corporate and other	**4.0**	**24.1**	60.5
Other financial assets	**109.5**	**109.5**	87.3
Loan receivable from joint venture	**142.0**	**142.0**	135.6
Consolidation adjustments	**(17.3)**	**(17.3)**	(60.1)
Total assets	**10,204.1**	**10,204.1**	9,425.8

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

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

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Segment liabilities			
Regulated Water and Waste Water	**(1,986.3)**	**(1,993.4)**	(1,957.6)
Business Services	**(68.7)**	**(55.2)**	(42.7)
Corporate and other	**(62.3)**	**(68.7)**	(74.6)
Other financial liabilities	**(6,180.7)**	**(6,180.7)**	(5,683.4)
Current tax	**(9.3)**	**(9.3)**	(8.6)
Deferred tax	**(747.3)**	**(747.3)**	(674.3)
Consolidation adjustments	**14.6**	**14.6**	12.3
Total liabilities	**(9,040.0)**	**(9,040.0)**	(8,428.9)

The consolidation adjustments comprise elimination of intra-group creditors.

The following table shows the additions to other intangible assets and property, plant and equipment:

	2019		2018	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**36.1**	**2.3**	25.6	2.8
Property, plant and equipment	**851.1**	**10.3**	680.4	10.1

c) Geographical areas

The Group's sales from continuing operations were derived from the following countries:

	2019 £m	2018 (restated) £m
UK	**1,762.8**	1,692.1
Other	**4.6**	4.3
	1,767.4	1,696.4

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2019 and 2018.

Notes to Group financial statements continued
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6. Revenue

Revenue recognised from contracts with customers is analysed by type of revenue and by business below:

Year ended 31 March 2019

New basis	Regulated Water and Waste Water £m	Operating Services £m	Green Power £m	Bioresources £m	Other £m	Group £m
Water and waste water services	1,581.7	–	–	54.5	–	1,636.2
Operating services	–	57.1	–	–	–	57.1
Renewable energy	–	–	26.4	29.0	–	55.4
Other sales	1.4	–	–	–	17.3	18.7
	1,583.1	57.1	26.4	83.5	17.3	1,767.4

Old basis	Regulated Water and Waste Water £m	Business Services £m	Group £m
Water and waste water services	1,636.2	–	1,636.2
Operating services	–	57.1	57.1
Renewable energy	–	55.4	55.4
Other sales	1.4	17.3	18.7
	1,637.6	129.8	1,767.4

Year ended 31 March 2018 (restated)

	Regulated Water and Waste Water £m	Business Services £m	Group £m
Water and waste water services	1,568.9	–	1,568.9
Operating services	–	63.0	63.0
Renewable energy	–	41.6	41.6
Other sales	5.2	17.7	22.9
	1,574.1	122.3	1,696.4

Income from diversions of £8.4 million (2017/18: £9.5 million), which is reimbursement of costs for diversions, is included within infrastructure maintenance expenditure within operating costs.

7. Net operating costs

	2019			2018 (restated)		
	Before amortisation of acquired intangible assets and exceptional costs £m	Amortisation of acquired intangible assets and exceptional costs £m	Total £m	Before amortisation of acquired intangible assets and exceptional costs £m	Amortisation of acquired intangible assets and exceptional costs £m	Total £m
Wages and salaries	**252.2**	**–**	**252.2**	237.2	0.6	237.8
Social security costs	**25.5**	**–**	**25.5**	23.2	–	23.2
Pension costs	**23.6**	**9.6**	**33.2**	20.8	(8.3)	12.5
Share based payments	**8.1**	**–**	**8.1**	6.9	–	6.9
Total employee costs	**309.4**	**9.6**	**319.0**	288.1	(7.7)	280.4
Power	**90.3**	**–**	**90.3**	79.2	–	79.2
Carbon Reduction Commitment	**5.2**	**–**	**5.2**	5.9	–	5.9
Raw materials and consumables	**60.6**	**–**	**60.6**	55.1	–	55.1
Rates	**80.8**	**–**	**80.8**	82.4	–	82.4
Charge for bad and doubtful debts	**25.6**	**–**	**25.6**	25.8	–	25.8
Services charges	**35.2**	**–**	**35.2**	34.3	–	34.3
Depreciation of tangible fixed assets	**315.4**	**–**	**315.4**	308.2	16.8	325.0
Amortisation of intangible fixed assets	**29.8**	**0.7**	**30.5**	20.5	–	20.5
Hired and contracted services	**242.1**	**–**	**242.1**	227.7	3.5	231.2
Operating lease rentals						
– land and buildings	**2.3**	**–**	**2.3**	0.6	–	0.6
– other	**1.6**	**–**	**1.6**	1.1	–	1.1
Hire of plant and machinery	**6.8**	**–**	**6.8**	5.5	–	5.5
Research and development expenditure	**–**	**–**	**–**	2.1	–	2.1
Loss/(profit) on disposal of tangible fixed assets	**0.6**	**–**	**0.6**	(3.4)	–	(3.4)
Exchange losses	**0.1**	**–**	**0.1**	1.1	–	1.1
Infrastructure maintenance expenditure	**141.6**	**–**	**141.6**	135.2	–	135.2
Ofwat licence fees	**5.1**	**–**	**5.1**	3.6	–	3.6
Other operating costs	**43.2**	**–**	**43.2**	48.0	–	48.0
Other operating income	**(3.3)**	**–**	**(3.3)**	(3.0)	–	(3.0)
	1,392.4	**10.3**	**1,402.7**	1,318.0	12.6	1,330.6
Release from deferred credits	**(14.7)**	**–**	**(14.7)**	(14.3)	–	(14.3)
Own work capitalised	**(164.0)**	**–**	**(164.0)**	(143.2)	–	(143.2)
	1,213.7	**10.3**	**1,224.0**	1,160.5	12.6	1,173.1

Further details of exceptional costs are given in note 8. Adjusting costs are amortisation of acquired intangible assets.

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

	2019 £m	2018 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	**0.2**	0.2
– the audit of the Company's subsidiary accounts	**0.4**	0.4
Total audit fees	**0.6**	0.6
Fees payable to the Company's auditor and its associates for other services to the Group:		
– audit related assurance services	**0.1**	0.1
– other assurance services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2

Details of Directors' remuneration are set out in the Directors' remuneration report on pages 97 to 122.

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

Notes to Group financial statements continued
For the year ended 31 March 2019

7. Net operating costs continued

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee report on pages 85 to 92. No services were provided pursuant to contingent fee arrangements.

8. Exceptional items before tax

	2019 £m	2018 (restated) £m
Regulated Water and Waste Water		
Restructuring costs	–	(18.8)
Gain arising on pension exchange arrangement	–	7.7
GMP equalisation costs	(8.9)	–
	(8.9)	(11.1)
Business Services		
Restructuring costs	–	(2.1)
Gain arising on pension exchange arrangement	–	0.3
GMP equalisation costs	(0.3)	–
	(0.3)	(1.8)
Corporate and other		
Gain arising on pension exchange arrangement	–	0.3
GMP equalisation costs	(0.4)	–
	(0.4)	0.3
	(9.6)	(12.6)

9. Employee numbers

Average number of employees (including Executive Directors) during the year:

	2019			2018
	Number	Continuing operations number	Discontinued operations number	Total number
By type of business				
Regulated Water and Waste Water	5,680	5,660	–	5,660
Business Services	889	596	368	964
Corporate and other	11	9	–	9
	6,580	6,265	368	6,633

10. Finance income

	2019 £m	2018 £m
Interest income earned on bank deposits	0.2	0.5
Other financial income	7.7	5.2
Total interest receivable	7.9	5.7
Interest income on defined benefit scheme assets	61.0	62.0
	68.9	67.7

11. Finance costs

	2019 £m	2018 £m
Interest expense charged on:		
Bank loans and overdrafts	**21.3**	19.2
Other loans	**153.0**	183.4
Finance leases	**4.4**	4.4
Total borrowing costs	**178.7**	207.0
Other financial expenses	**9.6**	2.7
Interest cost on defined benefit scheme liabilities	**74.8**	77.5
	263.1	287.2

Borrowing costs of £33.2 million (2018: £26.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 3.40% (2018: 3.89%). Tax relief of £5.5 million (2018: £5.0 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £4.9 million (2018: £4.5 million).

12. Gains/(losses) on financial instruments

	2019 £m	2018 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**0.3**	(1.1)
Gain arising on debt in fair value hedges	**0.5**	–
Exchange (loss)/gain on other loans	**(8.1)**	12.7
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**1.9**	1.4
Gain/(loss) arising on swaps where hedge accounting is not applied	**28.5**	(12.6)
Amortisation of fair value adjustment on debt	**1.1**	1.1
	16.0	(6.7)

The net gain/(loss) on financial assets and liabilities mandatorily measured at fair value through profit or loss was £28.8 million (2018: loss of £13.7 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2018: nil).

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

13. Taxation

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

	2019 £m	2018 (restated) £m
Current tax at 19% (2018: 19%)		
Current year	**41.2**	36.8
Prior years	**(9.4)**	(3.9)
Total current tax	**31.8**	32.9
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**30.1**	21.1
Prior years	**7.5**	7.6
Total deferred tax	**37.6**	28.7
	69.4	61.6

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For the year ended 31 March 2019

13. Taxation continued

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

The tax expense for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 (restated) £m
Profit before taxation	**384.7**	301.2
Tax at standard rate of corporation tax in the UK 19% (2018: 19%)	**73.1**	57.2
Tax effect of depreciation on non-qualifying assets	**1.1**	1.8
Other permanent differences	**0.6**	1.4
Current year impact of rate change	**(3.5)**	(2.5)
Adjustments in respect of prior years	**(1.9)**	3.7
Total tax charge	**69.4**	61.6

	2019 £m	2018 (restated) £m
Profit before taxation	**384.7**	301.2
Tax at standard rate of corporation tax in the UK 19% (2018: 19%)	**73.1**	57.2
Tax effect of depreciation on non-qualifying assets	**1.1**	1.8
Other permanent differences	**0.6**	1.4
Tax effect of accelerated capital allowances	**(29.5)**	(19.7)
Other timing differences	**(4.1)**	(3.9)
Adjustments in respect of prior years	**(9.4)**	(3.9)
Total current tax charge	**31.8**	32.9

c) Tax charged/(credited) directly to other comprehensive income or equity

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

	2019 £m	2018 £m
Current tax		
Tax on share based payments	**(0.2)**	(0.8)
Tax on pension contributions in excess of income statement charge	**(9.5)**	(9.3)
Total current tax credited to other comprehensive income or equity	**(9.7)**	(10.1)
Deferred tax		
Tax on actuarial gain	**21.7**	16.9
Tax on cash flow hedges	**(1.5)**	1.0
Tax on share based payments	**–**	1.3
Tax on transfers to the income statement	**1.3**	1.4
Total deferred tax charged to other comprehensive income or equity	**21.5**	20.6

14. Dividends

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

	2019		2018	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2018 (2017)	**51.92**	**122.9**	48.90	115.2
Interim dividend for the year ended 31 March 2019 (2018)	**37.35**	**89.0**	34.63	81.8
Total dividends paid	**89.27**	**211.9**	83.53	197.0
Proposed final dividend for the year ended 31 March 2019	56.02	135.0		

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

15. Earnings per share

a) Basic and diluted earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

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

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

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

	2019 £m	2018 (restated) £m
Profit for the year	315.3	252.8
Adjusted for profit from discontinued operations (see note 39)	–	(13.2)
Profit for the year from continuing operations	315.3	239.6

(ii) Number of shares

	2019 £m	2018 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	236.3	235.3
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	0.4	0.8
Weighted average number of ordinary shares for the purpose of diluted earnings per share	236.7	236.1

b) Underlying earnings per share

	2019 pence	2018 (restated) pence
Underlying basic earnings per share	145.8	120.5
Underlying diluted earnings per share	145.6	120.1

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

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

	2019 £m	2018 (restated) £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	315.3	239.6
Adjustments for:		
– exceptional items before tax	9.6	12.6
– current tax related to exceptional items	–	(0.7)
– amortisation of acquired intangible assets	0.7	–
– net (gains)/losses on financial instruments	(16.0)	6.7
– current tax on net gains/losses on financial instruments	(2.6)	(3.3)
– deferred tax	37.6	28.7
Earnings for the purpose of underlying basic and diluted earnings per share	344.6	283.6

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16. Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	**62.2**	81.0
Acquisition of subsidiary (note 38)	**28.7**	–
Disposal of subsidiaries	**–**	(14.4)
Exchange adjustments	**–**	(0.6)
Additional consideration in respect of acquisition	**–**	0.2
Adjustment to provisional fair values on acquisition	**–**	(4.0)
At 31 March	**90.9**	62.2

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. A summary of the carrying amount of goodwill by CGU is presented below.

	2019 £m	2018 £m
Regulated Water and Waste Water	**62.2**	62.2
Agrivert	**28.7**	–
	90.9	62.2

Regulated Water and Waste Water also has an intangible asset with an indefinite useful life amounting to £4.3 million (2018: £4.3 million).

a) Regulated Water and Waste Water

On 1 July 2018 Instruments of Appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is now allocated to the Regulated Water and Waste Water cash-generating unit.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a level 3 valuation, in the current year. The assessment of the valuation technique was reassessed in the year to align the valuation to reflect the capital intensive nature of the business and in line with IAS 36 to ensure that the valuation is the higher of value in use or fair value less costs to sell.

The fair value determined using a discounted cash flow calculation for the Regulated Water and Waste Water segment is based on the most recent financial projections available for the business, which cover the remainder of the current AMP period to 2020 and the following AMP period, which runs to 31 March 2025. As a regulated water company, the revenues and costs within the Regulated Water and Waste Water segment are significantly influenced by the regulatory settlement for each AMP period so management considers it appropriate for the detailed projections to be coterminous with the AMP period.

The key assumptions underlying these projections are:

	%
Discount rate	6.5
RPI inflation	3.0
CPI inflation	2.0
Growth rate in the period beyond the detailed projections	1.5

The discount rate was an estimate for the weighted average cost of capital at the year end date based on the nominal pre-tax WACC detailed in the Ofwat PR19 methodology adjusted to reflect the actual gearing of the Regulated Water and Waste Water operating segment. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 3% and 2% for RPI and CPI respectively based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the six-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base.

The fair value less costs to sell for the CGU exceeded its carrying value by £4,248 million. An increase in the discount rate to 7.6% or a reduction in the growth rate in the period beyond the detailed projections to 0.7% would reduce the recoverable amount to the carrying amount of the goodwill.

16. Goodwill continued

b) Agrivert

On 30 November 2018, Agrivert Holdings and its subsidiary undertakings were acquired by Severn Trent Group resulting in provisional goodwill of £28.7 million. This goodwill has been allocated to the Agrivert Group cash-generating unit which is determined to be the lowest level of independent cash flows relating to the goodwill. Agrivert Group is included within the Green Power part of the Business Services segment.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Agrivert Group CGU was determined on the basis of a value in use calculation.

The fair value determined using a discounted cash flow calculation for the Agrivert Group CGU is based on the most recent financial projections available for the business to 2024.

The key assumptions underlying these projections are:

	%
Discount rate	11.3
RPI inflation	2.1
Growth rate in the period beyond the detailed projections	2.0

The discount rate was based on the post-tax internal rate of return for the acquisition and benchmarked against market data for green energy transactions in 2018. This rate was then converted to the equivalent pre-tax rate disclosed above.

Cash flows beyond the end of the five year period are extrapolated using an assumed growth of 2.0% in the Agrivert's free cash flows.

The value in use for the CGU exceeded its carrying value by £15 million. An increase in the discount rate to 12.1% or reduction in the growth rate in the period beyond the detailed projections to 1.2% would reduce the recoverable amount to the carrying amount of the goodwill.

17. Other intangible assets

	Computer software				
	Internally generated £m	Purchased £m	Capitalised development costs and patents £m	Other intangible assets £m	Total £m
Cost					
At 1 April 2017	202.7	113.8	13.9	–	330.4
Additions	9.8	18.2	0.4	–	28.4
Disposals	(0.7)	–	(1.5)	–	(2.2)
Adjustment to provisional fair values	–	–	–	4.3	4.3
Disposals of subsidiaries	–	(7.2)	–	–	(7.2)
Exchange adjustments	(0.1)	(0.1)	–	–	(0.2)
At 1 April 2018	211.7	124.7	12.8	4.3	353.5
Additions	23.8	11.3	–	–	35.1
Disposals	(0.3)	(1.0)	–	–	(1.3)
Acquisition of subsidiaries (note 38)	–	–	–	31.5	31.5
At 31 March 2019	**235.2**	**135.0**	**12.8**	**35.8**	**418.8**
Amortisation					
At 1 April 2017	(166.2)	(70.6)	(12.7)	–	(249.5)
Amortisation for the year	(8.0)	(12.6)	(0.1)	–	(20.7)
Disposals	0.6	–	–	–	0.6
Disposals of subsidiaries	–	4.3	–	–	4.3
Exchange adjustments	–	0.2	–	–	0.2
At 1 April 2018	(173.6)	(78.7)	(12.8)	–	(265.1)
Amortisation for the year	(14.5)	(15.3)	–	(0.7)	(30.5)
Disposals	0.2	0.8	–	–	1.0
At 31 March 2019	**(187.9)**	**(93.2)**	**(12.8)**	**(0.7)**	**(294.6)**
Net book value					
At 31 March 2019	**47.3**	**41.8**	–	**35.1**	**124.2**
At 31 March 2018	38.1	46.0	–	4.3	88.4

Other intangible assets includes the Instrument of Appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert.

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For the year ended 31 March 2019

18. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2017	3,313.0	5,114.2	4,052.3	73.9	630.5	13,183.9
Additions	9.1	60.5	16.4	0.9	604.3	691.2
Transfers on commissioning	69.4	52.2	136.5	4.4	(262.5)	–
Disposals	(2.0)	(0.3)	(12.4)	(2.9)	(0.8)	(18.4)
Adjustment to provisional fair values	–	0.8	–	–	–	0.8
Disposal of subsidiary undertaking	–	–	(15.2)	(19.2)	–	(34.4)
Reclassifications	(3.0)	6.5	(10.7)	(0.3)	7.5	–
Exchange adjustments	–	–	(0.9)	(1.2)	–	(2.1)
At 1 April 2018	3,386.5	5,233.9	4,166.0	55.6	979.0	13,821.0
Additions	77.9	146.8	110.3	11.5	514.9	861.4
Transfers on commissioning	54.4	26.5	124.9	2.8	(208.6)	–
Disposals	(0.9)	(0.1)	(2.4)	(4.0)	(1.3)	(8.7)
Acquisition of subsidiary undertaking (note 38)	63.2	–	6.0	0.2	–	69.4
At 31 March 2019	**3,581.1**	**5,407.1**	**4,404.8**	**66.1**	**1,284.0**	**14,743.1**
Depreciation						
At 1 April 2017	(1,197.0)	(1,298.9)	(2,520.6)	(51.0)	–	(5,067.5)
Charge for the year	(84.5)	(31.5)	(188.0)	(4.8)	–	(308.8)
Disposals	1.7	–	12.9	2.7	–	17.3
Disposal of subsidiary undertaking	–	–	10.2	14.8	–	25.0
Reclassifications	4.1	(1.5)	(3.0)	0.4	–	–
Exceptional depreciation	(10.1)	–	(6.7)	–	–	(16.8)
Exchange adjustments	–	–	0.7	1.0	–	1.7
At 1 April 2018	(1,285.8)	(1,331.9)	(2,694.5)	(36.9)	–	(5,349.1)
Charge for the year	(85.7)	(36.8)	(188.4)	(4.5)	–	(315.4)
Disposals	0.7	–	2.4	3.9	–	7.0
At 31 March 2019	**(1,370.8)**	**(1,368.7)**	**(2,880.5)**	**(37.5)**	**–**	**(5,657.5)**
Net book value						
At 31 March 2019	**2,210.3**	**4,038.4**	**1,524.3**	**28.6**	**1,284.0**	**9,085.6**
At 31 March 2018	2,100.7	3,902.0	1,471.5	18.7	979.0	8,471.9

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

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2019	**114.8**	**4.0**	**118.8**
At 31 March 2018	115.8	6.4	122.2

The depreciation charge includes £nil (2018: £16.8 million) in respect of the write-off of redundant plant and equipment.

19. Interests in joint ventures

Particulars of the Group's principal joint venture undertaking at 31 March 2019 were:

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Limited	Joint venture	Great Britain	Ordinary B	50%

The results and net assets of the principal joint venture are shown below:

	Interests in joint venture	
	2019 £m	2018 £m
Group's share of carrying value	**37.0**	37.6
Group's share of (loss)/profit and comprehensive (loss)/income	**(0.4)**	0.2

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

As at 31 March 2019 and 2018 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than is set out below, the Group did not have any significant contingent liabilities in relation to its interests in the joint venture. The Group had no capital commitments in relation to its interests in the joint venture at 31 March 2019 or 2018.

The parent company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £58.1 million (2018: £42.5 million) and the guarantee for the Severn Trent Water loan is for the amount due.

The registered office of Water Plus is Two Smithfield, Leonard Coates Way, Stoke-On-Trent, ST1 4FD.

20. Categories of financial assets

	Note	**2019 £m**	2018 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**18.0**	5.8
Interest rate swaps – not hedge accounted		**26.1**	11.4
		44.1	17.2
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**19.1**	18.7
Energy hedges – cash flow hedges		**5.3**	0.3
		24.4	19.0
Total derivative financial assets		**68.5**	36.2
Financial assets at amortised cost			
Net trade receivables	21	**221.5**	191.0
Net accrued income	21	**223.3**	215.2
Contract assets	21	**35.1**	39.1
Other amounts receivable	21	**64.6**	44.2
Loan receivable from joint venture	21	**142.0**	135.6
Short term deposits	22	**–**	16.4
Cash at bank and in hand	22	**41.0**	34.7
Total financial assets at amortised cost		**727.5**	676.2
Total financial assets		**796.0**	712.4
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**68.4**	36.0
Trade and other receivables		**47.6**	3.9
Loan receivable from joint venture		**142.0**	135.6
		258.0	175.5
Current assets			
Derivative financial assets		**0.1**	0.2
Trade and other receivables		**496.9**	440.9
Cash at bank and in hand		**41.0**	51.1
		538.0	492.2
		796.0	667.7

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21. Trade and other receivables

	2019 £m	2018 £m
Current assets		
Net trade receivables	**221.5**	191.0
Other amounts receivable	**48.9**	38.7
Contract assets	**3.2**	4.0
Prepayments	**16.6**	11.5
Net accrued income	**223.3**	211.2
	513.5	456.4
Non-current assets		
Other amounts receivable	**15.7**	1.5
Prepayments	**14.4**	9.1
Contract assets	**31.9**	35.1
Loan receivable from joint venture	**142.0**	135.6
	204.0	181.3
	717.5	637.7

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

Contract assets

Contract assets arise on the MOD contract when the value of work performed is greater than the amounts billed. Amounts billed are determined based on a volumetric tariff for water supplied.

Movements on the contract assets were as follows:

	2019 £m	2018 £m
At 1 April	**39.1**	36.6
Amounts billed	**(46.1)**	(44.7)
Revenue recognised	**42.1**	47.2
At 31 March	**35.1**	39.1

During the year no revenue was recognised from performance obligations satisfied in previous periods.

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for distinct services which the Group has promised to deliver to its customer. These include promises which are partially satisfied at the period end. In deriving the transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future.

The total transaction price allocated to remaining performance obligation is £509.6 million, with £43.5 million receivable in 2020, £43.9 million receivable in 2021 and £422.2 million receivable in 2022 onwards.

21. Trade and other receivables continued

Bad debt provision

Movements on the bad debt provision were as follows:

	2019 £m	2018 £m
At 1 April	**129.0**	130.5
Charge for bad and doubtful debts (continuing and discontinued operations)	**25.6**	27.3
Acquisition	**–**	–
Disposal of subsidiary undertaking	**–**	(1.2)
Amounts written off during the year	**(34.4)**	(27.6)
At 31 March	**120.2**	129.0

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

	2019 £m	2018 £m
Trade receivables		
Up to 90 days	**–**	0.5
91 – 365 days	**–**	1.2
1 – 2 years	**0.1**	5.2
2 – 3 years	**0.6**	2.5
More than 3 years	**12.3**	5.6
	13.0	15.0

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. This is calculated based on historical experience of bad debt write-offs. For the year ended 31 March 2018 there is no material difference between the bad debt provision under IAS 39 and the provision for the lifetime expected credit losses under IFRS 9.

Debts are written off when there is no realistic expectation of further collection.

The aged analysis of expected credit loss provisions for receivables past due not individually provided for is as follows:

	2019 £m	2018 £m
Up to 90 days	**58.5**	43.6
91 – 365 days	**88.0**	80.0
1 – 2 years	**60.3**	57.5
2 – 3 years	**38.7**	40.7
More than 3 years	**74.9**	77.4
	320.4	299.2

Notes to Group financial statements continued
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21. Trade and other receivables continued

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

	2019			2018		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Accrued income – not due	225.2	(1.9)	223.3	215.2	(1.2)	214.0
Trade receivables						
Not due	6.4	–	6.4	5.8	–	5.8
Overdue not specifically provided	320.4	(105.3)	215.1	299.2	(112.8)	186.4
Overdue and specifically provided	13.0	(13.0)	–	15.0	(15.0)	–
	565.0	(120.2)	444.8	535.2	(129.0)	406.2

Credit risk

Trade receivables

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the Group is Severn Trent Water Limited, which represents 93% of Group turnover and 90% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

The expected credit loss rate is 1.9%.

Water Plus

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 44.

22. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	41.0	34.7
Short-term deposits	–	16.4
	41.0	51.1

Short-term bank deposits are held as security deposits for insurance obligations, which are not available for use by the Group. In addition, £14.7 million (2018: £9.8 million) of cash at bank and in hand is restricted for use on the MOD contract and is not available for use by the Group.

23. Borrowings

	2019 £m	2018 £m
Current liabilities		
Bank overdraft	1.4	12.6
Bank loans	188.7	287.9
Other loans	2.8	5.3
Finance leases	4.1	2.9
	197.0	308.7
Non-current liabilities		
Bank loans	931.4	929.5
Other loans	4,817.7	4,218.6
Finance leases	108.1	111.0
	5,857.2	5,259.1
	6,054.2	5,567.8

24. Finance leases

Obligations under finance leases are due as follows:

	2019 £m	2018 £m
Within 1 year	**7.3**	6.5
1 – 2 years	**7.8**	7.0
2 – 5 years	**26.3**	24.3
After more than 5 years	**103.7**	113.1
Gross obligations under finance leases	**145.1**	150.9
Less future finance charges	**(32.9)**	(37.0)
Present value of lease obligations	**112.2**	113.9

Net obligations under finance leases fall due as follows:

	2019 £m	2018 £m
Within 1 year	**4.1**	2.9
1 – 2 years	**4.1**	3.2
2 – 5 years	**16.1**	13.7
After more than 5 years	**87.9**	94.1
Included in non-current liabilities	**108.1**	111.0
	112.2	113.9

The remaining terms of finance leases ranged from 1 to 13 years at 31 March 2019. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.34% (2018: 5.34%). 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.

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For the year ended 31 March 2019

25. Categories of financial liabilities

	Note	2019 £m	2018 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**94.1**	98.8
Inflation swaps – not hedge accounted		**6.2**	2.8
		100.3	101.6
Derivatives designated as hedging instruments			
Interest rate swaps – cash flow hedges		**25.8**	13.6
Energy hedges – cash flow hedges		**0.4**	0.8
		26.2	14.4
Total derivative financial liabilities		**126.5**	116.0
Other financial liabilities			
Borrowings	23	**6,054.2**	5,567.8
Trade payables	26	**32.2**	18.9
Other payables		**29.9**	21.6
Total other financial liabilities		**6,116.3**	5,608.3
Total financial liabilities		**6,242.8**	5,724.3
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**126.5**	116.0
Other payables		**8.4**	–
Borrowings		**5,857.2**	5,259.1
		5,992.1	5,375.1
Current liabilities			
Borrowings		**197.0**	308.7
Trade payables		**32.2**	18.9
Other payables		**21.5**	21.6
		250.7	349.2
		6,242.8	5,724.3

26. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	**32.2**	18.9
Social security and other taxes	**11.5**	6.9
Other payables	**21.5**	21.6
Accruals	**412.6**	400.3
Deferred income	**18.9**	14.9
	496.7	462.6
Non-current liabilities		
Other payables	**8.4**	–
Accruals	**0.4**	0.4
Deferred income	**1,074.1**	1,009.0
	1,082.9	1,009.4
	1,579.6	1,472.0

27. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2017	758.9	(78.7)	(46.1)	(10.4)	623.7
Charge/(credit) to income	24.5	(0.3)	1.6	3.2	29.0
Charge for adjustments to provisional fair values	0.1	–	–	1.0	1.1
Charge to equity	–	16.9	2.4	1.3	20.6
At 1 April 2018	783.5	(62.1)	(42.1)	(4.9)	674.4
Restatement	–	–	–	0.8	0.8
At 1 April 2018 restated	783.5	(62.1)	(42.1)	(4.1)	675.2
Charge/(credit) to income	36.3	(2.3)	5.2	(1.6)	37.6
Acquired on acquisition	3.8	–	–	9.4	13.2
Charge/(credit) to equity arising from rate change	–	21.7	(0.2)	–	21.5
At 31 March 2019	**823.6**	**(42.7)**	**(37.1)**	**3.7**	**747.5**

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:

	2019 £m	2018 (restated) £m
Deferred tax asset	**(79.8)**	(108.4)
Deferred tax liability	**827.3**	783.6
	747.5	675.2

28. Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual. The defined benefit pension schemes cover increases in accrued benefits arising from inflation and 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 by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the scheme rules.

The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2016
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2016
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2017

The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

Notes to Group financial statements continued
For the year ended 31 March 2019

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

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

	2019 £m	2018 £m
Fair value of assets	**2,418.9**	2,339.8
Present value of the defined benefit obligations	**(2,871.8)**	(2,859.6)
	(452.9)	(519.8)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**18.6**	18.2
Retirement benefit obligation – funded schemes in deficit	**(462.9)**	(529.3)
Retirement benefit obligation – unfunded schemes	**(8.6)**	(8.7)
	(471.5)	(538.0)
Net retirement benefit obligation	**(452.9)**	(519.8)

	2019 £m	2018 £m
Fair value of scheme assets		
Equities	**356.6**	360.4
Diversified growth funds	**–**	5.3
Corporate bonds	**899.2**	825.7
Liability-driven investment funds ('LDIs')	**746.0**	783.1
Property	**228.2**	180.7
Emerging markets multi-asset funds	**–**	3.9
High-yield bonds	**31.3**	3.4
Hedge funds	**–**	0.6
Cash	**157.6**	176.7
	2,418.9	2,339.8

The majority of the assets have quoted prices in active markets, but there are a small proportion of the equity and LDI investments which are unquoted.

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

	2019 £m	2018 £m
Fair value at 1 April	**2,339.8**	2,352.8
Interest income on scheme assets	**61.0**	62.0
Contributions from the sponsoring companies	**34.9**	35.2
Contributions from scheme members	**0.1**	0.1
Return on plan assets (excluding amounts included in finance income)	**95.9**	(1.3)
Scheme administration costs	**(2.3)**	(1.8)
Benefits paid	**(110.5)**	(107.2)
Fair value at 31 March	**2,418.9**	2,339.8

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

	2019 £m	2018 £m
Present value at 1 April	**(2,859.6)**	(2,927.4)
Service cost	**(0.2)**	(0.5)
Exceptional past service (cost)/credit	**(9.6)**	8.3
Interest cost	**(74.8)**	(77.5)
Contributions from scheme members	**(0.1)**	(0.1)
Actuarial gains arising from changes in demographic assumptions	**55.7**	21.6
Actuarial (losses)/gains arising from changes in financial assumptions	**(132.7)**	6.9
Actuarial gains arising from experience adjustments	**39.0**	1.9
Benefits paid	**110.5**	107.2
Present value at 31 March	**(2,871.8)**	(2,859.6)

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

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

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 £8.6 million (2018: £8.7 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that is has an unconditional right to a refund of any surplus assets in each of the schemes following settlement of all obligations to scheme members and therefore the surplus in DVWS has been recognised in full.

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

	2019 £m	2018 £m
Amounts (charged)/credited to operating costs:		
Current service cost	**(0.2)**	(0.5)
Exceptional past service (cost)/credit	**(9.6)**	8.3
Scheme administration costs	**(2.3)**	(1.8)
	(12.1)	6.0
Amounts charged to finance costs:		
Interest cost	**(74.8)**	(77.5)
Amounts credited to finance income:		
Interest income on scheme assets	**61.0**	62.0
Total amount credited to the income statement	**(25.9)**	(9.5)

The actual return on scheme assets was a gain of £156.9 million (2018: £60.7 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

On 26 October 2018, the High Court issued a judgment in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment have a potential consequence for the schemes. The Group has estimated the cost of equalising benefits, and has allowed for this cost within the exceptional past service cost item in 2018/19. Any subsequent changes to this amount in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

(iv) Actuarial risk factors

The schemes typically expose the Group 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 may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made to both the maturity of liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the plan has a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the plan liabilities, we consider it appropriate to invest a portion of the plan assets in equity securities and in real estate to leverage the return generated by the fund.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. 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 may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Notes to Group financial statements continued
For the year ended 31 March 2019

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(iv) Actuarial risk factors continued

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 may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows.

	2019 %	2018 %
Price inflation – RPI	**3.2**	3.1
Price inflation – CPI	**2.2**	2.1
Discount rate	**2.5**	2.7
Pension increases in payment	**3.2**	3.1
Pension increases in deferment	**3.2**	3.1

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts.

In setting our discount rate, we construct a yield curve. Short-dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate based on this constructed yield curve.

The mortality assumptions are based on those used in the latest triennial funding valuations. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 65 implied by the assumptions are as follows for the STPS:

	2019		2018	
	Men	Women	Men	Women
Mortality table used	**S2NMA**	**S2NFA**	S2NMA	S2NFA
Mortality table compared with standard table	**95%**	**99%**	95%	99%
Mortality projections	**CMI 2018**	**CMI 2018**	CMI 2017	CMI 2017
Future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 65 years	**21.9**	**23.6**	22.4	24.1
Remaining life expectancy at age 65 for members currently aged 45 years	**22.9**	**24.8**	23.4	25.3

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate[1]	Increase/decrease by 0.1% pa	Decrease/increase by £46/£47 million
Price inflation[2]	Increase/decreased by 0.1% pa	Increase/decrease by £40/£39 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £106 million

1 A change in discount rate is likely to occur as a result of changes in bond yield and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase.

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. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

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

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(i) 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 16 years for STPS and STMIPS (2018: 17 years) and 15 years for DVWS (2018: 16 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2016 for the STPS and STMIPS schemes and 31 March 2017 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £25 million were paid in the year ended 31 March 2017 and £10 million for each of the subsequent financial years ending 31 March 2019 were agreed. Payments of £8 million per annum through an asset-backed funding arrangement will continue to 31 March 2032. Further inflation-linked payments of £15 million per annum are being made through an additional asset-backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £23.4 million (2018: £20.3 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2019 no contributions (2018: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

29. Provisions for liabilities

	Restructuring £m	Insurance £m	Other £m	Total £m
At 1 April 2018	0.8	23.3	27.2	51.3
Charged to income statement	–	5.2	7.0	12.2
Utilisation of provision	(0.5)	(5.1)	(7.2)	(12.8)
Unwinding of discount	–	–	0.2	0.2
Acquisition of subsidiary	–	–	0.5	0.5
At 31 March 2019	**0.3**	**23.4**	**27.7**	**51.4**

	2019 £m	2018 £m
Included in:		
Current liabilities	**32.2**	40.6
Non-current liabilities	**19.2**	10.7
	51.4	51.3

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes. The associated outflows are estimated to arise over a period of up to two years from the balance sheet date.

Insurance includes provisions in respect of Derwent Insurance Limited and Lyra Insurance Guernsey Limited, captive insurance companies, which are wholly owned subsidiaries of the Group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

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30. Share capital

	2019 £m	2018 £m
Total issued and fully paid share capital		
240,943,929 ordinary shares of 97 17/19p (2018: 240,222,617)	**235.9**	235.1

At 31 March 2019, 3,774,921 treasury shares were held (2018: 3,948,599).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19p		
At 1 April 2017	239,793,915	234.7
Shares issued under the Employee Sharesave Scheme	428,702	0.4
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 31 March 2019	**240,943,929**	**235.9**

31. Share premium

	2019 £m	2018 £m
At 1 April	**117.7**	112.5
Share premium arising on issue of shares for Employee Sharesave Scheme	**10.3**	5.2
At 31 March	**128.0**	117.7

32. Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2017	157.1	40.4	(75.7)	121.8
Total comprehensive (loss)/income for the year	–	(31.4)	11.6	(19.8)
Transfer to retained earnings	–	(9.0)	–	(9.0)
At 1 April 2018	157.1	–	(64.1)	93.0
Total comprehensive loss for the year	–	–	(0.2)	(0.2)
At 31 March 2019	**157.1**	–	**(64.3)**	**92.8**

The capital redemption reserve arose on the redemption of B shares.

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

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

33. Capital management

The Group's principal objectives in managing capital are:

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

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

The Group has continued to carefully monitor market conditions and our interest rate exposure. Given the low, flat yield curve we believe it is the right time to start reducing our exposure to floating interest rates. At 31 March 2019, 22% of our gross debt portfolio was at floating rates, with a further 25% of index linked debt and 53% of fixed rate debt.

The Group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The Board has decided to set the 2018/19 dividend at 93.37 pence, an increase of 7.9% compared to the total dividend for 2017/18 of 86.55 pence. Our policy is to grow the dividend annually at no less than RPI plus 4% until March 2020.

The Group's capital at 31 March was:

	2019 £m	2018 £m
Net cash and cash equivalents	**39.6**	38.5
Bank loans	**(1,120.1)**	(1,217.4)
Other loans	**(4,820.5)**	(4,223.9)
Finance leases	**(112.2)**	(113.9)
Cross currency swaps	**37.1**	24.5
Loans due from joint ventures and associated undertakings	**142.0**	135.6
Net debt	**(5,834.1)**	(5,356.6)
Equity attributable to owners of the Company	**(1,164.1)**	(996.9)
Total capital	**(6,998.2)**	(6,353.5)

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34. Fair values of financial instruments

a) Fair value measurements

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

	2019 £m	2018 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**37.1**	24.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Interest rate swaps			Discounted cash flow
Assets	**26.1**	11.4	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(119.9)**	(112.4)	
Energy swaps			Discounted cash flow
Assets	**5.3**	0.3	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(0.4)**	(0.8)	
Inflation swaps			Discounted cash flow
Liabilities	**(6.2)**	(2.8)	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI. Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.
Contingent consideration	**(3.0)**	–	Management estimate of the amount that is likely to be payable. This is considered to be a Level 3 valuation technique. The contingent consideration arose on the acquisition of Agrivert (note 38).

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m	Contingent consideration £m
At 1 April 2017	–	–
Losses recognised in profit or loss	(2.8)	–
At 31 March 2018	(2.8)	–
Losses recognised in profit or loss	(3.4)	–
Recognised on acquisition of subsidiary	–	(3.0)
At 31 March 2019	**(6.2)**	**(3.0)**

34. Fair values of financial instruments continued

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

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

		2019		2018
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**818.1**	**818.3**	917.1	918.6
Currency bonds	**37.9**	**37.9**	38.2	38.2
Floating rate notes	**147.7**	**148.0**	147.7	153.0
	1,003.7	**1,004.2**	1,103.0	1,109.8
Fixed rate debt				
Bank loans	**184.1**	**183.3**	185.3	185.0
Sterling bonds	**2,591.1**	**2,956.8**	2,357.0	2,700.2
Fixed rate notes	**673.3**	**707.4**	343.4	347.6
Other loans	**2.8**	**2.8**	5.3	5.3
Finance leases	**112.2**	**119.6**	113.9	122.5
	3,563.5	**3,969.9**	3,004.9	3,360.6
Index-linked debt				
Bank loans	**117.9**	**126.7**	115.0	124.9
Sterling bonds	**1,279.1**	**2,104.4**	1,244.1	2,057.1
Other loans	**88.6**	**67.2**	88.2	87.1
	1,485.6	**2,298.3**	1,447.3	2,269.1
	6,052.8	**7,272.4**	5,555.2	6,739.5

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate sterling and currency bonds are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 3 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models, which is a Level 3 valuation technique.

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35. Risks arising from financial instruments

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

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

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

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

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

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and 36 a) (i).

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

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

a) Market risk

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

(i) Interest rate risk

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

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

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

35. Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

The Group's policy is to maintain 40% to 70% of its interest bearing liabilities in fixed rate instruments during AMP6. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2019 £m	2018 £m
Net debt (note 40)	**5,834.1**	5,356.6
Cash and short term deposits	**41.0**	51.1
Loan receivable from joint ventures and associates	**142.0**	135.6
Cross currency swaps included in net debt at fair value	**37.1**	24.5
Fair value hedge accounting adjustments	**(28.8)**	(30.4)
Exchange on currency debt not hedge accounted	**(16.7)**	(8.5)
Interest bearing financial liabilities	**6,008.7**	5,528.9

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

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

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

2019	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdrafts	(1.4)	–	–	(1.4)
Bank loans	(818.1)	(184.1)	(117.9)	(1,120.1)
Other loans	(169.1)	(3,238.3)	(1,367.6)	(4,775.0)
Finance leases	–	(112.2)	–	(112.2)
	(988.6)	**(3,534.6)**	**(1,485.5)**	**(6,008.7)**
Impact of swaps not matched against specific debt instruments	(348.4)	348.4	–	–
Interest bearing financial liabilities	**(1,337.0)**	**(3,186.2)**	**(1,485.5)**	**(6,008.7)**
Proportion of interest bearing financial liabilities that are fixed		**53%**		
Weighted average interest rate of fixed debt		**4.19%**		
Weighted average period for which interest is fixed (years)		**8.8**		

2018	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdrafts	(12.6)	–	–	(12.6)
Bank loans	(917.1)	(185.3)	(115.0)	(1,217.4)
Other loans	(167.6)	(2,685.0)	(1,332.3)	(4,184.9)
Finance leases	–	(113.9)	–	(113.9)
	(1,097.3)	(2,984.2)	(1,447.3)	(5,528.8)
Impact of swaps not matched against specific debt instruments	(349.6)	349.6	–	–
Interest bearing financial liabilities	(1,446.9)	(2,634.6)	(1,447.3)	(5,528.8)
Proportion of interest bearing financial liabilities that are fixed		48%		
Weighted average interest rate of fixed debt		4.30%		
Weighted average period for which interest is fixed (years)		8.8		

Notes to Group financial statements continued
For the year ended 31 March 2019

35. Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £19.7 million (2018: £7.9 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2019 %	2018 %	2019 £m	2018 £m	2019 £m	2018 £m
Pay fixed rate interest						
2 – 5 years	**4.98**	–	**(150.0)**	–	**(25.8)**	–
5 – 10 years	**5.14**	5.06	**(150.0)**	(300.0)	**(34.9)**	(65.6)
10 – 20 years	**5.45**	5.46	**(75.0)**	(73.7)	**(33.5)**	(32.6)
	5.13	5.16	**(375.0)**	(373.7)	**(94.2)**	(98.2)
Receive fixed rate interest						
5 – 10 years	**3.36**	3.36	**225.0**	225.0	**15.8**	11.4
10 – 20 years	**2.75**	2.75	**400.0**	400.0	**10.4**	(0.6)
	2.97	3.01	**625.0**	625.0	**26.2**	10.8
			250.0	251.3	**(68.0)**	(87.4)

Interest rate sensitivity analysis

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

	2019		2018	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	**(48.5)**	**54.3**	(47.7)	53.9
Cash flow	**(10.8)**	**10.8**	(11.5)	(11.5)
Equity	**(48.5)**	**54.3**	(47.7)	53.9

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions. Substantially all of the Group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the Group's results to changes in exchange rates is not material.

Certain of the Group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to a no charge (2018: nil) in the income statement.

In order to meet its objective of accessing a broad range of sources of finance, the Group has raised debt denominated in currencies other than sterling. In order to mitigate the Group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional values and fair values of these swaps are shown in note 36 a).

The Group also has cross currency swaps with a sterling value of £98.3 million (2018: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency, but they are not designated hedges under IFRS 9. This has led to a credit of £12.2 million (2018: charge of £17.7 million) in the income statement which is partly offset by the exchange loss of £8.6 million (2018: exchange gain of £12.7 million) on the underlying debt.

35. Risks arising from financial instruments continued

a) Market risk continued

(ii) Exchange rate risk continued

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

2019	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(20.1)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(0.2)	–	–

2018	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(20.2)	(150.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	–	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(0.3)	–	–

b) Credit risk

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

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

Credit risk analysis

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

	Credit limit		Amount deposited	
	2019 £m	2018 £m	2019 £m	2018 £m
Double A range	105.0	105.0	–	–
Single A range	700.0	650.0	–	11.1
Triple B range	–	10.0	–	5.3
	805.0	765.0	–	16.4

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

	Derivative assets	
	2019 £m	2018 £m
Double A range	1.4	–
Single A range	67.1	36.2
	68.5	36.2

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For the year ended 31 March 2019

35. Risks arising from financial instruments continued

c) Liquidity risk

(i) Committed facilities

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

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

	2019 £m	2018 £m
2 – 5 years	**885.0**	710.0

(ii) Cash flows from non-derivative financial instruments

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

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

2019

Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(202.2)	(122.8)	(28.8)	(32.2)	(386.0)
1 – 2 years	(14.4)	(276.4)	(30.9)	–	(321.7)
2 – 5 years	(352.3)	(1,165.6)	(321.6)	–	(1,839.5)
5 – 10 years	(469.2)	(1,359.6)	(412.3)	–	(2,241.1)
10 – 15 years	(50.8)	(1,206.0)	(217.9)	–	(1,474.7)
15 – 20 years	–	(246.1)	(145.6)	–	(391.7)
20 – 25 years	–	(413.4)	(176.3)	–	(589.7)
25 – 30 years	–	–	(208.5)	–	(208.5)
30 – 35 years	–	–	(652.7)	–	(652.7)
35 – 40 years	–	–	(3,248.6)	–	(3,248.6)
40 – 45 years	–	–	(22.8)	–	(22.8)
45 – 50 years	–	–	(358.6)	–	(358.6)
Total	**(1,088.9)**	**(4,789.9)**	**(5,824.6)**	**(32.2)**	**(11,735.6)**

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	496.9	41.0	537.9
1 – 2 years	142.0	47.6	–	189.6
Total	**142.0**	**544.5**	**41.0**	**727.5**

35. Risks arising from financial instruments continued

c) Liquidity risk continued

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

2018

Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(311.4)	(136.0)	(27.8)	(18.9)	(494.1)
1 – 2 years	(10.3)	(116.1)	(29.4)	–	(155.8)
2 – 5 years	(41.3)	(982.6)	(325.7)	–	(1,349.6)
5 – 10 years	(785.3)	(1,333.6)	(199.9)	–	(2,318.8)
10 – 15 years	(52.7)	(1,056.0)	(436.2)	–	(1,544.9)
15 – 20 years	–	(60.9)	(139.0)	–	(199.9)
20 – 25 years	–	(298.8)	(167.7)	–	(466.5)
25 – 30 years	–	–	(199.2)	–	(199.2)
30 – 35 years	–	–	(649.7)	–	(649.7)
35 – 40 years	–	–	(2,273.6)	–	(2,273.6)
40 – 45 years	–	–	(1,068.1)	–	(1,068.1)
45 – 50 years	–	–	(374.2)	–	(374.2)
Total	(1,201.0)	(3,984.0)	(5,890.5)	(18.9)	(11,094.4)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	191.0	51.1	242.1
1 – 2 years	126.3	–	–	126.3
5 – 10 years	12.5	–	–	12.5
Total	**138.8**	**191.0**	**51.1**	**380.9**

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in the RPI. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

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For the year ended 31 March 2019

35. Risks arising from financial instruments continued

c) Liquidity risk continued

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

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2019	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(28.6)	–	–	16.7	0.1	6.2	(3.2)	(8.8)
1 – 2 years	(15.6)	–	–	0.3	0.6	6.2	(3.2)	(11.7)
2 – 5 years	(44.9)	(0.3)	(0.4)	0.6	4.7	18.3	(9.7)	(31.7)
5 – 10 years	(31.8)	(1.7)	–	0.4	–	164.7	(144.1)	(12.5)
10 – 15 years	(7.5)	(2.5)	–	(0.1)	–	16.9	(8.6)	(1.8)
15 – 20 years	–	10.4	–	–	–	–	–	10.4
	(128.4)	**5.9**	**(0.4)**	**17.9**	**5.4**	**212.3**	**(168.8)**	**(56.1)**

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2018	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(14.9)	–	–	5.1	0.2	1.1	(0.2)	(8.7)
1 – 2 years	(14.3)	–	–	1.7	–	1.1	(0.3)	(11.8)
2 – 5 years	(47.5)	0.2	(0.8)	3.5	0.1	3.4	(1.1)	(42.2)
5 – 10 years	(35.8)	0.8	–	3.9	–	23.3	(13.0)	(20.8)
10 – 15 years	(13.0)	1.6	–	–	–	17.5	(8.8)	(2.7)
15 – 20 years	–	(6.7)	–	–	–	–	–	(6.7)
	(125.5)	(4.1)	(0.8)	14.2	0.3	46.4	(23.4)	(92.9)

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

Ofwat has announced its plans to move towards an economic regulatory model linked to inflation measured on the CPIH index over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £250 million (2018: £150 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

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

	2019		2018	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	**(10.6)**	**10.6**	(11.7)	11.7
Equity	**(10.6)**	**10.6**	(11.7)	11.7

36. Hedge accounting

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met.

a) Fair value hedges

(i) Cross currency swaps

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

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

	Notional principal amount		Fair value	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Euro	**11.4**	11.4	**10.1**	10.4
US dollar	**23.2**	–	**0.2**	–
Yen	**8.5**	8.5	**8.8**	8.3
	43.1	19.9	**19.1**	18.7

b) Cash flow hedges

(i) Interest rate swaps

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

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

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2019 %**	2018 %	**2019 £m**	2018 £m	**2019 £m**	2018 £m
5 – 10 years	**2.63**	2.63	**135.2**	135.2	**(10.9)**	(8.6)
10 – 20 years	**1.83**	1.83	**298.0**	298.0	**(14.8)**	(5.0)
	2.08	2.08	**433.2**	433.2	**(25.7)**	(13.6)

Notes to Group financial statements continued
For the year ended 31 March 2019

36. Hedge accounting continued

b) Cash flow hedges continued

(ii) Energy swaps

The Group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2025.

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

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	2019 £/MWh	2018 £/MWh	2019 MWh	2018 MWh	2019 £m	2018 £m
Less than 1 year	**48.6**	47.6	**21,955**	43,680	**0.1**	0.2
1 – 2 years	**44.7**	48.6	**372,240**	21,955	**2.0**	–
2 – 5 years	**43.7**	40.5	**788,280**	547,460	**2.7**	(0.7)
5 – 10 years	**47.7**	–	**43,680**	–	**0.1**	–
	44.2	41.3	**1,226,155**	613,095	**4.9**	(0.5)

37. Share based payment

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £8.1 million (2017/18: £6.9 million) related to equity settled share based payment transactions.

The weighted average share price during the year was £19.27 (2017/18: £21.25).

At 31 March 2019, there were no options exercisable (2018: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan

Under the Long Term Incentive Plan ('LTIP'), conditional awards of shares may be made to Executive Directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2015, 2016, 2017 and 2018 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated Equity in excess of the level included in the Severn Trent Water AMP6 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2018: 100%).

(ii) Awards outstanding

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

	Number of awards
Opening at 1 April 2017	517,474
Granted during the year	203,035
Vested during the year	(139,829)
Lapsed during the year	(31,906)
Outstanding at 1 April 2018	548,774
Granted during the year	272,057
Vested during the year	(159,463)
Lapsed during the year	(35,945)
Outstanding at 31 March 2019	**625,423**

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

		Number of awards	
Date of grant	Normal date of vesting	2019	2018
July 2015	2018	**–**	160,028
July 2016	2019	**175,543**	188,131
July 2017	2020	**181,070**	200,615
July 2018	2021	**268,810**	
		625,423	548,774

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 97 to 122.

37. Share based payment continued

b) Employee Sharesave Scheme

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

(i) Options outstanding

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

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2017	3,106,607	1,572p
Granted during the year	1,087,376	1,652p
Forfeited during the year	(46,715)	1,636p
Cancelled during the year	(134,768)	1,665p
Exercised during the year	(428,702)	1,306p
Lapsed during the year	(8,867)	1,367p
Outstanding at 1 April 2018	3,574,931	1,625p
Granted during the year	1,331,044	1,474p
Forfeited during the year	(58,285)	1,663p
Cancelled during the year	(405,861)	1,654p
Exercised during the year	(721,312)	1,532p
Lapsed during the year	(6,000)	1,575p
Outstanding at 31 March 2019	**3,714,517**	**1,585p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	Normal date of exercise	Option price	2019	2018
January 2013	2018	1,241p	–	110,447
January 2014	2017 or 2019	1,331p	**144,212**	151,528
January 2015	2018 or 2020	1,584p	**227,212**	846,002
January 2016	2019 or 2021	1,724p	**556,447**	621,971
January 2017	2020 or 2022	1,663p	**662,545**	781,782
January 2018	2021 or 2023	1,652p	**804,957**	1,063,201
January 2019	2022 or 2024	1,474p	**1,319,144**	–
			3,714,517	3,574,931

c) Fair value calculations

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

	2019			2018		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	**1,884**	**1,849**	**1,849**	2,341	2,138	2,138
Option life (years)	**3**	**3.5**	**5.5**	3	3.5	5.5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**4.0**	**4.0**	**4.0**	4.1	4.1	4.1
Risk free rate (%)	**n/a**	**0.6**	**0.8**	n/a	0.5	0.8
Fair value per share (pence)	**1,866**	**303**	**284**	2,328	375	351

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

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

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

Notes to Group financial statements continued
For the year ended 31 March 2019

38. Acquisitions

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited for the total consideration of £61.3 million and the assumption of £59.7 million of existing debt.

Agrivert's UK operations have been added to Severn Trent Green Power's existing business and will complement our two operating food waste anaerobic digestion plants at Coleshill and Roundhill and one under construction in Derby. The acquisition has added 105 GWh of energy generation per annum, increasing the Group's energy generating capacity by around 30%.

The acquisition has been accounted for using the acquisition method. Goodwill of £28.7 million has been capitalised attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition.

No goodwill related to this acquisition is expected to be deductible for tax purposes.

The residual excess over the net assets acquired has been recognised as goodwill.

	£m
Provisional fair values on acquisition	
Intangible assets	31.5
Property, plant and equipment	69.4
Inventory	0.6
Trade and other receivables	9.4
Cash and cash equivalents	3.3
Borrowings	(63.0)
Trade and other payables	(4.9)
Provisions for liabilities	(0.5)
Deferred tax	(13.2)
Net assets acquired	32.6
Goodwill	28.7
Total consideration	61.3
Satisfied by:	
Cash	54.2
Deferred consideration	4.1
Contingent consideration	3.0
	61.3
Net cash flows arising on acquisition:	
Cash consideration	(54.2)
Cash and cash equivalents acquired	3.3
	(50.9)
Agrivert Group Limited for the period since acquisition to 31 March 2019:	
Revenue	9.2
Profit before tax	0.9
Severn Trent Group for the year ended 31 March 2019 if acquisition happened on 1 April 2018:	
Revenue	1,793.7
Profit before tax	385.7

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria. The fair values are provisional.

Acquisition-related costs amounting to £3.6 million were recognised as an expense in the income statement. No other acquisition costs were recognised.

Contingent consideration is payable if the vendor obtains an extension to a lease agreement relating to one of the acquired Group's operating sites within two years of the acquisition date. The range of amounts payable is nil to £3 million.

See note 16 for the reconciliation of goodwill recognised for the Group.

39. Discontinued operations

Operating Services US

The disposal of the Group's US business (Operating Services, US), which formed part of the Business Services segment, to US investors PPC Enterprises LLC and Alston Capital Partners LLC, was completed on 30 June 2017.

The results of discontinued operations are disclosed separately in the income statement and comprise:

	2019 £m	2018 £m
Turnover	–	42.1
Total operating costs	–	(42.2)
Loss before interest and tax	–	(0.1)
Net finance income	–	–
Loss before tax	–	(0.1)
Attributable tax expense	–	0.3
Gain on disposal of discontinued operations	–	13.0
Profit for the period attributable to owners of the Company	–	13.2

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

			2019			2018
	Profit attributable to owners of the Company £m	**Weighted average number of shares m**	**Per share amount pence**	Profit attributable to owners of the Company £m	Weighted average number of shares £m	Per share amount pence
Basic earnings per share	–	–	–	13.2	235.3	5.6
Diluted earnings per share	–	–	–	13.2	236.1	5.6

Net cash flows arising from the discontinued operations in the year were:

	2019 £m	2018 £m
Net cash flows attributable to:		
operating activities	–	1.9
investing activities	–	(0.6)
financing activities	–	–
	–	1.3

The net gain on disposals is calculated as follows:

	2018 Operating Services US £m
Consideration	47.8
Net assets attributable to owners of the Company	(45.5)
	2.3
Tax on gain on disposal	(0.7)
Disposal costs and provisions on disposal	(18.4)
Foreign exchange gain recycled from reserves	29.8
Net gain on disposal	13.0

The net assets of the business at the date of disposal, all of which were attributable to the owners of the Company, were:

	2018 Operating Services US £m
Goodwill	14.4
Other intangible assets	2.9
Property, plant and equipment	9.4
Inventory	0.6
Trade and other receivables	28.2
Cash and bank balances	9.9
Trade and other payables	(19.9)
Net assets attributable to owners of the Company	45.5

Notes to Group financial statements continued
For the year ended 31 March 2019

39. Discontinued operations continued

The net cash flows arising from disposals were:

	2018 £m
Consideration received in cash and cash equivalents	39.3
Disposal costs paid in cash and cash equivalents	(4.3)
Cash and bank balances disposed of	(9.9)
	25.1

40. Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2019 £m	2018 (restated) £m
Profit before interest and tax from continuing operations	**563.3**	527.2
Profit before interest and tax from discontinued operations	**–**	13.6
Profit before interest and tax	**563.3**	540.8
Depreciation of property, plant and equipment	**315.4**	308.8
Amortisation of intangible assets	**30.5**	20.8
Pension service cost	**9.8**	(7.8)
Defined benefit pension scheme administration costs	**2.3**	1.8
Defined benefit pension scheme contributions	**(34.9)**	(35.2)
Share based payment charge	**8.1**	6.9
Loss/(profit) on sale of property, plant and equipment and intangible assets	**0.6**	(7.3)
Exceptional depreciation – property, plant and equipment	**–**	16.8
Profit on disposal of businesses	**–**	(13.7)
Deferred income credit to the income statement	**(14.7)**	(14.3)
Provisions charged to the income statement	**12.2**	13.8
Utilisation of provisions for liabilities	**(12.8)**	(5.4)
Operating cash flows before movements in working capital	**879.8**	826.0
Increase in inventory	**(1.7)**	(2.9)
Increase in amounts receivable	**(60.0)**	(58.4)
Increase in amounts payable	**8.2**	8.6
Cash generated from operations	**826.3**	773.3
Tax received	**–**	8.0
Tax paid	**(21.3)**	(14.5)
Net cash generated from operating activities	**805.0**	766.8

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2018: nil). Assets transferred from developers at no cost were recognised at their fair value of £42.1 million (2018: £35.3 million).

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

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2018	38.5	(1,217.4)	(4,223.9)	(113.9)	24.5	135.6	(5,356.6)
Cash flow	(2.2)	163.5	(551.8)	2.3	–	6.0	(382.2)
Fair value adjustments	–	–	1.6	–	12.6	–	14.2
RPI uplift on index-linked debt	–	(2.9)	(36.8)	–	–	–	(39.7)
Debt acquired on acquisition	3.3	(62.4)	–	(0.6)	–	–	(59.7)
Foreign exchange	–	–	(8.1)	–	–	–	(8.1)
Other non-cash movements	–	(0.9)	(1.5)	–	–	0.4	(2.0)
As at 31 March 2019	**39.6**	**(1,120.1)**	**(4,820.5)**	**(112.2)**	**37.1**	**142.0**	**(5,834.1)**

Liabilities from financing activities comprise bank loans, other loans and finance leases.

41. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2018: nil) is expected to arise in respect of either bonds or guarantees.

42. Financial and other commitments

a) Investment expenditure commitments

	2019 £m	2018 £m
Contracted for but not authorised in the financial statements	**359.2**	395.0

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by Ofwat and to provide for growth in demand for water and waste water services.

b) Leasing commitments

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

	2019 £m	2018 £m
Within 1 year	**2.8**	1.1
1 – 5 years	**4.2**	2.4
After more than 5 years	**10.5**	4.8
	17.5	8.3

Operating lease payments represent rentals by the Group for certain of its office property, plant and equipment.

43. Post balance sheet events

Following the year end the Board of Directors have proposed a final dividend of 56.02 pence per share. Further details of this are shown in note 14.

44. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture, Water Plus, are disclosed below.

	Water Plus	
	2019 £m	2018 £m
Sale of services	**335.0**	354.9
Net interest income	**3.8**	2.4
	338.8	357.3

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	Water Plus	
	2019 £m	2018 £m
Trade and other receivables due from related parties	**2.3**	44.9
Loans receivable from joint ventures	**142.0**	135.6
	144.3	180.5

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

Notes to Group financial statements continued
For the year ended 31 March 2019

44. Related party transactions continued

Remuneration of key management personnel

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

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 117 to 122.

	2019 £m	2018 £m
Short-term employee benefits	6.5	6.4
Share based payment	2.9	3.5
	9.4	9.9

45. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own APMs, these might not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

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

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries. This provides a measure of operating performance excluding distortions caused by exceptional items and reflecting the operational performance of the acquired subsidiaries. Following the acquisition of Agrivert this APM was updated to include adjustment of amortisation on acquired intangible assets. The calculation of this APM is shown on the face of the income statement and in note 5 for reportable segments.

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, amortisation of acquired intangible assets, net gains/losses on financial instruments, current tax on exceptional items and on net gains/losses on financial instruments and deferred tax. The Directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 15.

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 40.

e) Effective interest rate

The effective interest rate is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

$$\frac{\textit{(net finance costs – net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2019 £m	2018 £m
Net finance costs	194.2	219.5
Net finance costs from pensions	(13.8)	(15.5)
Capitalised interest	33.2	26.2
	213.6	230.2
Average net debt	5,547.7	5,134.4
Effective interest rate	3.9%	4.5%

This APM is used as it shows the average interest rate that is attributable to the net debt of the business.

45. Alternative performance measures continued

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest rate except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally RPI adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2019 £m	2018 £m
Net finance costs	**194.2**	219.5
Net finance costs from pensions	**(13.8)**	(15.5)
RPI interest	**(38.0)**	(54.1)
Capitalised interest	**33.2**	26.2
	175.6	176.1
Average net debt	**5,547.7**	5,134.4
Effective cash cost of interest	**3.2%**	3.4%

This is used as it shows the average cash interest rate based on the net debt of the business.

g) PBIT interest cover

The ratio of items underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{underlying PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2019 £m	2018 (restated) £m
Underlying PBIT	**573.6**	539.8
Net finance costs	**194.2**	219.5
Net finance costs from pensions	**(13.8)**	(15.5)
Net finance costs excluding finance costs from pensions	**180.4**	204.0
PBIT interest cover ratio	**3.2**	2.6

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

Notes to Group financial statements continued
For the year ended 31 March 2019

45. Alternative performance measures continued

h) EBITDA and EBITDA interest cover

The ratio of profit from continuing operations before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\text{(underlying PBIT + depreciation + amortisation)}}{\text{(net finance costs – net finance costs from pensions)}}$$

	2019 £m	2018 (restated) £m
Underlying PBIT	**573.6**	539.8
Depreciation	**315.4**	308.2
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**29.8**	20.5
EBITDA	**918.8**	868.5
Net finance costs	**194.2**	219.5
Net finance costs from pensions	**(13.8)**	(15.5)
Net finance costs excluding finance costs from pensions	**180.4**	204.0
EBITDA interest cover ratio	**5.1**	4.3

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

i) Underlying effective current tax rate

Current tax charge for the year on continuing operations, excluding prior year charges, current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, net gains/losses on financial instruments, exceptional items, and share of net profit of joint ventures accounted for using the equity method.

$$\frac{\text{(current year current tax charge in the income statement – tax on exceptional items – tax on financial instruments)}}{\text{(PBT – share of net profit of JVs – exceptional items – net losses on financial instruments)}}$$

	2019		2018 (restated)	
	£m	Current tax theron £m	£m	Current tax theron £m
Profit before tax	**384.7**	**(41.2)**	301.2	(36.8)
Adjustments				
Share of net loss/(profit) of joint ventures	**0.4**	**–**	(0.2)	–
Exceptional items	**9.6**	**–**	12.6	(0.7)
Net (gains)/losses on financial instruments	**(16.0)**	**(2.6)**	6.7	(3.3)
	378.7	**(43.8)**	320.3	(40.8)
Underlying effective current tax rate		**11.6%**		12.7%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of underlying earnings per share in note 15. Share of net profit of joint ventures is excluded from the calculation because this is included after tax and the tax on joint venture profits is therefore not included in the current tax charge.

46. Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2019 are given below. Details of the joint venture are set out in note 19. All subsidiary undertakings have been included in the consolidation.

Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Severn Trent Investment Holdings Limited	United Kingdom	100%	Ordinary

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent Green Power Composting Limited
Charles Haswell and Partners Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent LCP Limited
Dee Valley Services Limited	Severn Trent Leasing Limited
Dee Valley Water (Holdings) Limited	Severn Trent Metering Services Limited
East Worcester Water Limited	Severn Trent MIS Trustees Limited
Etwall Land Limited	Severn Trent Overseas Holdings Limited
Gunthorpe Fields Limited	Severn Trent Pension Scheme Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent PIF Trustees Limited
Midlands Land Portfolio Limited	Severn Trent Power Generation Limited
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent Corporate Holdings Limited	Severn Trent Services Defence Limited
Severn Trent Data Portal Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Draycote Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Holdings Limited
Severn Trent Finance Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Financing and Investments Limited	Severn Trent Services International Limited
Severn Trent General Partnership Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services Purification Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (CW) Limited	Severn Trent Systems Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (North London) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (RBWM) Limited	Severn Trent Utility Services Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Water Limited
Severn Trent Green Power (West London) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services Limited

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Derwent Insurance Limited	Gibraltar	100%	Ordinary
Energy Supplies UK Limited	United Kingdom	100%	A and B Ordinary
Lyra Insurance Guernsey Limited	Guernsey	100%	Ordinary
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary

Notes to Group financial statements continued
For the year ended 31 March 2019

46. Subsidiary undertakings continued

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
Severn Trent Africa (Pty) Ltd	2 Elgin Road, Sunninghill, Johannesburg, South Africa
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Green Power (Ardley) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Bridgend) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Cassington) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (CW) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Hertfordshire) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (North London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (RBWM) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Wallingford) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (West London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Biogas Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Composting Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Group Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Holdings Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Response Limited	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2019 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company Number
Charles Haswell and Partners Limited	2416605
Chester Water Limited	2888872
Dee Valley Group Limited	4316684
Dee Valley Limited	2902525
Dee Valley Water (Holdings) Limited	4421854
East Worcester Water Limited	2757948
Etwall Land Limited	7559793
Gunthorpe Fields Limited	4240764
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Corporate Holdings Limited	4395566
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent Financing and Investments Limited	6312635
Severn Trent General Partnership Limited	SC416614
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Reservoirs Limited	3115315
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International Limited	2387816
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services Purification Limited	2409826
Severn Trent Services UK Limited	8120387
Severn Trent Systems Limited	2394552
Severn Trent Trimpley Limited	10690056
Severn Trent Utility Services Limited	4125386

Company statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 £m
Profit for the year	**216.5**	182.4
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial losses	**(0.1)**	(9.1)
Tax on net actuarial losses	**–**	1.5
Other comprehensive loss for the year	**(0.1)**	(7.6)
Total comprehensive income for the year	**216.4**	174.8

Company statement of changes in equity
For the year ended 31 March 2019

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2017	234.7	112.5	160.7	2,973.7	3,481.6
Profit for the year	–	–	–	182.4	182.4
Net actuarial losses	–	–	–	(9.1)	(9.1)
Tax on net actuarial losses	–	–	–	1.5	1.5
Total comprehensive income for the year	–	–	–	174.8	174.8
Share options and LTIPs					
– proceeds from shares issued	0.4	5.2	–	–	5.6
– value of employees' services	–	–	–	6.9	6.9
Dividends paid	–	–	–	(197.0)	(197.0)
At 31 March 2018	235.1	117.7	160.7	2,958.4	3,471.9
Profit for the year	–	–	–	216.5	216.5
Net actuarial losses	–	–	–	(0.1)	(0.1)
Tax on net actuarial losses	–	–	–	–	–
Total comprehensive income for the year	–	–	–	216.4	216.4
Share options and LTIPs					
– proceeds from shares issued	0.8	10.3	–	–	11.1
– value of employees' services	–	–	–	7.2	7.2
Dividends paid	–	–	–	(211.9)	(211.9)
At 31 March 2019	**235.9**	**128.0**	**160.7**	**2,970.1**	**3,494.7**

Included in retained earnings are profits of £1,221.2 million that arose from Group restructuring arrangements in previous years and are therefore not distributable.

Company balance sheet
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible fixed assets	2	**0.1**	0.2
Tangible fixed assets	3	**0.5**	0.2
Investments in subsidiaries	4	**3,337.9**	3,330.0
Deferred tax asset	5	**1.6**	1.5
Trade and other receivables	6	**659.8**	527.6
		3,999.9	3,859.5
Current assets			
Trade and other receivables	6	**23.8**	44.3
Current tax receivable		**25.2**	15.9
Cash and cash equivalents		**1.9**	–
		50.9	60.2
Current liabilities			
Borrowings	7	**(4.5)**	(17.2)
Trade and other payables	8	**(147.1)**	(137.0)
Provisions	9	**(3.6)**	(6.0)
		(155.2)	(160.2)
Net current liabilities		**(104.3)**	(100.0)
Total assets less current liabilities		**3,895.6**	3,759.5
Non-current liabilities			
Borrowings	7	**(88.3)**	(85.4)
Trade and other payables	8	**(298.9)**	(189.0)
Retirement benefit obligations		**(8.6)**	(8.7)
Provisions	9	**(5.1)**	(4.5)
		(400.9)	(287.6)
Net assets		**3,494.7**	3,471.9
Capital and reserves			
Called up share capital	10	**235.9**	235.1
Share premium account	11	**128.0**	117.7
Other reserves	12	**160.7**	160.7
Retained earnings		**2,970.1**	2,958.4
Total capital and reserves		**3,494.7**	3,471.9

The profit for the year is £216.5 million (2018: £182.4 million).

Signed on behalf of the Board who approved the accounts on 20 May 2019.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number: 02366619

Notes to Company financial statements
For the year ended 31 March 2019

1. Employee numbers

The average number of employees during the year was 11 (2018: 9).

2. Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2018	1.1
Disposals	(0.9)
As at 31 March 2019	**0.2**
Amortisation	
At 1 April 2018	(0.9)
Amortisation for the year	–
Disposals	0.8
At 31 March 2019	**(0.1)**
Net book value	
At 31 March 2019	**0.1**
At 31 March 2018	0.2

3. Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Assets under construction £m	Total £m
Cost				
At 1 April 2018	0.1	0.6	–	0.7
Additions	–	–	0.5	0.5
Disposals	(0.1)	(0.6)	–	(0.7)
As at 31 March 2019	**–**	**–**	**0.5**	**0.5**
Depreciation				
At 1 April 2018	–	(0.5)	–	(0.5)
Disposals	–	0.5	–	0.5
At 31 March 2019	**–**	**–**	**–**	**–**
Net book value				
At 31 March 2019	**–**	**–**	**0.5**	**0.5**
At 31 March 2018	0.1	0.1	–	0.2

4. Investments in subsidiaries

	£m
As at 1 April 2018	3,330.0
Additions	8.1
Impairment	(0.2)
As at 31 March 2019	**3,337.9**

Details of principal subsidiaries of the Company are given in note 46 to the Group financial statements.

5. Deferred tax asset

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2017	0.1	–	0.1	(0.1)	0.1
(Charge)/credit to income	(0.1)	–	(0.1)	0.1	(0.1)
Credit to equity	–	1.5	–	–	1.5
At 1 April 2018	–	1.5	–	–	1.5
Credit to income	0.1	–	–	–	0.1
At 31 March 2019	**0.1**	**1.5**	**–**	**–**	**1.6**

6. Trade and other receivables

	2019 £m	2018 £m
Current assets		
Other amounts receivable	**6.5**	4.4
Prepayments	**0.4**	0.5
Amounts owed by group undertakings	**16.9**	39.4
	23.8	44.3
Non-current assets		
Other amounts receivable	**–**	1.6
Loan receivable	**32.4**	26.4
Amounts owed by group undertakings under loan agreements	**627.4**	499.6
	659.8	527.6
	683.6	571.9

7. Borrowings

	2019 £m	2018 £m
Current liabilities		
Bank overdraft	**4.5**	17.2
Non-current liabilities		
Other loans	**88.3**	85.4
	92.8	102.6

Non-current borrowings comprise the Company's RPI linked retail bond issued in July 2012. The bond carries a coupon of 1.3% on the principal amount which is uplifted by RPI. The bond is repayable in July 2022.

At the balance sheet date the Company had £100 million (2018: £100 million) of undrawn borrowing facilities.

8. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	**0.3**	0.5
Social security and other taxes	**0.1**	0.5
Other payables	**4.0**	2.8
Accruals	**3.4**	4.0
Amounts due to group undertakings	**139.3**	129.2
	147.1	137.0
Non-current liabilities		
Amounts due to group undertakings	**298.9**	189.0
	446.0	326.0

Notes to Company financial statements continued
For the year ended 31 March 2019

9. Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2018	5.6	4.9	10.5
Charged to income statement	–	0.1	0.1
Utilisation of provision	(0.6)	(1.3)	(1.9)
At 31 March 2019	**5.0**	**3.7**	**8.7**

	2019 £m	2018 £m
Included in:		
Current liabilities	**3.6**	6.0
Non-current liabilities	**5.1**	4.5
	8.7	10.5

The claim outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

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

10. Share capital

	2019 £m	2018 £m
Total issued and fully paid share capital		
240,943,929 ordinary shares of 97 $^{17}/_{19}$p (2018: 240,222,617)	**235.9**	235.1

At 31 March 2019, 3,774,921 treasury shares were held (2018: 3,948,599).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97$^{17}/_{19}$p		
At 1 April 2017	239,793,915	234.7
Shares issued under the Employee Sharesave Scheme	428,702	0.4
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 31 March 2019	240,943,929	235.9

11. Share premium

	2019 £m	2018 £m
At 1 April	**117.7**	112.5
Share premium arising on issue of shares for Employee Sharesave Scheme	**10.3**	5.2
At 31 March	**128.0**	117.7

12. Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2017, 31 March 2018 and 2019	**157.1**	**3.6**	**160.7**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

13. Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 37 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

14. Pensions

Defined benefit schemes

The Group operates defined benefit pension schemes, of which some employees of the Company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The scheme closed to future accrual on 31 March 2015. The cost of contributions to the Group schemes amount to £0.4 million (2018: £0.6 million). There were no amounts outstanding for contributions to the defined benefit schemes (2018: nil).

The Company 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. This unfunded scheme is part of the Severn Trent Pension Scheme.

Information about the schemes as a whole is disclosed in note 28 to the Group financial statements.

15. Related party transactions

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £58.1 million (2018: £42.5 million) and the guarantees for the Severn Trent Water loan is for the amount due.

16. Contingent liabilities

a) Bonds and guarantees

The Company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2019, the Company had no contingent liabilities (2018: nil).

17. Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 56.02 pence per share.

18. Dividends

For details of the dividends paid in the years ended 31 March 2019 and 31 March 2018 see note 14 in the Group financial statements.