NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 115. During 2015/16 Pennon Group's business was operated through three main subsidiaries. South West Water Limited providing water and wastewater services for Devon, Cornwall and parts of Dorset and Somerset. Bournemouth Water Limited providing the water services for parts of Dorset, Hampshire and Wiltshire. Viridor Limited's business is waste recycling and recovery.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(A) BASIS OF PREPARATION

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (v) and (n) respectively) and in accordance with International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 100.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2015 did not have a material impact on the net assets or results of the Group.

Standards and interpretations in issue, but not yet effective, are not expected to have a material effect on the Group's net assets or results, except the following set out below:

- IFRS 15 'Revenue from contracts with customers' relates to revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard will replace IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and is subject to EU endorsement.
- The Group continues to assess the impact of the new standard on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.
- IFRS 16 'Leases' no longer distinguish between an on the balance sheet finance lease and an off the balance sheet operating lease. Instead, for virtually all lease contracts the lessee recognises a lease liability reflecting future lease payments and a 'right-of-use' asset. The standard is effective for annual periods beginning on or after 1 January 2019 and is subject to EU endorsement.
- The Directors anticipate that the adoption of IFRS 16 on 1 April 2019 will reduce operating costs, increase depreciation charges and increase finance costs. In addition, c.£100 million of property, plant and equipment will be recognised, with a corresponding increase in borrowings and group net debt. Existing borrowing covenants are not impacted by changes in accounting standards.

The accounting policy for non-underlying items (z), previously referred to as exceptional items, has been refined to include items which due to their nature in the view of the Directors should be separately disclosed to enable a full understanding of the Group's financial performance.

(B) BASIS OF CONSOLIDATION

The Group financial statements include the results of Pennon Group Plc and its subsidiaries, joint ventures and associate undertakings.

The results of subsidiaries, joint ventures and associate undertakings are included from the date of acquisition or incorporation, and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures and associate undertakings are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

(C) REVENUE RECOGNITION

Revenue 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.

Revenue is recognised once the services or goods have been provided to the customer.

Income from main water and wastewater charges includes billed amounts for estimated usage and also an estimation of the amount of unbilled charges at the year-end based upon a defined methodology reflecting historical consumption and current tariffs.

Income from electricity generated from waste management landfill gas production during the year includes an estimation of the amount to be received under Renewables Obligation Certificates.

Accrued income from waste management contracts at the balance sheet date is recognised using management's expectation of amounts to be subsequently billed for services rendered to the client in accordance with the terms of the contract.

Income from recycling activities within waste management includes amounts based upon market prices for recyclate products and industry schemes for waste electrical and electronic equipment ('WEEE' notes) and packaging volumes ('PRNs') processed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

Revenue from long-term service concession arrangements is recognised based on the fair value of work performed. Where an arrangement includes more than one service, such as construction and operation of waste management facilities, revenue and profit are recognised in proportion to a fair value assessment of the total contract value split across the services provided.

(D) LANDFILL TAX

Landfill tax is included within both revenue and operating costs.

(E) SEGMENTAL REPORTING

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The reportable business segments comprise the water business which includes the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by Bournemouth Water, and the waste management business of Viridor. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

(F) GOODWILL

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units or group of cash generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (j).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill.

(G) OTHER INTANGIBLE ASSETS

Other intangible assets are recognised in relation to long-term service concessions contracts to the extent that future amounts to be received are not certain.

Other intangible assets include assets acquired in a business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(H) PROPERTY, PLANT AND EQUIPMENT

i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

Dams and impounding reservoirs	200 years
Water mains	40 – 120 years
Sewers	40 – 120 years

Assets in the course of construction are not depreciated until commissioned.

ii) Landfill sites

Landfill sites are included within land and buildings at cost less accumulated depreciation. Cost includes acquisition and development expenses. The cost of a landfill site is depreciated to its residual value (which is linked to gas production at the site post-closure) over its estimated operational life taking account of the usage of void space.

iii) Landfill restoration

Where the obligation to restore a landfill site is an integral part of its future economic benefits, a non-current asset within property, plant and equipment is recognised. The asset recognised is depreciated based on the usage of void space.

iv) Other assets (including energy recovery facilities, property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Land and buildings – freehold buildings	30 – 60 years
Land and buildings – leasehold buildings	Over the estimated economic lives or the finance lease period, whichever is the shorter
Operational properties	40 – 80 years
Energy recovery facilities (including major refurbishments)	25 – 40 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

(h) Property, plant and equipment continued

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (v).

The assets' residual values and useful lives are reviewed annually. With effect from 1 April 2015, the useful lives for certain assets have been amended where both external benchmarking and internal experience indicates a change is required. Lives for some asset have increased whilst others have decreased. To accommodate this change the range of useful lives for water mains and sewers has increased from 100 to 120 years.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the income statement.

(I) LEASED ASSETS

Assets held under finance leases are included as property, plant and equipment at the lower of their fair value at commencement or the present value of the minimum lease payments, and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease. Rental costs arising under operating leases are charged against profits in the year they are incurred.

(J) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Value in use represents the present value of projected future cash flows expected to be derived from a cash generating unit, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the cash generating unit. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or cash generating unit's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

(K) INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(L) INVESTMENT IN JOINT VENTURES

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the joint venture.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of a joint venture in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

(M) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell.

(N) CASH AND CASH DEPOSITS

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are shown within current borrowings.

(O) DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group classifies its financial instruments in the following categories:

i) Loans and receivables

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivables.

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

iv) Financial assets arising from service concession arrangements

Where the provision of waste management services is performed through a contract with a public sector entity which controls a significant residual interest in asset infrastructure at the end of the contract, then consideration is treated as contract receivables, split between profit on the construction of assets, operation of the service and the provision of finance which is recognised in notional interest within finance income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. PRINCIPAL ACCOUNTING POLICIES CONTINUED

v) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps, foreign exchange forward contracts and cross-currency interest rate swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge) or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised to the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

Where a non-derivative transaction or series of transactions with the same counterparty has the aggregate effect in substance of a derivative instrument, the transaction or series of transactions shall be recognised as a single derivative instrument at fair value with associated movements recorded in the income statement.

The full fair value of a hedging derivative is apportioned on a straight line basis between non-current and current assets and liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which are not subject to hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

vi) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item which has been designated in a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and thereafter remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

(P) TAXATION INCLUDING DEFERRED TAX

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items where in the judgement of management the position is uncertain.

The Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

(Q) PROVISIONS

Provisions are made where there is a present legal or constructive obligation as a result of a past event and 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. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

The Group's policies on specific provisions are:

i) Landfill restoration costs

Provisions for the cost of restoring landfill sites are made when the obligation arises. Where the obligation recognised as a provision gives access to future economic benefits, an asset in property, plant and equipment is recognised. Provisions are otherwise charged against profits based on the usage of void space.

ii) Environmental control and aftercare costs

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the income statement on the basis of the usage of void space at the site. Further provisions required after the operational life of a site are recognised immediately in the income statement.

iii) Underperforming contracts

Where the unavoidable costs of meeting a contract's obligations exceed the economic benefits derived from that contract, the unavoidable costs, less revenue anticipated under the terms of the contract, are recognised as a provision and charged to the income statement. An impairment loss on any assets dedicated to that contract is also recognised as described in accounting policy (j).

(R) SHARE CAPITAL AND TREASURY SHARES

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or re-issued. Where such shares are subsequently re-issued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group balance sheet includes the shares held by the Pennon Employee Share Trust, relating to employee share-based payments, which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest.

(S) DIVIDEND DISTRIBUTIONS

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when approved by shareholders at the Annual General Meeting.

(T) EMPLOYEE BENEFITS

i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

ii) Share-based payment

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

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are adjusted for in assumptions as to the number of shares which are expected to vest.

(U) PRE-CONTRACT AND DEVELOPMENT COSTS

Pre-contract and development costs, including bid costs are expensed as incurred, except where it is probable that the contract will be awarded or the development completed, in which case they are recognised as an asset which is amortised to the income statement over the life of the contract.

(V) FAIR VALUES

The fair value of interest rate swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(W) TRANSFERS OF ASSETS FROM CUSTOMERS

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised in the income statement. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

(X) FOREIGN EXCHANGE

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

(Y) PERPETUAL CAPITAL SECURITIES

Perpetual capital securities are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time the Company becomes obligated to pay the periodic return. This reflects the nature of the periodic returns and repayment of principal being only made at the Company's discretion. Any associated tax impacts are recognised directly in equity.

(Z) NON-UNDERLYING ITEMS

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. FINANCIAL RISK MANAGEMENT

(A) FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (interest rate and foreign currency risk) and credit risk.

The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

i) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that permits no more than 20% of Group net borrowings to mature in any financial year.

The Group and Water Business have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the Water Business's Regulatory Capital Value and Viridor Limited's EBITDA) and interest cover.

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Group					
31 March 2016					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	39.0	116.1	327.5	1,293.4	1,776.0
Interest payments on borrowings	47.9	47.3	137.7	687.7	920.6
Finance lease liabilities including interest	41.1	45.0	175.5	2,130.7	2,392.3
Trade and other payables	264.6	–	–	–	264.6
Guarantees	159.7	–	–	–	159.7
Derivative financial liabilities					
Derivative contracts – net payments/ (receipts)	8.3	6.1	2.2	(67.0)	(50.4)
31 March 2015					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	81.8	113.6	410.0	1,027.0	1,632.4
Interest payments on borrowings	48.4	46.8	132.0	753.8	981.0
Finance lease liabilities including interest	43.6	46.3	198.2	2,157.8	2,445.9
Trade and other payables	277.7	–	–	–	277.7
Guarantees	169.8	–	–	–	169.8
Derivative financial liabilities					
Derivative contracts – net payments/ (receipts)	6.7	5.5	4.2	(105.4)	(89.0)
Company					
31 March 2016					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	–	74.6	225.8	576.7	877.1
Intercompany borrowings	287.2	–	–	–	287.2
Interest payments on borrowings	30.4	29.7	76.7	122.4	259.2
Trade and other payables	5.9	–	–	–	5.9
Guarantees	580.8	–	–	–	580.8
Derivative financial liabilities					
Derivative contracts – net payments	1.1	1.0	0.7	–	2.8
31 March 2015					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	50.7	74.9	310.0	500.5	936.1
Intercompany borrowings	283.2	–	–	–	283.2
Interest payments on borrowings	30.8	29.0	78.8	139.3	277.9
Trade and other payables	5.6	–	–	–	5.6
Guarantees	556.4	–	–	–	556.4
Derivative financial liabilities					
Derivative contracts – net payments	1.1	1.0	1.2	–	3.3

No liability is expected to arise in respect of the guarantees noted above. Guarantees are analysed in note 42.

ii) Market risk

The Group has a policy of maintaining at least 50% of interest-bearing liabilities at fixed rates. The Group uses a combination of fixed rate and index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. At the year-end 67% (2015 72%) of Group net borrowings were at fixed rates (including at least 50% of South West Water's borrowings fixed for the period to March 2016) after the impact of financial derivatives. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

The interest rate for index-linked debt is based upon an RPI measure, which is also used in determining the amount of income from customers in South West Water and Bournemouth Water. 18% (2015 13%) of the Group's gross debt is RPI index-linked.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Group's income and cash generated from operations (note 38) are independent of changes in market interest rates.

For 2016 if interest rates on variable net borrowings had been on average 0.5% higher/ lower with all other variables held constant, post-tax profit for the year and equity would have increased/ decreased by £0.1 million (2015 £0.4 million), for the equity sensitivity fair value, derivative impacts are excluded.

For 2016 if RPI on index-linked borrowings had been on average 0.5% higher/ lower with all other variables held constant, post-tax profit for the year and equity would have decreased/ increased by £1.9 million (2015 £1.5 million).

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

iii) Credit risk

Credit counterparty risk arises from cash and cash deposits, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade receivables is given in note 22.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet a board approved minimum criteria based on their short term credit ratings.

(B) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2016 the Group had cash and facilities, excluding restricted funds, of over £1.7 billion, meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 39 and calculated as total borrowings less cash and cash deposits. Total capital is calculated as total shareholders' equity plus net borrowings.

The gearing ratios at the balance sheet date were:

	2016 £m	2015 £m
Net borrowings (note 39)	**2,484.4**	2,197.1
Total equity	**1,487.6**	1,354.1
Total capital	**3,972.0**	3,551.2
Gearing ratio	**62.5%**	61.9%

South West Water and Bournemouth Water is also monitored on the basis of the ratio of its net borrowings to Regulatory Capital Value. Ofwat's optimum gearing for the K6 (2015-2020) regulatory period is set at 62.5%.

	South West Water		**Bournemouth Water**
	2016 £m	2015 £m	**2016 £m**
Regulatory Capital Value	**2,997.3**	2,928.0	**152.9**
Net borrowings	**1,793.3**	1,817.5	**86.7**
Net borrowings/Regulatory Capital Value	**59.8%**	62.1%	**56.7%**

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover.

The Group has been in compliance with its covenants during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. FINANCIAL RISK MANAGEMENT CONTINUED

(C) DETERMINATION OF FAIR VALUES

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying values, less impairment provision, of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities, principally environmental provisions, is calculated as the present value of the estimated future cash flows.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

IMPAIRMENT OF NON-FINANCIAL ASSETS AND GOODWILL

In order to determine whether impairments, or reversals of previous impairments, are required for non-financial assets, the Group estimates the recoverable amount of an individual asset or assets grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). To reflect changes in the waste market, including the structural decline of landfill, and the prominence of recycling and recovering value from waste, together with the reorientation of Viridor's operations towards ERFs, the Group has applied judgement in determining the allocation of CGUs. In the updated allocations non-strategic landfill assets are considered separate CGUs, as are landfill gas assets, with other remaining assets allocated to regional CGUs.

The Impairment assessment of non-current financial assets is based on projections of future cash flows for the cash generating unit and the use of a terminal value to incorporate expectations of growth after the period covered by specific plans. The cash flows are discounted by the weighted average cost of capital appropriate to the business activity which is reviewed on an annual basis. Judgement and estimation is required in determining the appropriate cash flows and discount rate used in the assessment.

The lowest level to which goodwill is allocated, monitored and tested by management is the segmental level, in line with the segments set out in note 5. The initial goodwill recorded and subsequent impairment analysis require management to make estimations of future cash flows, terminal values and an assessment of the long-term pre-tax discount rate to be applied to those cash flows, which reflects an assessment of the cost of capital of the cash generating unit.

The principal assumptions used to assess impairment are set out in notes 15 and 17.

ENVIRONMENTAL AND LANDFILL RESTORATION PROVISIONS

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. The amounts expected to be incurred are based on landfill site operating lives, taking account of the anticipated decline in landfill activity.

The provisions are based on latest assumptions reflecting recent historic data and future cost estimates.

The provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle the Group's obligations. A discount rate is applied to recognise the time value of money and is unwound over the life of the provision. This is included in the income statement as a financial item within finance costs.

As at 31 March 2016 the Group's environmental and landfill restoration provisions were £182.1 million (2015 £193.0 million) (note 32).

Where a restoration provision gives access to future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2016 these assets had a net book value of £11.7 million (2015 £17.9 million) (note 17).

RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The last such valuation of the main scheme was as at 31 March 2016.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2016 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

TAXATION

The Group's current tax provision of £37.1 million relates to management's judgement of the amount of tax payable on open tax computations where liabilities remain to be agreed with HMRC. The Group evaluates uncertain tax items, where a tax item is subject to interpretation and remains to be agreed. Principally the uncertain tax items for which a provision is made, relate to the interpretation of tax legislation regarding financing arrangements that have been entered into in the normal course of business. Provisions established for uncertain items are made using a best estimate of the tax expected to be paid, based on a qualitative assessment of all relevant information.

In assessing any appropriate provision requirements for uncertain tax items, the Group considers progress made in discussions with HMRC, expert advice on the likely outcome and any recent developments in case law.

Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of the open matters, the final outcome may vary significantly. Whilst a range of outcomes is reasonably possible, the extent of this range is additional liabilities of up to £20 million to a reduction in liabilities of up to £52 million. Any such variations will affect the tax financial results in the year in which such a determination is made.

In addition to provisions established for uncertain tax items, the Group has other uncertain tax items where the Group has paid in full the tax HMRC interpret as due, and therefore would benefit by up to £70 million should such tax positions be concluded in the Group's favour.

SERVICE CONCESSION ARRANGEMENTS

Consideration from public sector entities for the operation of waste management service concessions is treated as contract receivables or other intangible assets, depending upon the right to receive cash from the asset. Consideration relating to contract receivables is split between profit on the construction of assets, operation of the service and provision of finance recognised as interest receivable. Management's allocation between these three elements is assessed to reflect external market conditions according to the type of service provided.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

LANDFILL COSTS

The estimation of landfill reserves is of particular importance in assessing landfill costs since the projected cost of a landfill site is depreciated over its estimated operational life taking into account the usage of void space and gas production at the site post-closure. In estimating the operational life of a landfill site, consideration is given to the expected ongoing decline in the landfill market. Where Viridor plans or has constructed a competing energy recovery facility at certain existing landfill sites, the void which consequently is no longer expected to be used is excluded from the calculation of operational life. The estimates of landfill reserves are regularly reviewed and updated during the financial year for usage and other events (for example site extensions). Estimates are also subject to physical review by external advisers.

A number of factors impact on the depreciation of landfill reserves including the available void space, future capital expenditure and operating costs. The assumptions are revised as these factors change.

The estimate of gas production at landfill sites post-closure reduces the depreciation of landfill reserves. An assessment is undertaken for individual sites of the historic profile of gas production during landfilling activity and the projected generation post-closure according to the type of waste contained in the landfill and expected profile of gas production over time.

REVENUE RECOGNITION

The Group recognises revenue at the time of delivery of services. Payments received in advance of services delivered are recorded as a liability.

South West Water and Bournemouth Water raise bills and recognise revenue in accordance with their entitlement to receive revenue in line with the limits established by the Periodic Review price-setting process. For water and wastewater customers with water meters, revenue recognised is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year-end. Estimated usage is based on historic data, judgement and assumptions.

Viridor estimates income from certain contractual revenue streams based on tonnages, cost and historic data which are dependent on agreement with the customer after the delivery of the service.

PROVISION FOR DOUBTFUL DEBTS

At the balance sheet date each subsidiary evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2016 the Group's current trade receivables were £303.6 million, against which £95.6 million had been provided for impairment (note 22).

NON-UNDERLYING ITEMS

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items.

5. SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board. The earnings measures below are used by the Board in making decisions.

The water business comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by Bournemouth Water. The waste management business is the waste recycling and recovery services provided by Viridor. Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash deposits. Segment liabilities comprise operating liabilities and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combinations.

	2016 £m	2015 £m
Revenue		
Water	**547.0**	522.2
Waste management	**806.2**	835.9
Other	**12.0**	10.9
Less intra-segment trading*	**(12.9)**	(11.8)
	1,352.3	1,357.2
Segment result		
Operating profit/ (loss) before depreciation, amortisation and non-underlying items (EBITDA)		
Water	**335.2**	331.3
Waste management	**116.5**	80.4
Other	**(3.3)**	(0.7)
	448.4	411.0
Operating profit/ (loss) before non-underlying items		
Water	**224.5**	225.4
Waste management	**40.9**	21.6
Other	**(3.6)**	(0.4)
	261.8	246.6
Profit before tax and non-underlying items		
Water	**165.7**	167.9
Waste management	**30.7**	27.7
Other	**14.9**	15.1
	211.3	210.7
Profit before tax		
Water	**160.5**	179.7
Waste management	**25.7**	1.0
Other	**20.1**	16.3
	206.3	197.0

* Intra-segment transactions between and to different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. SEGMENTAL INFORMATION CONTINUED

	Water £m	Waste management £m	Other £m	Eliminations £m	Group £m
Balance sheet					
31 March 2016					
Assets (excluding investments in joint ventures)	**3,385.8**	**1,911.1**	**1,715.9**	**(1,350.4)**	**5,662.4**
Investments in joint ventures	**–**	**0.1**	**–**	**–**	**0.1**
Total assets	**3,385.8**	**1,911.2**	**1,715.9**	**(1,350.4)**	**5,662.5**
Liabilities	**(2,502.4)**	**(1,513.2)**	**(1,509.7)**	**1,350.4**	**(4,174.9)**
Net assets	**883.4**	**398.0**	**206.2**	**–**	**1,487.6**
31 March 2015					
Assets (excluding investments in joint ventures)	3,067.7	1,828.7	1,779.6	(1,268.3)	5,407.7
Investments in joint ventures	–	0.1	–	–	0.1
Total assets	3,067.7	1,828.8	1,779.6	(1,268.3)	5,407.8
Liabilities	(2,359.2)	(1,413.4)	(1,549.4)	1,268.3	(4,053.7)
Net assets	708.5	415.4	230.2	–	1,354.1

Segment liabilities of the water and waste management segments comprise operating liabilities. The other segment liabilities include the Group taxation liabilities.

	Notes	Water £m	Waste management £m	Other £m	Group £m
Other information					
31 March 2016					
Amortisation of other intangible assets	7	**0.7**	**3.0**	**–**	**3.7**
Capital expenditure (including acquisitions)		**220.6**	**154.5**	**0.1**	**375.2**
Depreciation	7	**110.3**	**72.5**	**0.1**	**182.9**
Finance income (before non-underlying items)	8	**3.0**	**28.2**	**10.9**	**42.1**
Finance costs	8	**61.8**	**12.3**	**22.1**	**96.2**
31 March 2015					
Amortisation of other intangible assets	7	–	2.7	–	2.7
Capital expenditure	17	145.1	156.3	–	301.4
Depreciation	7	105.9	56.1	(0.3)	161.7
Impairment	7	–	24.3	–	24.3
Finance income	8	2.8	30.6	10.6	44.0
Finance costs	8	60.3	14.0	10.5	84.8

Geographic analysis of revenue based on location of customers

	2016 £m	2015 £m
Revenue		
United Kingdom	**1,296.1**	1,317.6
Rest of European Union	**10.5**	10.4
China	**38.8**	25.3
Rest of World	**6.9**	3.9
	1,352.3	1,357.2

The Group's country of domicile is the United Kingdom and is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

6. NON-UNDERLYING ITEMS

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

	Notes	2016 £m	2015 £m
Operating (costs)/ credits			
Restructuring costs[(a)]	32	**(10.2)**	–
Pension costs – past service[(b)]	30	**–**	14.9
Environmental provisions[(c)]	32	**–**	6.7
Underperforming contracts[(d)]	32	**–**	(11.0)
Impairment of property, plant and equipment[(e)]	17	**–**	(24.3)
Total net operating costs		**(10.2)**	(13.7)
Remeasurement of fair value movement in derivatives[(f)]	8	**5.2**	–
Deferred tax change in rate[(g)]	31	**33.1**	–
Tax credit arising on non-underlying items	9	**1.0**	2.7
Net non-underlying credit/ (charge)		**29.1**	(11.0)

(a) During the year a one-off charge of £10.2 million was made to the restructuring provision reflecting announced reorganisations across the Group.

(b) Last year a non-underlying credit was recognised relating to changes made to the Group's defined benefit scheme. Changes implemented last year capped pensionable pay for active members, reducing past service cost.

(c) Last year landfill environmental provisioning was reassessed £6.7 million lower reflecting lower expected restoration and aftercare costs, partly offset by a reduction in discount rate.

(d) A small number of contracts last year were assessed as underperforming. On this basis a provision of £11.0 million was established.

(e) Following a detailed review of the allocation of non-financial assets to cash generating units, an impairment of £60.9 million has been recognised in relation to Viridor's non-strategic landfill assets and a £60.9 million reversal of impairment has been recognised in the newly aggregated regional cash generating units. Further details of the review are set out in note 17.

In 2014/15 the profitability of a small number of landfill energy sites has been impacted by higher than anticipated site costs and lower than expected volumes due to site specific circumstances. As a result, a net non-underlying impairment charge of £24.3 million has been recognised to write down the carrying value of landfill energy property, plant and equipment. Included in the net charge are impairment reversals of £9.2 million.

(f) For certain derivative financial instruments, where market volatility and counterparty credit risk result in hedge accounting becoming less certain, hedge accounting is discontinued and non-cash fair value movements are recognised in the income statement as non-underlying items.

(g) Following the enactment during the year the rate of corporation tax reduced from 20% to 19% from April 2017 and reduces further to 18% from April 2020, a one-off credit of £33.1 million has been recognised in the income statement. In addition, a charge of £3.8 million has been recognised in the statement of comprehensive income and a charge of £0.1 million has been recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. OPERATING COSTS

	Notes	2016 £m	2015 £m
Employment costs before non-underlying items	13	**180.0**	164.3
Raw materials and consumables		**114.7**	103.8
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		**(4.3)**	(3.7)
Operating lease rentals payable:			
– Plant and machinery		**16.9**	15.7
– Property		**9.0**	9.2
Research and development expenditure		**0.1**	0.1
Trade receivables impairment	22	**8.4**	12.8
Depreciation of property, plant and equipment:			
– Owned assets		**140.0**	125.6
– Under finance leases		**42.9**	36.1
– Impairment of property, plant and equipment	6	**–**	24.3
Amortisation of other intangible assets	16	**3.7**	2.7

Operating costs include a £10.2 million charge (2015 £13.7 million charge) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditors in the year were:

	2016 £000	2015 £000
Fees payable to the Company's auditors and its associates for the audit of parent Company and consolidated financial statements	**94**	75
Fees payable to the Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	**635**	471
Audit related assurance services	**50**	50
Other non-audit services	**122**	7
Total fees	**901**	603
Fees payable to the Company's auditors in respect of Pennon Group pension schemes:		
Audit	**30**	17

Expenses reimbursed to the auditors in relation to the audit of the Group were £45,000 (2015 £40,000).

A description of the work of the Audit Committee is set out in its report on pages 66 to 69 which includes an explanation of how the auditors' objectivity and independence are safeguarded when non-audit services are provided by the auditors' firm.

8. NET FINANCE COSTS

		2016			2015		
	Notes	**Finance cost £m**	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt							
Bank borrowing and overdrafts		**(48.7)**	**–**	**(48.7)**	(32.2)	–	(32.2)
Interest element of finance lease rentals		**(33.5)**	**–**	**(33.5)**	(32.9)	–	(32.9)
Other finance costs		**(2.8)**	**–**	**(2.8)**	(6.5)	–	(6.5)
Interest receivable		**–**	**6.3**	**6.3**	–	11.3	11.3
Interest receivable on shareholder loans to joint ventures		**–**	**10.7**	**10.7**	–	11.4	11.4
		(85.0)	**17.0**	**(68.0)**	(71.6)	22.7	(48.9)
Notional interest							
Interest receivable on service concession arrangements		**–**	**16.7**	**16.7**	–	13.5	13.5
Retirement benefit obligations	30	**(1.8)**	**–**	**(1.8)**	(2.7)	–	(2.7)
Unwinding of discounts in provisions		**(9.4)**	**–**	**(9.4)**	(10.5)	–	(10.5)
		(11.2)	**16.7**	**5.5**	(13.2)	13.5	0.3
Net gains on derivative financial instruments arising from the combination of non-derivative instruments		**–**	**8.4**	**8.4**	–	7.8	7.8
Net finance cost before non-underlying items		**(96.2)**	**42.1**	**(54.1)**	(84.8)	44.0	(40.8)
Non-underlying items							
Fair value remeasurement of non-designated derivative financial instruments providing commercial hedges	6	**–**	**5.2**	**5.2**	–	–	–
Net finance cost after non-underlying items		**(96.2)**	**47.3**	**(48.9)**	(84.8)	44.0	(40.8)

In addition to the above, finance costs of £9.4 million (2015 £22.5 million) have been capitalised on qualifying assets included in property, plant and equipment and other intangible assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. TAXATION

	Notes	Before non-underlying items 2016 £m	Non-underlying items (Note 6) 2016 £m	Total 2016 £m	Before non-underlying items 2015 £m	Non-underlying items (Note 6) 2015 £m	Total 2015 £m
Analysis of charge in year							
Current tax charge		**32.9**	**(1.7)**	**31.2**	39.2	0.6	39.8
Deferred tax – other		**39.2**	**0.7**	**39.9**	18.2	(3.3)	14.9
Deferred tax arising on change of rate of corporation tax		**–**	**(33.1)**	**(33.1)**	–	–	–
Total deferred tax charge	31	**39.2**	**(32.4)**	**6.8**	18.2	(3.3)	14.9
Tax charge for year		**72.1**	**(34.1)**	**38.0**	57.4	(2.7)	54.7

UK corporation tax is calculated at 20% (2015 21%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £1.4 million (2015 credit of £5.5 million) and a prior year deferred tax charge of £15.9 million (2015 £9.7 million).

The 2016 deferred tax charge includes a credit of £33.1 million reflecting a reduction in the rate of UK corporation tax.

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK (20%) from:

	2016 £m	2015 £m
Profit before tax	**206.3**	197.0
Profit before tax multiplied by the standard rate of UK corporation tax of 20% (2015 21%)	**41.3**	41.4
Effects of:		
Expenses not deductible for tax purposes	**1.6**	4.1
Financial transaction deemed ineligible	**12.0**	3.7
Joint ventures profits not taxed	**(0.7)**	(1.0)
Change in rate of corporation tax	**(33.1)**	–
Adjustments to tax charge in respect of prior years	**14.5**	4.2
Depreciation charged on non-qualifying assets	**2.4**	2.3
Tax charge for year	**38.0**	54.7

The adjustments to the tax charge in respect of prior years, include a charge of £30 million for an uncertain tax item relating to a financial transaction, partly offset by an updated assessment of other uncertain tax items, following discussions with HMRC on complex tax legislation relating to the deductibility of financial arrangements and relief claims for capital expenditure, plus submission of the prior year tax returns resulting in lower tax being due compared to the assessment made for the 2014/15 charge.

The average applicable tax rate for the year before non-underlying items was 34% (2015 27%). The average applicable tax rate for the year after non-underlying items was 18% (2015 28%).

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2016 £m	2015 £m
Amounts recognised directly in other comprehensive income		
Deferred tax charge/ (credit) on defined benefit pension schemes	**2.4**	(0.4)
Deferred tax charge/ (credit) on cash flow hedges	**1.8**	(5.7)
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	**0.3**	–
Current tax credit on perpetual capital securities periodic return	**(4.1)**	(4.3)

10. PROFIT OF THE PARENT COMPANY

	2016 £m	2015 £m
Profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	**91.4**	300.1

As permitted by Section 408 of the Companies Act 2006 no income statement or statement of comprehensive income is presented for the Company.

11. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 36), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's Performance and Co-investment Plan and the deferred shares element of the Annual Incentive Bonus Plan, to the extent that the performance criteria for vesting of the awards are expected to be met.

The weighted average number of shares and earnings used in the calculations were:

	2016	2015
Number of shares (millions)		
For basic earnings per share	**410.9**	390.9
Effect of dilutive potential ordinary shares from share options	**1.8**	1.8
For diluted earnings per share	**412.7**	392.7

BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe that this measure provides a more useful comparison on business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long-term capital investment. Earnings per share have been calculated:

	2016			2015		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings	**152.1**	**37.0**	**36.9**	126.3	32.3	32.2
Deferred tax charge before non-underlying items	**39.2**	**9.5**	**9.5**	18.2	4.7	4.6
Non-underlying items (net of tax)	**(29.1)**	**(7.0)**	**(7.1)**	11.0	2.8	2.8
Earnings before non-underlying items and deferred tax	**162.2**	**39.5**	**39.3**	155.5	39.8	39.6

12. DIVIDENDS

	2016 £m	2015 £m
Amounts recognised as distributions to ordinary equity holders in the year		
Interim dividend paid for the year ended 31 March 2015: 9.98p (2014 9.39p) per share	**39.8**	34.8
Final dividend paid for the year ended 31 March 2015: 21.82p (2014 20.92p) per share	**89.7**	82.2
	129.5	117.0
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2016: 10.46p per share	**43.1**	
Proposed final dividend for the year ended 31 March 2016: 23.12p per share	**95.4**	
	138.5	

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2016 was paid on 1 April 2016 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. EMPLOYMENT COSTS

	Notes	2016 £m	2015 £m
Wages and salaries		**158.0**	143.9
Social security costs		**15.3**	13.8
Pension costs	30	**20.1**	17.9
Share-based payments	33	**2.8**	3.5
Non-underlying items	6, 30	**8.6**	(14.9)
Total employment costs		**204.8**	164.2
Charged:			
Employment costs (excluding non-underlying items) – consolidated income statement		**180.0**	164.3
Non-underlying items – consolidated income statement	6	**8.6**	(14.9)
Capital schemes – property, plant and equipment		**16.2**	14.8
Total employment costs		**204.8**	164.2

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Group.

	2016	2015
Employees (average full time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water	**1,706**	1,408
Waste management	**3,230**	3,101
Other	**51**	49
Group totals	**4,987**	4,558

The total number of employees at 31 March 2016 was 5,033 (2015 4,590).

14. DIRECTORS' EMOLUMENTS

	2016 £000	2015 £000
Executive Directors:		
Salary	**1,152**	1,119
Performance-related bonus paid or payable	**416**	382
Share-based payments	**555**	750
Other emoluments, including payments in lieu of pension provision	**258**	327
Non-executive Directors	**529**	506
	2,910	3,084

The cost of share-based payments represents the amount charged to the income statement, as described in note 33.

The aggregate gains on vesting of Directors' share-based awards amounted to a total of £220,000 (2015 £642,000).

Total gains made by Directors on the exercise of share options were £2,000 (2015 £nil).

Total emoluments include £1,200,000 (2015 £1,359,000) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2016 one Director (2015 one) is accruing retirement benefits under defined benefit pension schemes in respect of which the Group contributed £29,000 (2015 £5,000).

At 31 March 2016 one Director (2015 one) is a member of the Group's defined contribution pension scheme in respect of which the Group contributed £52,000 (2015 £49,700).

At 31 March 2016 three Directors received payments in lieu of pension provision (2015 three).

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 77 to 98.

15. GOODWILL

	£m
Cost:	
At 1 April 2014	339.3
At 31 March 2015	339.3
Recognised on acquisition of subsidiaries (note 44)	45.7
At 31 March 2016	385.0
Carrying amount:	
At 1 April 2014	339.3
At 31 March 2015	339.3
At 31 March 2016	**385.0**

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGU) expected to benefit from that business combination. £342.7 million of the goodwill balance is allocated to the waste management business, with the remaining £42.3 million allocated to the water business, representing the lowest levels at which goodwill is monitored and tested.

IMPAIRMENT TESTING OF GOODWILL

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

The recoverable amount of the water business segment, for which goodwill was first recognised during the year on the acquisition of Bournemouth Water, is assessed with reference to performance expectations compared to those assumed at time of acquisition. Key assumptions used to assess the value of this goodwill included future allowed tariff increases and delivery of operational efficiencies.

The recoverable amount of the waste management segment, to which the majority of goodwill is allocated, is determined based on value-in-use calculations which, under IAS 36 'Impairment of Assets', require the use of base cash flow projections that reflect reasonable and supportable assumptions with specific restrictions on the estimates to be used. These include limitations on reflecting cash flows to take account of future cost restructuring, or improvement or enhancement of asset performance. Uncommitted projects are excluded. Discount rates are required to be derived independently of the Group's capital structure and reflect management's prudent estimate of a rate that investors would require if they were to choose a similar investment.

The base cash flow projections have been derived by prudently adjusting key assumptions underlying the Group's detailed budget and strategic plan projections. These cover a period of seven years and are prepared as part of the annual planning cycle. This period is believed to lead to a more realistic estimate of future cash flows than five years.

These plans are based on detailed market-by-market forecasts of projected volumes, prices and costs for each business activity. These forecasts reflect, on an individual operational site basis, numerous assumptions and estimates. The key assumptions include anticipated changes in market size and volumes; recyclate prices; energy selling prices; gate fees; the level of future landfill tax; and cost inflation. Management has determined the value assigned to each assumption based on historical experience, market surveys, industry analysis and current legislation. For business activities with an indefinite life a terminal growth rate has been used.

Management has applied the following assumptions to the cash flow projections:

Assumption	Basis for assumption
Discount rate Pre-tax discount rates used range from 7% to 10%, across the CGUs business activities – (2015 7.5% to 10%)	Discount rates have been determined based on an estimate of the waste management segment's weighted average cost of capital adjusted for the different risk profiles of the segment's business activities to the extent that the cash flows have not already been adjusted. Investments in joint ventures reflect an expected equity return only.
Long-term growth rates	
0.5% applied to overheads beyond the period of the detailed projections. (2015 0.5%)	Ongoing efficiencies and benefits from economies of scale.
2.5% applied to other cash flows beyond the period of the detailed projections. (2015 2.5%)	Based on forecasts of growth in waste management markets and the UK economy.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. OTHER INTANGIBLE ASSETS

	Service concession arrangements £m	Customer contracts £m	Patents £m	Other £m	Total £m
Acquired intangible assets					
Cost:					
At 1 April 2014	19.6	32.7	0.2	–	52.5
Additions	28.5	–	–	–	28.5
At 31 March 2015	48.1	32.7	0.2	–	81.0
Additions	6.9	–	–	0.3	7.2
Recognised on acquisition of subsidiaries (note 44)	–	1.6	–	2.3	3.9
At 31 March 2016	55.0	34.3	0.2	2.6	92.1
Accumulated amortisation:					
At 1 April 2014	–	21.8	0.1	–	21.9
Charge for year	–	2.7	–	–	2.7
At 31 March 2015	–	24.5	0.1	–	24.6
Charge for year	–	3.0	0.1	0.6	3.7
At 31 March 2016	–	27.5	0.2	0.6	28.3
Carrying amount:					
At 1 April 2014	19.6	10.9	0.1	–	30.6
At 31 March 2015	48.1	8.2	0.1	–	56.4
At 31 March 2016	**55.0**	**6.8**	**–**	**2.0**	**63.8**

Service concession arrangements, once available for use, are amortised over the useful life of each contract. The average remaining life is 24 years (2015 25 years).

Customer contracts are amortised over the useful life of each contract which at acquisition ranged between two and 15 years. The weighted average remaining life is three years (2015 three years).

Patents are amortised over their estimated useful lives which at acquisition was 13 years. The average remaining life is two years (2015 three years).

Other, including computer software, is amortised over the useful life of the assets which at acquisition was three years. The average remaining life is two years.

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

During the year borrowing costs of £2.1 million (2015 £1.4 million) have been capitalised on qualifying assets, at an average borrowing rate of 4.2% (2015 4.1%).

The principle assumptions used to assess impairment are set out in note 17.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Landfill restoration £m	Construction in progress £m	Total £m
Group							
Cost:							
At 1 April 2014	481.9	1,608.6	641.3	1,622.5	63.4	730.5	5,148.2
Additions	9.7	11.5	3.5	34.8	–	241.9	301.4
Assets adopted at fair value	–	6.9	–	0.1	–	–	7.0
Grants and contributions	–	(1.8)	–	–	–	–	(1.8)
Disposals	(0.5)	(1.2)	(0.1)	(25.6)	–	–	(27.4)
Transfers/ reclassifications	2.6	17.5	4.9	519.8	4.0	(536.8)	12.0
At 31 March 2015	493.7	1,641.5	649.6	2,151.6	67.4	435.6	5,439.4
Additions	10.5	19.3	1.0	35.4	–	218.0	284.2
Arising on acquisition (note 44)	41.5	121.1	27.4	35.2	–	3.8	229.0
Assets adopted at fair value	–	6.6	0.8	–	–	–	7.4
Grants and contributions	–	(5.5)	–	–	–	–	(5.5)
Disposals	(28.8)	(1.2)	(0.1)	(18.2)	(2.8)	–	(51.1)
Transfers/ reclassifications	7.5	43.1	14.8	425.9	–	(491.3)	–
At 31 March 2016	524.4	1,824.9	693.5	2,629.9	64.6	166.1	5,903.4
Accumulated depreciation:							
At 1 April 2014	312.8	178.6	203.5	960.3	42.6	–	1,697.8
Charge for year	22.7	23.9	11.7	98.7	6.9	–	163.9
Impairment charge/ reversal for the year	–	–	–	24.3	–	–	24.3
Disposals	(0.2)	(1.2)	(0.1)	(23.9)	–	–	(25.4)
At 31 March 2015	335.3	201.3	215.1	1,059.4	49.5	–	1,860.6
Charge for year	21.2	23.6	12.4	123.5	4.6	–	185.3
Impairment charge/ reversal for the year	36.0	–	–	(36.0)	–	–	–
Disposals	(20.3)	(1.2)	(0.1)	(17.0)	(1.2)	–	(39.8)
At 31 March 2016	372.2	223.7	227.4	1,129.9	52.9	–	2,006.1
Net book value:							
At 1 April 2014	169.1	1,430.0	437.8	662.2	20.8	730.5	3,450.4
At 31 March 2015	158.4	1,440.2	434.5	1,092.2	17.9	435.6	3,578.8
At 31 March 2016	**152.2**	**1,601.2**	**466.1**	**1,500.0**	**11.7**	**166.1**	**3,897.3**

Of the total depreciation charge of £185.3 million (2015 £163.9 million), £1.4 million (2015 £1.3 million) has been charged to capital projects, £1.0 million (2015 £0.9 million) has been offset by deferred income and £182.9 million (2015 £161.7 million) has been charged against profits.

Asset lives and residual values are reviewed annually.

During the year borrowing costs of £7.3 million (2015 £21.1 million) have been capitalised on qualifying assets, at an average borrowing rate of 4.1%.

IMPAIRMENT TESTING FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and finite lived intangible assets are reviewed for impairment when any indicators of impairment are identified. Most of the individual assets do not generate independent cash flows and as a result, for the purposes of impairment reviews, the assets are grouped into cash generating units (CGUs). The CGUs of the waste management segment comprise individual assets which together constitute the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The carrying value of these individual assets is compared to the recoverable amount of the CGUs, which is based predominantly on value-in-use. Value–in–use calculations use the same base cash flow projections used for testing goodwill (note 15) and are derived by adjusting the Group's detailed budget and strategic plan which cover a period of seven years and are approved by the Board annually. The key assumptions are the same as for the impairment testing of goodwill (note 15).

To reflect changes in the waste market, including the structural decline of landfill, and the prominence of recycling and recovering value from waste, together with the reorientation of Viridor's operations towards ERFs, the allocation of CGUs has been refreshed.

The updated allocations ensure CGUs reflect the lowest level of independent cash inflows. Non-strategic landfill assets are considered separate CGUs as are landfill gas assets, with other remaining assets allocated to regional CGUs.

The result of this change in CGUs is an impairment of non-strategic landfill sites of £60.9 million and a £60.9 million reversal of assets, including strategic landfill sites and recycling assets, allocated to regional CGUs.

For certain CGUs the recoverable amount is determined by reference to the fair value less costs to sell of the underlying assets using external and internal valuations of property and equipment and management's estimate of disposal costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. PROPERTY, PLANT AND EQUIPMENT CONTINUED

For the purposes of disclosing the results of the impairment review the CGUs have been grouped together by asset class of non-strategic landfill CGUs or regional CGUs. The key assumptions in the Group's detailed budget and strategic plan are the same as those used for testing goodwill (note 15). The assumptions applied to these cash flow projections are:

Assumption	Basis for assumption
Discount rate The pre–tax discount rate used for landfill is 9% The pre-tax discount rate used for regional CGUs ranges from 7% - 10%	Discount rates have been determined based on an estimate of the waste management segment's weighted average cost of capital adjusted for the different risk profiles of the segment's business activities to the extent that the cash flows have not already been adjusted.
Long–term growth rates	
0.5% applied to overheads beyond the period of the detailed projections.	Ongoing efficiencies and benefits from economies of scale.
2.5% applied to other cash flows beyond the strategic plan period up to the end of the life of the assets on projected volumes.	Based on forecasts of growth in waste management markets and the UK economy.

Using management cash flow projections, a 1.5% increase in real long–term growth rate of overheads, or a 0.5% increase in discount rate, or a 0.5% reduction in the long–term growth rate of other cash flows, or a 5% reduction in overall net cash flows, with all other variables held constant, would not have a material impact on the impairment charge or impairment reversal in the year.

Assets held under finance leases included above were:

	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:					
At 31 March 2015	398.0	422.3	492.3	1.1	1,313.7
At 31 March 2016	409.5	439.8	515.9	0.2	1,365.4
Accumulated depreciation:					
At 31 March 2015	47.4	96.9	210.1	–	354.4
At 31 March 2016	52.6	107.2	252.6	–	412.4
Net book amount:					
At 31 March 2015	350.6	325.4	282.2	1.1	959.3
At 31 March 2016	**356.9**	**332.6**	**263.3**	**0.2**	**953.0**

	Fixed and mobile plant, vehicles and computers £m
Company	
Cost:	
At 1 April 2014	0.3
Additions	0.1
Disposals	(0.1)
At 31 March 2015	0.3
Additions	0.1
Disposals	(0.1)
At 31 March 2016	0.3
Accumulated depreciation:	
At 1 April 2014	0.1
Charge for year	0.1
Disposals	–
At 31 March 2015	0.2
Charge for year	0.1
Disposals	(0.1)
At 31 March 2016	0.2
Net book value:	
At 1 April 2014	0.2
At 31 March 2015	0.1
At 31 March 2016	0.1

Asset lives and residual values are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items:

		Fair value			Amortised cost		
	Notes	Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Derivatives not in a hedge accounting relationship £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
Group							
31 March 2016							
Financial assets							
Trade receivables	22	–	–	–	–	208.0	208.0
Other receivables	19,22	–	–	–	283.0	–	283.0
Derivative financial instruments	23	1.8	3.4	67.0	–	–	72.2
Cash and cash deposits	25	–	–	–	632.2	–	632.2
Total		1.8	3.4	67.0	915.2	208.0	1,195.4
Financial liabilities							
Borrowings	28	–	–	–	(3,116.6)	–	(3,116.6)
Derivative financial instruments	23	–	(46.9)	(9.0)	–	–	(55.9)
Trade payables	26	–	–	–	–	(95.9)	(95.9)
Total		–	(46.9)	(9.0)	(3,116.6)	(95.9)	(3,268.4)
31 March 2015							
Financial assets							
Trade receivables	22	–	–	–	–	195.7	195.7
Other receivables	19,22	–	–	–	300.2	–	300.2
Derivative financial instruments	23	68.1	0.2	–	–	–	68.3
Cash and cash deposits	25	–	–	–	771.0	–	771.0
Total		68.1	0.2	–	1,071.2	195.7	1,335.2
Financial liabilities							
Borrowings	28	–	–	–	(2,968.1)	–	(2,968.1)
Derivative financial instruments	23	(6.5)	(45.9)	(13.1)	–	–	(65.5)
Trade payables	26	–	–	–	–	(102.5)	(102.5)
Total		(6.5)	(45.9)	(13.1)	(2,968.1)	(102.5)	(3,136.1)
Company							
31 March 2016							
Financial assets							
Amounts owed by subsidiaries	19,22	–	–	–	974.2	–	974.2
Other receivables	22	–	–	–	7.4	–	7.4
Derivative financial instruments	23	1.8	–	–	–	–	1.8
Cash and cash deposits	25	–	–	–	429.7	–	429.7
Total		1.8	–	–	1,411.3	–	1,413.1
Financial liabilities							
Amounts due to subsidiaries	26	–	–	–	(0.3)	–	(0.3)
Borrowings	28	–	–	–	(1,164.3)	–	(1,164.3)
Derivative financial instruments	23	–	(7.6)	(4.2)	–	–	(11.8)
Trade payables	26	–	–	–	–	(0.3)	(0.3)
Total		–	(7.6)	(4.2)	(1,164.6)	(0.3)	(1,176.7)
31 March 2015							
Financial assets							
Amounts owed by subsidiaries	19,22	–	–	–	945.2	–	945.2
Cash and cash deposits	25	–	–	–	532.5	–	532.5
Total		–	–	–	1,477.7	–	1,477.7
Financial liabilities							
Amounts due to subsidiaries	26	–	–	–	(0.3)	–	(0.3)
Borrowings	28	–	–	–	(1,219.3)	–	(1,219.3)
Derivative financial instruments	23	(0.7)	(13.1)	(3.6)	–	–	(17.4)
Trade payables	26	–	–	–	–	(0.1)	(0.1)
Total		(0.7)	(13.1)	(3.6)	(1,219.6)	(0.1)	(1,237.1)

19. OTHER NON-CURRENT ASSETS

Non-current receivables

	Group		Company	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m
Amounts owed by subsidiary undertakings	**–**	–	**905.1**	789.6
Amounts owed by related parties (note 46)	**78.3**	97.6	**–**	–
Service concession arrangements	**179.4**	182.9	**–**	–
Other receivables	**10.1**	10.6	**0.4**	0.4
	267.8	291.1	**905.5**	790.0

Non-current receivables were due:

	Group		Company	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m
Between 1 and 2 years	**36.7**	20.3	**66.4**	63.0
Over 2 years and less than 5 years	**29.4**	31.5	**250.4**	229.1
Over 5 years	**201.7**	239.3	**588.7**	497.9
	267.8	291.1	**905.5**	790.0

The fair values of non-current receivables were:

	Group		Company	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m
Amounts owed by subsidiary undertakings	**–**	–	**1,000.5**	897.5
Amounts owed by related parties	**145.4**	170.7	**–**	–
Service concession arrangements	**179.4**	182.9	**–**	–
Other receivables	**10.1**	10.6	**0.4**	0.4
	334.9	364.2	**1,000.9**	897.9

The fair value of amounts owed by related parties is based on cash flows using a rate based on the borrowings rate of 2.5% (2015 2.5%).

The discount rate is equal to London Interbank Offered Rate plus an allowance to reflect an appropriate credit margin.

The effective interest rate on amounts owed by related parties was 12.3% (2015 12.3%).

Other receivables include site development and pre-contract costs of £9.6 million (2015 £9.3 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. INVESTMENTS

SUBSIDIARY UNDERTAKINGS

	£m
Company	
At 1 April 2014	1,323.3
Additions	200.3
At 31 March 2015	1,523.6
Additions	104.7
At 31 March 2016	**1,628.3**

JOINT VENTURES

	Shares £m
Group	
At 1 April 2014	0.1
Share of post–tax profit	4.9
Share of other comprehensive profit	1.1
Dividends received	(6.0)
At 31 March 2015	0.1
Share of post–tax profit	3.6
Share of other comprehensive profit	2.4
Dividends received	(6.0)
At 31 March 2016	**0.1**

The recoverable amount of investments is determined based on value–in–use calculations, which are set out in note 15.

Details of the Group's principal subsidiary, joint venture and unconsolidated structured entity undertakings are set out in note 40.

The Group's joint ventures and associate listed below all have share capital consisting solely of ordinary shares which is held directly by the Group.

Name of Entity	Place of business/ country of incorporation	% of ownership	Measurement method
Lakeside Energy from Waste Holdings Limited(1)	England	50	Equity
Viridor Laing (Greater Manchester) Holdings Limited(2)	England	50	Equity
INEOS Runcorn (TPS) Holdings Limited(3)	England	20	Equity

(1) Lakeside Energy from Waste Holdings Limited provides energy recovery facility services.
(2) Viridor Laing (Greater Manchester) Holdings Limited is delivering the 25 year Greater Manchester Waste PFI contract, which is a combined energy and renewable energy project.
(3) INEOS Runcorn (TPS) Holdings Limited provides energy facility facilities. The Group's economic interest is 37.5% as set out in note 40.

The Group's joint ventures and associate are all private companies and there are no quoted market prices available for their shares.

Summarised financial information for the Group's joint ventures and associate:

SUMMARISED BALANCE SHEET

	2016			2015		
	Lakeside Energy from Waste Holdings Limited £m	**Viridor Laing (Greater Manchester) Holdings Limited £m**	**INEOS Runcorn (TPS) Holdings Limited £m**	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Current						
Cash and cash equivalents	**14.4**	**61.2**	**24.3**	22.0	104.4	29.3
Other current assets	**9.5**	**27.4**	**17.5**	7.5	8.9	11.0
Total current assets	**23.9**	**88.6**	**41.8**	29.5	113.3	40.3
Borrowings	**–**	**–**	**–**	(0.1)	–	–
Other current liabilities	**(3.7)**	**(43.2)**	**(11.4)**	(6.1)	(42.4)	(20.0)
Total current liabilities	**(3.7)**	**(43.2)**	**(11.4)**	(6.2)	(42.4)	(20.0)
Non-current						
Assets	**122.6**	**288.8**	**289.7**	130.6	328.0	297.2
Borrowings	**(114.0)**	**(331.4)**	**(322.1)**	(125.8)	(387.3)	(319.1)
Other liabilities	**(38.0)**	**(43.2)**	**(53.6)**	(39.6)	(56.4)	(46.0)
Total non-current liabilities	**(152.0)**	**(374.6)**	**(375.7)**	(165.4)	(443.7)	(365.1)
Net liabilities	**(9.2)**	**(40.4)**	**(55.6)**	(11.5)	(44.8)	(47.6)
Net debt	**(99.6)**	**(270.2)**	**(297.8)**	(103.9)	(282.9)	(289.8)
Associated shareholder loans	**17.8**	**73.6**	**94.6**	18.5	114.4	84.2
Net debt (excluding shareholder loans)	**(81.8)**	**(196.6)**	**(203.2)**	(85.4)	(168.5)	(205.6)

Summarised statement of comprehensive income

	2016			2015		
	Lakeside Energy from Waste Holdings Limited £m	**Viridor Laing (Greater Manchester) Holdings Limited £m**	**INEOS Runcorn (TPS) Holdings Limited £m**	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Revenue	**46.7**	**148.0**	**56.2**	49.6	141.4	57.0
EBITDA	**31.3**	**6.2**	**34.3**	36.2	6.0	21.8
Depreciation and amortisation	**(7.9)**	**(1.2)**	**(10.7)**	(7.9)	(1.3)	(2.9)
Interest receivable on service concession arrangements	**–**	**23.4**	**–**	–	24.2	–
Other net interest charge	**(9.0)**	**(29.6)**	**(30.0)**	(9.4)	(32.6)	(24.3)
Pre–tax profit/ (loss)	**14.4**	**(1.2)**	**(6.4)**	18.9	(3.7)	(5.4)
Income tax (expense)/ income	**(1.2)**	**1.1**	**(1.4)**	(2.5)	1.1	–
Post–tax profit/ (loss)	**13.2**	**(0.1)**	**(7.8)**	16.4	(2.6)	(5.4)
Other comprehensive income/ (loss)	**1.1**	**4.5**	**(0.2)**	(7.8)	(15.1)	(16.4)
Total comprehensive income/ (loss)	**14.3**	**4.4**	**(8.0)**	8.6	(17.7)	(21.8)
Dividends paid by joint venture	**(12.0)**	**–**	**–**	(12.0)	–	–

The information above reflects the amounts presented in the financial statements of the joint ventures and associate adjusted for differences in accounting policies between the Group and the joint ventures and associate. The information reflects 100% of the joint ventures and associate results and net liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. INVESTMENTS CONTINUED

RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture/ associate.

	2016			2015		
	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Opening net liabilities 1 April	(11.5)	(44.8)	(47.6)	(8.1)	(27.1)	(25.8)
Profit/ (loss) for the year	13.2	(0.1)	(7.8)	16.4	(2.6)	(5.4)
Other comprehensive income/ (loss)	1.1	4.5	(0.2)	(7.8)	(15.1)	(16.4)
Dividends paid	(12.0)	–	–	(12.0)	–	–
Closing net liabilities	(9.2)	(40.4)	(55.6)	(11.5)	(44.8)	(47.6)
Interest in joint venture	(4.6)	(20.2)	(20.9)	(5.8)	(22.4)	(23.8)
Share of net liabilities not recognised	4.7	20.2	20.9	5.9	22.4	23.8
Carrying value	0.1	–	–	0.1	–	–

Net liabilities in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those liabilities.

21. INVENTORIES

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Raw materials and consumables	20.6	15.0	–	–

22. TRADE AND OTHER RECEIVABLES – CURRENT

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade receivables	**303.6**	282.5	**–**	–
Less: provision for impairment of receivables	**(95.6)**	(86.8)	**–**	–
Net trade receivables	**208.0**	195.7	**–**	–
Amounts owed by related parties (note 45)	**17.9**	19.7	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**69.1**	155.6
Other receivables	**14.3**	10.9	**7.4**	0.3
Prepayments and accrued income	**83.3**	61.4	**0.9**	0.3
	323.5	287.7	**77.4**	156.2

Trade receivables include accrued income relating to customers with water budget plans.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for. The Group has created IAS 39 portfolio provisions, but cannot practicably identify which receivables specifically are the ones impaired. It is Group policy to consider a receivable in a portfolio to which an impairment has been allocated on a collective basis as not being impaired for the purposes of IFRS 7 disclosures until the loss can be specifically identified with the receivable.

The ageing of trade receivables which are past due but not specifically impaired was:

	2016 £m	2015 £m
Group		
Past due 1 – 30 days	**37.8**	33.6
Past due 31 – 120 days	**18.7**	20.8
More than 120 days	**148.8**	134.4

The aged trade receivables above are taken directly from aged sales ledger records before deduction of credit balances and other adjustments.

The Group's operating businesses specifically review separate categories of debt to identify an appropriate provision for impairment. South West Water Limited and Bournemouth Water Limited have a duty under legislation to continue to provide domestic customers with services regardless of payment.

The movement in the allowance for impairment in respect of trade receivables was:

	2016 £m	2015 £m
At 1 April	**86.8**	86.1
Arising on acquisition (note 44)	**1.0**	–
Provision for receivables impairment	**8.4**	12.8
Receivables written off during the year as uncollectable	**(4.1)**	(19.2)
Cumulative amounts previously excluded from debt	**3.5**	7.1
At 31 March	**95.6**	86.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Derivatives used for cash flow hedging				
Non-current assets	**2.4**	0.2	**–**	–
Current assets	**1.0**	–	**–**	–
Current liabilities	**(14.7)**	(13.2)	**(2.7)**	(2.9)
Non-current liabilities	**(32.2)**	(32.7)	**(4.9)**	(10.2)
Derivatives used for fair value hedging				
Non-current assets	**1.3**	60.0	**1.3**	–
Current assets	**0.5**	8.1	**0.5**	–
Current liabilities	**–**	(2.4)	**–**	–
Non-current liabilities	**–**	(4.1)	**–**	(0.7)
Derivatives not in a hedge accounting relationship				
Non-current assets	**59.0**	–	**–**	–
Current assets	**8.0**	–	**–**	–
Current liabilities	**(2.7)**	(3.9)	**–**	–
Non-current liabilities	**(6.3)**	(9.2)	**(4.2)**	(3.6)

The fair value of hedging derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows.

The ineffective portion recognised in the income statement arising from hedging relationships was £nil (2015 £nil).

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 50% of Group net borrowings are at fixed rate. At 31 March 2016 67% of Group net borrowings were at fixed rate (2015 72%).

At 31 March 2016 the Group had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £1,078.0 million and a weighted average maturity of 3.9 years (2015 £1,103.0 million, with 4.4 years). The weighted average interest rate of the swaps for their nominal amount was 2.0% (2015 2.1%).

Derivatives deemed held for trading includes a derivative with a fair value of £4.2 million (2015 £3.6 million) which does not qualify for hedge accounting under IAS 39, but is designed to improve the Group's overall interest rate performance. This derivative arises from a combination of non-derivative instruments entered into during the year that when combined result in a derivative instrument. Included in the derivative instrument is a £200 million floating interest rate-linked loan from Peninsula MB Limited to the Company and a fixed rate £200 million obligation due to the Company from Peninsula MB Limited. This derivative has an expected life of 10 years.

VALUATION HIERARCHY

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial instruments are valued principally using level 2 measures:

Level 2 inputs	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Assets				
Derivatives used for cash flow hedging	**3.4**	0.2	**–**	–
Derivatives used for fair value hedging	**1.8**	68.1	**1.8**	–
Derivatives not in a hedge accounting relationship	**67.0**	–	**–**	–
Total assets	**72.2**	68.3	**1.8**	–
Liabilities				
Derivatives used for cash flow hedging	**46.9**	45.9	**7.5**	13.1
Derivatives used for fair value hedging	**–**	6.5	**–**	0.7
Derivatives not in a hedge accounting relationship	**4.8**	9.5	**–**	–
Total liabilities	**51.7**	61.9	**7.5**	13.8

Financial instruments valued using level 3 measures are valued by the counterparty using cash flows discounted at prevailing mid-market rates. The fair value of such financial instruments is not significantly sensitive to unobservable inputs.

Level 3 inputs	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Liabilities				
Derivatives deemed held for trading	**4.2**	3.6	**4.2**	3.6

The following table presents the changes in level 3 financial instruments for the year:

Level 3 inputs	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
At 1 April	**(3.6)**	(2.4)	**(3.6)**	(2.4)
Gains recognised in net finance costs	**8.4**	7.8	**8.4**	7.8
Settlement of recognised gains	**(9.0)**	(9.0)	**(9.0)**	(9.0)
At 31 March	**(4.2)**	(3.6)	**(4.2)**	(3.6)

24. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current assets	**–**	0.1	**–**	–
Current liabilities	**(2.2)**	–	**–**	–
Non-current liabilities	**(51.0)**	(57.3)	**(1.6)**	(0.5)

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item which had been designated in a fair value hedging relationship.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. CASH AND CASH DEPOSITS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash at bank and in hand	**44.5**	49.6	**92.7**	42.4
Short-term bank deposits	**31.1**	125.0	**31.1**	125.0
Other deposits	**556.6**	596.4	**305.9**	365.1
Total cash and cash deposits	**632.2**	771.0	**429.7**	532.5

Group short-term deposits have an average maturity of one day.

Group other deposits have an average maturity of 53 days.

Group other deposits include restricted funds of £216.8 million (2015 £186.5 million) to settle long-term lease liabilities (note 28) and £9.7 million (2015 £9.7 million) relating to letters of credit. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash deposits as above	**632.2**	771.0	**429.7**	532.5
Less: deposits with a maturity of three months or more (restricted funds)	**(226.5)**	(196.2)	**(9.7)**	–
	405.7	574.8	**420.0**	532.5

26. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade payables	**95.9**	102.5	**0.3**	0.1
Amounts owed to subsidiary undertakings	**–**	–	**0.3**	0.3
Amounts owed to joint ventures (note 46)	**3.9**	1.2	**–**	–
Other tax and social security	**52.3**	64.2	**0.3**	0.3
Accruals and other payables	**112.5**	109.8	**5.0**	4.9
	264.6	277.7	**5.9**	5.6

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

27. CURRENT TAX LIABILITIES

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Corporation tax creditor	**–**	15.6	**–**	–
Continuing uncertain tax items	**51.6**	36.6	**53.5**	23.8
Clarified tax items	**(14.5)**	–	**–**	–
Current tax liabilities	**37.1**	52.2	**53.5**	23.8

28. BORROWINGS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current				
Short-term loans	**0.3**	50.9	**–**	50.7
European Investment Bank	**38.7**	31.1	**–**	–
Amounts owed to subsidiary undertakings (note 46)	**–**	–	**287.2**	283.2
	39.0	82.0	**287.2**	333.9
Obligations under finance leases	**26.0**	31.6	**–**	–
Total current borrowings	**65.0**	113.6	**287.2**	333.9
Non-current				
Bank and other loans	**403.2**	338.0	**323.3**	338.0
Private placements	**553.8**	547.4	**553.8**	547.4
Bond 2040	**133.3**	133.0	**–**	–
RPI index-linked bonds	**412.2**	258.8	**–**	–
European Investment Bank	**234.5**	273.2	**–**	–
	1,737.0	1,550.4	**877.1**	885.4
Obligations under finance leases	**1,314.6**	1,304.1	**–**	–
Total non-current borrowings	**3,051.6**	2,854.5	**877.1**	885.4
Total borrowings	**3,116.6**	2,968.1	**1,164.3**	1,219.3

The Company issued a £100 million private placement in July 2007 maturing in 2022. Interest is payable at a fixed rate of 3.3%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%.

South West Water Finance Plc issued a £150 million bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

Bournemouth Water Limited issued a £65 million RPI index-linked bond in April 2005 maturing in 2033 with a cash coupon of 3.084%.

The fair values of non-current borrowings, valued using level 2 measures (as set out in note 23) were:

	2016		2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Group				
Bank and other loans	**403.2**	**403.2**	338.0	338.0
Private placements	**553.8**	**600.0**	547.4	606.9
Bond 2040	**133.3**	**198.4**	133.0	199.9
RPI index-linked bond	**412.2**	**364.6**	258.8	203.4
European Investment Bank	**234.5**	**209.3**	273.2	250.6
	1,737.0	**1,775.5**	1,550.4	1,598.8
Obligations under finance leases	**1,314.6**	**1,163.0**	1,304.1	1,182.0
	3,051.6	**2,938.5**	2,854.5	2,780.8
Company				
Bank and other loans	**323.3**	**323.3**	338.0	337.9
Private placements	**553.8**	**600.0**	547.4	606.9
	877.1	**923.3**	885.4	944.8

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. BORROWINGS CONTINUED

The maturity of non-current borrowings was:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Between 1 and 2 years	**141.7**	133.7	**74.6**	74.9
Over 2 year and less than 5 years	**427.0**	465.2	**225.8**	310.0
Over 5 years	**2,482.9**	2,255.6	**576.7**	500.5
	3,051.6	2,854.5	**877.1**	885.4

The weighted average maturity of non-current borrowings was 22 years (2015 23 years).

Finance lease liabilities – minimum lease payments were:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Within 1 year	**41.1**	50.6	**–**	–
Over 1 year and less than 5 years	**220.5**	251.3	**–**	–
Over 5 years	**2,130.7**	2,167.6	**–**	–
	2,392.3	2,469.5	**–**	–
Less: future finance charges	**(1,051.7)**	(1,133.8)	**–**	–
Present value of finance lease liabilities	**1,340.6**	1,335.7	**–**	–

The maturity of finance lease liabilities was:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Within 1 year	**26.0**	23.7	**–**	–
Over 1 year and less than 5 years	**124.8**	123.8	**–**	–
Over 5 years	**1,189.8**	1,188.2	**–**	–
	1,340.6	1,335.7	**–**	–

Included above are accrued finance charges arising on obligations under finance leases totalling £138.8 million (2015 £132.8 million), of which £1.7 million (2015 £2.9 million) is repayable within one year.

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £71.7 million at 31 March 2016 (2015 £70.7 million), are currently being held to settle the lease liability, subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

The period for repayment of certain other existing leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £142.3 million at 31 March 2016 (2015 £115.8 million), are currently being held to settle the lease liability, subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the outstanding balance.

Undrawn committed borrowing facilities at the balance sheet date were:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Floating rate:				
Expiring within 1 year	**100.0**	150.0	**50.0**	–
Expiring after 1 year	**975.0**	820.4	**240.0**	420.0
	1,075.0	970.4	**290.0**	420.0

In addition at 31 March 2016 the Group had undrawn uncommitted short-term bank facilities of £25.0 million (2015 £25.0 million) available to the Company or South West Water Limited.

29. OTHER NON-CURRENT LIABILITIES

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts owed to subsidiary undertakings	**–**	–	**8.7**	8.7
Other payables	**113.2**	110.1	**–**	–
	113.2	110.1	**8.7**	8.7

Other payables include deferred income resulting from the adoption at fair value of assets transferred from customers in the water segment.

Included in other payables are amounts provided by the Group in relation to claims received which are considered by the Directors and the management of the Group to be the best estimate of the amounts that might be finally settled. Further disclosures have not been provided in accordance with IAS 37 paragraph 92.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. RETIREMENT BENEFIT OBLIGATIONS

During the year the Group operated a number of defined benefit pension schemes and also a defined contribution section within the main scheme.

The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the main fund that one-half of all trustees, other than the Chairman, are nominated by members of the schemes, including pensioners.

DEFINED CONTRIBUTION SCHEMES

Pension costs for defined contribution schemes were £7.5 million (2015 £5.4 million).

DEFINED BENEFIT SCHEMES

Assumptions

The principal actuarial assumptions at 31 March were:

	2016 %	2015 %	2014 %
Rate of increase in pensionable pay	**2.9**	2.9	3.4
Rate of increase for current and future pensions	**2.9**	2.9	3.2
Rate used to discount schemes' liabilities and expected return on schemes' assets	**3.30**	3.35	4.30
Inflation	**2.9**	2.9	3.4

MORTALITY

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2013 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2016	2015	2014
Male	**25.1**	25.0	24.9
Female	**27.3**	27.2	27.1

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2016	2015	2014
Male	**26.5**	26.4	26.3
Female	**29.6**	29.5	29.4

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in pensionable pay	+/– 0.5%	+/– 0.1%
Rate of increase in current and future pensions	+/– 0.5%	+/– 6.2%
Rate used to discount schemes' liabilities	+/– 0.5%	+/– 9.4%
Inflation	+/– 0.5%	+/– 6.3%
Life expectancy	+/– 1 year	+/– 3.6%

The amounts recognised in the balance sheet were:

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Present value of financial obligations	**(826.0)**	(742.2)	**(50.7)**	(50.8)
Fair value of plan assets	**792.7**	692.7	**47.7**	46.6
Deficit of funded plans	**(33.3)**	(49.5)	**(3.0)**	(4.2)
Impact of minimum funding asset ceiling	**(7.6)**	(10.1)	**–**	–
Net liability recognised in the balance sheet	**(40.9)**	(59.6)	**(3.0)**	(4.2)

The movement in the net defined benefit obligation over the accounting period is as follows:

	2016			2015		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	**(752.3)**	**692.7**	**(59.6)**	(687.7)	608.4	(79.3)
Arising on acquisition (note 44)	**(86.6)**	**88.5**	**1.9**	–	–	–
Current service cost	**(12.6)**	**–**	**(12.6)**	(12.5)	–	(12.5)
Past service cost and gains and losses on settlements*	**–**	**–**	**–**	14.6	–	14.6
Interest (expense)/ income	**(27.3)**	**25.5**	**(1.8)**	(28.6)	25.9	(2.7)
	(39.9)	**25.5**	**(14.4)**	(26.5)	25.9	(0.6)
Remeasurements:						
(Loss)/ return on plan on assets excluding amounts included in interest expense	**–**	**(19.7)**	**(19.7)**	–	58.7	58.7
Gain from change in demographic assumptions	**–**	**–**	**–**	19.0	–	19.0
Gain/ (loss) from change in financial assumptions	**2.7**	**–**	**2.7**	(81.5)	–	(81.5)
Experience gains	**14.4**	**–**	**14.4**	1.7	–	1.7
	17.1	**(19.7)**	**(2.6)**	(60.8)	58.7	(2.1)
Contributions:						
Employers	**–**	**33.8**	**33.8**	–	22.4	22.4
Plan participants	**(1.1)**	**1.1**	**–**	(1.2)	1.2	–
Payments from plans:						
Benefit payments	**29.2**	**(29.2)**	**–**	23.9	(23.9)	–
	28.1	**5.7**	**33.8**	22.7	(0.3)	22.4
At 31 March	**(833.6)**	**792.7**	**(40.9)**	(752.3)	692.7	(59.6)

* includes non-underlying credit of £14.9 million in 2015.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2016			2015		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
1 April	**(50.8)**	**46.6**	**(4.2)**	(47.2)	41.0	(6.2)
Current service cost	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
Past service cost and gains and losses on settlement	**–**	**–**	**–**	1.2	–	1.2
Interest (expense)/ income	**(1.7)**	**1.5**	**(0.2)**	(2.0)	1.8	(0.2)
	(2.0)	**1.5**	**(0.5)**	(1.2)	1.8	0.6
Remeasurements:						
(Loss)/ return on plan on assets excluding amounts included in interest expense	**–**	**(0.9)**	**(0.9)**	–	3.7	3.7
Gain from change in demographic assumptions	**–**	**–**	**–**	1.4	–	1.4
Loss from change in financial assumptions	**–**	**–**	**–**	(5.8)	–	(5.8)
Experience gains	**0.3**	**–**	**0.3**	0.1	–	0.1
	0.3	**(0.9)**	**(0.6)**	(4.3)	3.7	(0.6)
Contributions:						
Employers	**–**	**2.3**	**2.3**	–	2.0	2.0
Payments from plans:						
Benefit payments	**1.8**	**(1.8)**	**–**	1.9	(1.9)	–
	1.8	**0.5**	**2.3**	1.9	0.1	2.0
31 March	**(50.7)**	**47.7**	**(3.0)**	(50.8)	46.6	(4.2)

Changes in the effect of the asset ceiling during the year were:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Irrecoverable asset at start of the year	**10.1**	10.3	**–**	–
Interest on irrecoverable surplus	**0.3**	0.4	**–**	–
Actuarial losses	**(2.8)**	(0.6)	**–**	–

The Group has two smaller pension schemes which are in surplus. One of these surpluses is deemed to have irrecoverable assets in accordance with IFRIC 14 'The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

The schemes' assets were:

	2016			2015		
	Quoted prices in active market £m	**Prices not quoted in active market £m**	**Fund %**	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	**247.9**	**–**	**31**	240.4	–	35
Government bonds	**87.2**	**–**	**11**	106.2	–	15
Other bonds	**134.2**	**–**	**17**	123.3	–	18
Diversified growth	**170.8**	**–**	**22**	71.2	–	10
Property	**50.4**	**8.3**	**7**	44.8	1.5	7
Other (including cash funds)	**80.0**	**13.9**	**12**	95.9	9.4	15
	770.5	**22.2**	**100**	681.8	10.9	100

Other assets at 31 March 2016 represented principally cash contributions received from the Group towards the year end which were invested during the subsequent financial year.

The Company's share of the schemes' assets at the balance sheet date was:

	2016			2015		
	Quoted prices in active market £m	**Prices not quoted in active market £m**	**Fund %**	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	**14.3**	**–**	**30**	15.4	–	33
Government bonds	**8.0**	**–**	**17**	8.2	–	18
Other bonds	**9.7**	**–**	**20**	6.4	–	14
Diversified growth	**5.6**	**–**	**12**	5.7	–	12
Property	**4.0**	**–**	**8**	3.6	–	8
Other	**6.1**	**–**	**13**	7.3	–	15
	47.7	**–**	**100**	46.6	–	100

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term, but can give rise to volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- a proportion of equities, with fund managers having freedom in making investment decisions to maximise returns
- investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

The last triennial actuarial valuation of the principal defined benefit scheme was at 31 March 2013. The Group has made a deficit recovery contribution of £23.7 million to the main scheme during the year (2015 £11.0 million). The Group monitors funding levels on an annual basis and expects to pay total contributions of around £10 million during the year ended 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. DEFERRED TAX

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates (2015 20%).

Movements on deferred tax were:

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Liabilities/ (assets) at 1 April	**235.9**	227.1	**(3.0)**	(1.3)
Charged/ (credited) to the income statement	**39.2**	18.2	**0.5**	(0.1)
Charged/ (credited) to equity	**4.5**	(6.1)	**0.5**	(1.6)
Change of rate in income statement – non-underlying	**(33.1)**	–	**(0.2)**	–
Other non-underlying charges in the income statement	**0.7**	(3.3)	**–**	–
Arising on acquisition (note 44)	**24.8**	–	**–**	–
Liabilities/ (assets) at 31 March	**272.0**	235.9	**(2.2)**	(3.0)

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Group's deferred tax liability is expected to be recovered over more than one year.

The majority of the Company's deferred tax asset is expected to be recovered over more than one year.

All deferred tax assets and liabilities within the same jurisdiction are offset.

The deferred tax balance has been reduced by a credit of £29.1 million to recognise the changes in the rate of corporation tax enacted on 18 November 2015 to reduce the rate at 1 April 2017 from 20% to 19%, followed by a further reduction from 1 April 2020 to 18%. This credit includes a credit of £33.1 million recognised in the income statement and a debit of £3.9 million recognised in equity. If the Government proposals contained in the Finance Bill 2016 to reduce the rate of corporation tax by a further 1% for the financial year 2021 (2% reduction in total) had been enacted at the balance sheet date, the impact would have been a further reduction of approximately £15.0 million.

The movements in deferred tax assets and liabilities were:

GROUP

Deferred tax liabilities

	Accelerated tax depreciation	Fair value adjustments	Revenue on service concession arrangements	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2014	239.1	11.1	17.3	0.2	267.7
(Credited)/ charged to the income statement	(1.4)	(1.2)	20.0	0.1	17.5
Non-underlying credit to the income statement	(2.7)	–	–	–	(2.7)
At 31 March 2015	235.0	9.9	37.3	0.3	282.5
Arising on acquisition	18.3	19.1	–	–	37.4
Charged/ (credited)to the income statement	16.3	(1.7)	7.5	–	22.1
Non-underlying (credit)/ charge to the income statement	(25.9)	(2.7)	(5.1)	0.6	(33.1)
At 31 March 2016	**243.7**	**24.6**	**39.7**	**0.9**	**308.9**

Deferred tax assets

	Long term liabilities incl. provisions	Retirement benefit obligations	Derivatives	Share based payments	Tax losses	Fair value adjustment	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2014	(15.8)	(15.9)	(3.3)	(1.7)	(1.4)	–	(2.5)	(40.6)
Charged/ (credited) to the income statement	(0.5)	1.5	–	0.1	–	–	(0.4)	0.7
Credited to equity	–	(0.4)	(5.7)	–	–	–	–	(6.1)
Non-underlying (credit)/ charge to the income statement	(3.6)	3.0	–	–	–	–	–	(0.6)
At 31 March 2015	(19.9)	(11.8)	(9.0)	(1.6)	(1.4)	–	(2.9)	(46.6)
Arising on acquisition	(0.1)	0.4	–	–	–	(12.9)	–	(12.6)
Charged/ (credited) to the income statement	14.0	3.7	–	–	(0.7)	0.7	(0.6)	17.1
Non-underlying charge/ (credit) to the income statement	1.1	(2.1)	–	–	0.2	1.2	0.3	0.7
(Credited)/ charged to equity	–	(0.6)	1.0	0.2	–	–	–	0.6
Non-underlying charge to equity	–	3.0	0.8	0.1	–	–	–	3.9
At 31 March 2016	**(4.9)**	**(7.4)**	**(7.2)**	**(1.3)**	**(1.9)**	**(11.0)**	**(3.2)**	**(36.9)**
Net liability:								
At 31 March 2015								235.9
At 31 March 2016								272.0

COMPANY

Deferred tax assets

	Retirement benefit obligations £m	Derivatives £m	Share based payments £m	Other £m	Total £m
At 1 April 2014	(1.2)	–	(0.4)	0.3	(1.3)
Charged/ (credited) to the income statement	0.5			(0.6)	(0.1)
(Credited)/ charged to equity	(0.1)	(1.6)	0.1	–	(1.6)
At 31 March 2015	(0.8)	(1.6)	(0.3)	(0.3)	(3.0)
Charged to the income statement	0.3	–	–	0.1	0.4
Non-underlying credit to income statement	(0.2)	–	–	–	(0.2)
(Credited)/ charged to equity	(0.1)	0.2	0.1	–	0.2
Non-underlying charge to equity	0.3	0.1	–	–	0.4
At 31 March 2016	**(0.5)**	**(1.3)**	**(0.2)**	**(0.2)**	**(2.2)**

Deferred tax (charged)/ credited to equity during the year was:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Remeasurement of defined benefit obligations	**(2.4)**	0.4	**(0.2)**	0.1
Cash flow hedges	**(1.8)**	5.7	**(0.3)**	1.6
Deferred tax on other comprehensive loss (gain)/ loss	**(4.2)**	6.1	**(0.5)**	1.7
Share-based payments	**(0.3)**	–	**(0.1)**	(0.1)
	(4.5)	6.1	**(0.6)**	1.6

32. PROVISIONS

	Environmental and landfill restoration £m	Restructuring £m	Other provisions £m	Total £m
Group				
At 1 April 2015	193.0	2.0	32.3	227.3
Charged to the income statement	11.2	–	4.9	16.1
Non-underlying charge (note 6)	–	10.2	–	10.2
Released	(8.8)	–	(3.5)	(12.3)
Utilised	(13.3)	(0.5)	(6.1)	(19.9)
At 31 March 2016	**182.1**	**11.7**	**27.6**	**221.4**

The amount charged to the income statement includes £9.4 million (2015 £10.5 million) charged to finance costs as the unwinding of discounts in provisions.

The analysis of provisions between current and non-current is:

	2016 £m	2015 £m
Current	**50.4**	32.9
Non-current	**171.0**	194.4
	221.4	227.3

Environmental and landfill restoration provisions are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. Environmental and landfill restoration provisions are expected to be substantially utilised throughout the operational life of a site and for landfill sites within 60 years of closure. The provisions have been established assuming current waste management technology based upon estimated costs at future prices which have been discounted to present value.

During the year a landfill asset was disposed which resulted in the release of a £8.8 million environmental and landfill restoration provision. The release of the provision has also been recognised within profit on disposal of property, plant and equipment.

The restructuring provision relates principally to severance costs and will be utilised within one year.

Other provisions include underperforming contracts of £15.6 million (2015 £18.3 million), which are provided for at the net present value of the operating losses of the underperforming contracts and are to be utilised over the remaining period of the contract to which they relate.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33. SHARE CAPITAL

ALLOTTED, CALLED–UP AND FULLY PAID

	Number of shares		
	Treasury shares	Ordinary shares	£m
Group and Company			
At 1 April 2014 ordinary shares of 40.7p each	1,282,690	370,552,276	151.3
Shares issued in respect of the £125 million convertible bond	–	20,909,635	8.5
Shares issued under the Scrip Dividend Alternative	–	6,365,622	2.6
Shares re–issued under the Company's Performance and Co–investment Plan	(131,685)	131,685	–
For consideration of £0.8 million, shares re–issued to the Pennon Employee Share Trust	(99,455)	99,455	–
For consideration of £0.1 million, shares re–issued under the Executive Share Option Scheme	(5,027)	5,027	–
For consideration of £3.0 million, shares re–issued under the Company's Sharesave Scheme	(657,008)	657,008	–
At 31 March 2015 ordinary shares of 40.7p each	389,515	398,720,708	162.4
Shares issued in respect of equity issuance	–	12,084,337	4.9
Shares issued under the Scrip Dividend Alternative	–	760,626	0.3
For consideration of £1.1 million, shares re–issued to the Pennon Employee Share Trust	(143,538)	143,538	–
For consideration of £0.1 million, shares re–issued under the Executive Share Option Scheme	(8,305)	8,305	–
For consideration of £1.3 million, shares re–issued under the Company's Sharesave Scheme	(227,316)	227,316	–
For consideration of £2.1 million, shares issued under the Company's Sharesave Scheme	–	395,767	0.2
At 31 March 2016 ordinary shares of 40.7p each	**10,356**	**412,340,597**	**167.8**

The 12,084,337 share issuance was on a non pre-emptive basis to replenish cash resources following the acquisition of Bournemouth Water in April 2015. The discount achieved was 0.5% and proceeds raised, net of discount and costs, were £98 million. The percentage increase in issued share capital due to the issuance was 3%.

Shares held as treasury shares may be sold or re–issued for any of the Company's share schemes, or cancelled.

EMPLOYEE SHARE SCHEMES

The Group operates a number of equity–settled share plans for the benefit of employees. Details of each plan are:

i) Sharesave Scheme

An all–employee savings related plan is operated that enables employees, including Executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a 20% discount to the market value at the start of the savings period, at the third, fifth or seventh year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

Outstanding options to subscribe for ordinary shares of 40.7p each under the Company's share option schemes are:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2016	2015
8 July 2008	517p	2011 – 2015	**–**	6
6 July 2009	386p	2012 – 2016	**44**	49
28 June 2010	431p	2013 – 2017	**41**	205
29 June 2011	536p	2014 – 2018	**150**	156
29 June 2012	588p	2015 – 2017	**103**	561
3 July 2013	538p	2016 – 2018	**540**	581
14 July 2014	611p	2017 – 2019	**687**	772
24 June 2015	683p	2018 – 2020	**1,291**	–
			2,856	2,330

The number and weighted average exercise price of Sharesave options are:

	2016		2015	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share (p)**	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	**2,330**	**561**	2,330	515
Granted	**1,364**	**683**	811	611
Forfeited	**(170)**	**622**	(97)	559
Exercised	**(623)**	**545**	(657)	457
Expired	**(45)**	**596**	(57)	550
At 31 March	**2,856**	**619**	2,330	561

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 779p (2015 811p). The options outstanding at 31 March 2016 had a weighted average exercise price of 619p (2015 561p) and a weighted average remaining contractual life of 2.1 years (2015 1.9 years).

The aggregate fair value of Sharesave options granted during the year was £1.7 million (2015 £0.8 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2016	2015
Weighted average share price	**854**	764p
Weighted average exercise price	**683**	611p
Expected volatility	**17.0%**	17.0%
Expected life	**3.4 years**	3.4 years
Risk-free rate	**0.8%**	1.4%
Expected dividend yield	**4.0%**	4.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

ii) Performance and Co-investment Plan
Executive Directors and senior management receive a conditional award of ordinary shares in the Company and are also required to hold a substantial personal shareholding in the Company. The eventual number of shares, if any, which vest is dependent upon the achievement of conditions of the plan over the restricted period, being not less than three years.

The number and price of shares in the Performance and Co-investment Plan are:

	2016		2015	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share (p)**	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	**1,195**	**744**	1,200	711
Granted	**420**	**811**	400	799
Vested	**–**	**–**	(132)	698
Lapsed	**(417)**	**764**	(273)	698
At 31 March	**1,198**	**761**	1,195	744

The awards outstanding at 31 March 2016 had a weighted exercise price of 761p (2015 744p) and a weighted average remaining contractual life of 1.3 years (2015 1.3 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33. SHARE CAPITAL CONTINUED

The aggregate fair value of awards granted during the year was £1.7 million (2015 £1.9 million) determined using a Monte-Carlo simulation model. The significant inputs into the valuation model at the date of the share awards were:

	2016	2015
Weighted average share price	**811p**	799p
Expected volatility	**17.0%**	17.0%
Risk-free rate	**0.8%**	1.4%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

iii) Annual Incentive Bonus Plan – deferred shares
Awards under the plan to Executive Directors and senior management involve the release of ordinary shares in the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2016		2015	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share (p)**	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	**316**	**758**	315	727
Granted	**154**	**791**	107	822
Vested	**(152)**	**790**	(106)	728
Lapsed	**(11)**	**776**	–	–
At 31 March	**307**	**759**	316	758

The awards outstanding at 31 March 2016 had a weighted average exercise price of 759p (2015 758p) and a weighted average remaining contractual life of 1.6 years (2015 1.3 years). The Company's share price at the date of the awards ranged from 693p to 822p.

The aggregate fair value of awards granted during the year was £1.2 million (2015 £0.9 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

34. SHARE PREMIUM ACCOUNT

	£m
Group and Company	
At 1 April 2014	4.9
Convertible bond – equity issuance	116.3
Adjustment for shares issued under the Scrip Dividend Alternative	(2.6)
At 31 March 2015	118.6
Equity placing	95.4
Equity issuance related costs	(2.3)
Adjustment for shares issued under the Scrip Dividend Alternative	(0.3)
Shares issued under the Sharesave Scheme	1.9
At 31 March 2016	**213.3**

35. CAPITAL REDEMPTION RESERVE

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006.

	£m
Group and Company	
At 1 April 2014	144.2
At 31 March 2015	144.2
At 31 March 2016	**144.2**

36. RETAINED EARNINGS AND OTHER RESERVES

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 1 April 2014	(1.7)	(3.9)	608.0	602.4
Profit for the year	–	–	126.3	126.3
Other comprehensive loss for the year	–	(33.0)	(0.6)	(33.6)
Transfer from hedging reserve to property, plant and equipment	–	1.9	–	1.9
Dividends paid relating to 2014	–	–	(117.0)	(117.0)
Adjustment for shares issued under the Scrip Dividend Alternative	–	–	48.0	48.0
Credit to equity in respect of share-based payments (net of tax)	–	–	3.5	3.5
Charge in respect of share options vesting	0.7	–	(0.7)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(0.8)	–	–	(0.8)
Convertible bond – equity issuance	–	–	(0.5)	(0.5)
Proceeds from treasury shares re-issued	–	–	3.9	3.9
At 31 March 2015	(1.8)	(35.0)	670.9	634.1
Profit for the year	–	–	152.1	152.1
Other comprehensive loss for the year	–	(0.2)	(2.6)	(2.8)
Transfer from hedging reserve to property, plant and equipment	–	3.4	–	3.4
Dividends paid relating to 2015	–	–	(129.5)	(129.5)
Adjustment for shares issued under the Scrip Dividend Alternative	–	–	6.3	6.3
Credit to equity in respect of share-based payments (net of tax)	–	–	2.5	2.5
Charge in respect of share options vesting	0.8	–	(0.8)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.1)	–	–	(1.1)
Proceeds from treasury shares re-issued	–	–	2.5	2.5
At 31 March 2016	**(2.1)**	**(31.8)**	**701.4**	**667.5**

The own shares reserve represents the cost of ordinary shares in Pennon Group Plc issued to or purchased in the market and held by the Pennon Employee Share Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 309,000 ordinary shares (2015 304,000 ordinary shares) held by the trust at 31 March 2016 was £2.5 million (2015 £2.5 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36. RETAINED EARNINGS AND OTHER RESERVES CONTINUED

	Hedging reserve £m	Retained earnings £m	Total £m
Company			
At 1 April 2014	–	777.2	777.2
Profit for the year	–	300.1	300.1
Other comprehensive loss for the year	(5.5)	(0.4)	(5.9)
Dividends paid relating to 2014	–	(117.0)	(117.0)
Adjustment for shares issued under the Scrip Dividend Alternative	–	48.0	48.0
Credit to equity in respect of share-based payments (net of tax)	–	0.9	0.9
Charge in respect of share options vesting	–	(0.8)	(0.8)
Convertible bond – equity issuance	–	(0.5)	(0.5)
Proceeds from treasury shares re-issued	–	3.9	3.9
At 31 March 2015	(5.5)	1,011.4	1,005.9
Profit for the year	–	91.4	91.4
Other comprehensive loss for the year	0.5	(0.9)	(0.4)
Dividends paid relating to 2015	–	(129.5)	(129.5)
Adjustment for shares issued under the Scrip Dividend Alternative	–	6.3	6.3
Credit to equity in respect of share-based payments (net of tax)	–	0.7	0.7
Charge in respect of share options vesting	–	(0.8)	(0.8)
Proceeds from treasury shares re-issued	–	2.5	2.5
At 31 March 2016	**(5.0)**	**981.1**	**976.1**

37. PERPETUAL CAPITAL SECURITIES

	£m
Group and Company	
At 1 April 2014	294.8
Distributions to perpetual capital security holders	(20.3)
Current tax relief on distributions to perpetual capital security holders	4.3
Profit for the year attributable to perpetual capital security holders	16.0
At 31 March 2015	294.8
Distributions to perpetual capital security holders	(20.3)
Current tax relief on distributions to perpetual capital security holders	4.1
Profit for the year attributable to perpetual capital security holders	16.2
At 31 March 2016	**294.8**

On 8 March 2013 the Company issued £300 million perpetual capital securities. Costs directly associated with the issue of £5.2 million are set off against the value of the issuance. They have no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these securities at their principal amount on 8 March 2018 or any subsequent periodic return payment date after this.

The Company has the option to defer periodic returns on any relevant payment date, as long as a dividend on the ordinary shares has not been paid or declared in the previous 12 months. Deferred periodic returns shall be satisfied only on redemption or payment of dividend on ordinary shares, all of which only occur at the sole discretion of the Company.

As the Company paid a dividend in the 12 months prior to the periodic return date of 8 March 2016, a periodic return of £20.3 million was paid during the year.

38. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Reconciliation of profit for the year to cash generated from operations:

CASH GENERATED FROM OPERATIONS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Continuing operations				
Profit for the year	**168.3**	142.3	**107.6**	316.1
Adjustments for:				
Share-based payments	**2.8**	3.5	**0.8**	1.0
Profit on disposal of property, plant and equipment	**(4.3)**	(3.7)	**–**	–
Depreciation charge	**182.9**	161.7	**0.1**	0.1
Amortisation of intangible assets	**3.7**	2.7	**–**	–
Non-underlying impairment of property, plant and equipment	**–**	24.3	**–**	–
Non-underlying provision charge	**10.2**	4.3	**–**	–
Non-underlying movement in derivatives	**(5.2)**	–	**–**	–
Non-underlying defined benefit pension credit	**–**	(14.9)	**–**	(1.2)
Share of post-tax profit from joint ventures	**(3.6)**	(4.9)	**–**	–
Finance income	**(42.1)**	(44.0)	**(52.3)**	(51.0)
Finance costs	**96.2**	84.8	**37.2**	35.6
Dividends receivable	**–**	–	**(140.7)**	(311.6)
Taxation charge	**38.0**	54.7	**44.9**	11.7
Changes in working capital:				
Increase in inventories	**(5.5)**	(2.9)	**–**	–
Decrease/(increase) in trade and other receivables	**10.5**	(17.1)	**(37.4)**	(101.6)
Increase in service concession arrangements receivable	**(15.6)**	(71.9)	**–**	–
(Decrease)/increase in trade and other payables	**(27.0)**	5.7	**0.3**	(1.2)
Decrease in retirement benefit obligations from contributions	**(21.2)**	(9.6)	**(2.2)**	(1.7)
Decrease in provisions	**(16.8)**	(4.1)	**–**	–
Cash generated/ (outflow) from operations	**371.3**	310.9	**(41.7)**	(103.8)

Reconciliation of total interest paid:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Interest paid in operating activities	**79.1**	62.0	**35.3**	34.7
Interest paid in investing activities	**9.4**	22.5	**–**	–
Total interest paid	**88.5**	84.5	**35.3**	34.7

39. NET BORROWINGS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash deposits	**632.2**	771.0	**429.7**	532.5
Borrowings – current				
Other current borrowings	**(39.0)**	(82.0)	**–**	(50.7)
Finance lease obligations	**(26.0)**	(31.6)	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**(287.2)**	(283.2)
Total current borrowings	**(65.0)**	(113.6)	**(287.2)**	(333.9)
Borrowings – non-current				
Bank and other loans	**(1,502.5)**	(1,277.2)	**(877.1)**	(885.4)
Other non-current borrowings	**(234.5)**	(273.2)	**–**	–
Finance lease obligations	**(1,314.6)**	(1,304.1)	**–**	–
Total non-current borrowings	**(3,051.6)**	(2,854.5)	**(877.1)**	(885.4)
Total net borrowings	**(2,484.4)**	(2,197.1)	**(734.6)**	(686.8)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

40. SUBSIDIARY, JOINT VENTURE AND ASSOCIATE UNDERTAKINGS AT 31 MARCH 2016

Principal subsidiary companies	Country of incorporation, registration and principal operations
Water	
South West Water Limited*	England
South West Water Finance Plc	England
Source Contact Management Limited	England
Bournemouth Water Investments Limited*	England
Bournemouth Water Limited	England
Pennon Water Services Limited*	England
Waste management	
Viridor Limited*	England
Viridor Waste Limited	England
Viridor Waste Exeter Limited	England
Viridor Waste Suffolk Limited	England
Viridor Waste (West Sussex) Limited	England
Viridor Waste Management Limited	England
Viridor EnviroScot Limited	Scotland
Viridor Resource Management Limited	England
Viridor Waste Kent Limited	England
Viridor Oxfordshire Limited	England
Viridor EfW (Runcorn) Limited	England
Viridor Waste (Landfill Restoration) Limited	England
Viridor Waste (Somerset) Limited	England
Viridor Waste (Thames) Limited	England
Viridor Waste (Greater Manchester) Limited	England
Viridor Polymer Recycling Limited	England
Viridor Trident Park Limited	England
Viridor (Glasgow) Limited	Scotland
Viridor (Lancashire) Limited	England
Viridor Peterborough Limited	England
Viridor South London Limited	England
Viridor Clyde Valley Limited	Scotland
Other	
Peninsula Insurance Limited*(1)	Guernsey

Other trading companies	Country of incorporation
Alderney Water Limited	England
Aquacare (BWH) Limited	England
Avon Valley Water Limited	England
BWH Enterprises Limited	England
Dragon Waste Limited (81%)	England
Peninsula Leasing Limited*	England
Peninsula Properties (Exeter) Limited	England
Peninsula Trustees Limited*	England
Pennon Defined Contribution Pension Trustee Limited*	England
Pennon Pension Trustees Limited*	England
Pennon Share Plans (Guernsey) Limited*	Guernsey
Pennon Share Schemes Trustees Limited*	England
Pennon Trustee Limited*	England
Raikes Lane Limited	England
Source Collections Limited	England
Source for Business Limited	England
Viridor Waste (Somerset) Pension Scheme & Life Assurance Limited	England
West Hampshire Water Limited	England

Other dormant companies	Country of incorporation
A.A. Best & Sons Limited	Scotland
Acetip	England
Albion Water (Shotton) Limited	England
Analaq Limited*	England
Astley Minerals Limited	England
Basecall Limited	England
Centre for Environmental Research Limited	England
City Reclamation Services Limited	England
Corby Skip Hire Limited	England
DMP (Holdings) Limited*	England
ELE Datasystems	England
Exe Continental	England
Greater Manchester Sites Limited	England
Greenhill Environmental Limited*	England
Handside Limited	England
Haul Waste Limited*	England
Hodgejoy Recycling Limited	England
Industrial Waste Disposals (Sheffield) Limited	England
Lavelle & Sons Limited	England
Mac-Glass Recycling Limited	Scotland
Oakley Recycling Limited	England
Oakley Skip Hire Limited	England
Parkwood Environmental Limited	England
Parkwood Group Limited	England
Parkwood Recycling Limited	England
Pearsons Group Holdings Limited	England
Peninsula	England

Other dormant companies	Country of incorporation
Peninsula Water Limited*	England
Pennon Power Limited*	England
Pennon South West Limited*	England
Pennon Waste Management Limited*	England
pHOX Systems Limited	England
Pilsworth Forest (1996) Limited	England
Pilsworth Forest Limited	England
Roseland Plant Co. Limited	England
Rydon Properties Limited	England
Seal Security Systems Limited*	England
Sheffield Waste Disposal Company Limited	England
Shore Recycling (Ozone) Limited	England
SWW Pension Trustees Limited*	England
Thames Incineration and Recycling Limited	England
Thames Incineration Services Limited	England
Thames Tankering Services Limited	England
Thames Waste Limited	England
The Metropolitan Water Company Limited	England
Tokenmarch Limited	England
Viridor (Cheshire) Limited	England
Viridor (Community Recycling MK) Limited	England
Viridor (Community Recycling MKH) Limited	England
Viridor (Erith) Limited	England
Viridor (Martock) Limited	England
Viridor (Winsford) Limited	England
Viridor Contracting Limited	England
Viridor Electrical Recycling (Holdings) Limited	Scotland
Viridor Electrical Recycling Limited	Scotland
Viridor Enterprises Limited*	England

Other dormant companies	Country of incorporation
Viridor Glass Recycling Limited	England
Viridor London Recycling Limited	England
Viridor New England (EfW) Limited	England
Viridor Resource (Peterborough) Limited	England
Viridor Resource Transport Limited	England
Viridor South Lanarkshire Limited	Scotland
Viridor South West Limited*	England
Viridor Waste (Adapt) Limited	England
Viridor Waste (Allwaste Disposal) Limited	England
Viridor Waste (Atherton) Holdings Limited	England
Viridor Waste (Atherton) Limited	England
Viridor Waste (Bristol Holdings) Limited	England
Viridor Waste (Bristol) Limited	England
Viridor Waste (Bury) Limited	England
Viridor Waste (Corby) Limited	England
Viridor Waste (Earls Barton) Limited	England
Viridor Waste (East Anglia) Limited	England
Viridor Waste (Medway Holdings) Limited	England
Viridor Waste (Medway) Limited	England
Viridor Waste (Sheffield) Limited	England
Viridor Waste (Thetford) Limited	England
Viridor Waste (Wastenot Recycling) Limited	England
Viridor Waste 2 Limited*	England
Viridor Waste Disposal Limited	England
Viridor Waste Hampshire Limited	England
Viridor Waste Wootton Limited	England
VWM (Scotland) Limited	Scotland
Waste Treatment Limited	England
Water West Limited*	England

* Indicates the shares are held directly by Pennon Group Plc, the Company.
(1) Captive insurance company established with the specific objective of financing risks emanating from within the Group.

The subsidiary undertakings are wholly owned unless stated otherwise and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

Interests in unconsolidated structured entities

The Company holds 75% of the ordinary share capital of Peninsula MB Limited, a company which raises funds through the issuance of debt instruments and third party lending, but does not control the company since it does not have the power to affect returns. Consequently the company has not been consolidated into the Pennon Group.

Pennon Group Plc has borrowed a £200 million floating interest rate-linked loan from Peninsula MB Limited and is owed a fixed rate £200 million obligation from Peninsula MB Limited.

Joint ventures and associate

All joint ventures, the associate and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited, Viridor Laing (Greater Manchester) Holdings Limited, INEOS Runcorn (TPS) Holdings Limited and Shelford Composting Limited are incorporated and registered in England which is also their country of operation.

	Share capital in issue	Percentage held	Principal activity
Joint ventures			
Lakeside Energy from Waste Holdings Limited	1,000,000 A ordinary shares	–	
	1,000,000 B ordinary shares	100%	
Lakeside Energy from Waste Limited			Waste management
Shares in Lakeside Energy from Waste Holdings Limited are held by Viridor Waste Management Limited.			
Viridor Laing (Greater Manchester) Holdings Limited	12,000 ordinary shares	50%	
Viridor Laing (Greater Manchester) Limited			Waste management
Shares in Viridor Laing (Greater Manchester) Holdings Limited are held by Viridor Waste Management Limited.			
Shelford Composting Limited	50 A ordinary shares	–	
	50 B ordinary shares	100%	Waste management
Associate			
INEOS Runcorn (TPS) Holdings Limited	1,000 A ordinary shares	20%	
	186,750 B1 ordinary shares	50%	
	62,250 B2 ordinary shares	–	
INEOS Runcorn (TPS) Limited			Waste management
Shares in INEOS Runcorn (TPS) Holdings Limited are held by Viridor Waste Management Limited.			
The Group's economic interest in INEOS Runcorn (TPS) Holdings Limited is 37.5%, as returns from the investment are based on holdings of B1 and B2 ordinary shares.			

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

41. OPERATING LEASE COMMITMENTS

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
The future aggregate minimum lease payments under non-cancellable operating leases are:				
Within 1 year	**10.7**	11.0	**–**	–
Over 1 year and less than 5 years	**29.2**	32.0	**–**	–
Over 5 years	**80.0**	82.4	**–**	–
	119.9	125.4	**–**	–

The Group leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Property leases are negotiated for an average term of 42 years and rentals are reviewed on average at five-yearly intervals.

The Group also leases plant and machinery under non-cancellable operating lease agreements.

42. CONTINGENT LIABILITIES

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Guarantees:				
Borrowing facilities of subsidiary undertakings	**–**	–	**421.1**	386.6
Performance bonds	**159.7**	169.8	**159.7**	169.8
Other	**4.0**	4.0	**4.0**	4.0
	163.7	173.8	**584.8**	560.4

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

Other contingent liabilities relate to a possible obligation to pay further consideration in respect of a previously acquired business when the outcome of planning applications is known.

In connection with the application of the audit exemption under Section 479A of the Companies Act 2006 the Company has guaranteed all the outstanding liabilities as at 31 March 2016 of certain of its subsidiaries: Peninsula Leasing Limited, Pennon Power Limited, Exe Continental and Viridor Waste 2 Limited since these companies qualify for the exemption.

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Significant management judgement is required to estimate the tax provisions relating to uncertain tax items that remain to be agreed with HMRC. It is reasonably possible that the outcomes and settlements may differ from the estimated current tax liabilities shown in the consolidated balance sheet.

Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of the open matters, the final outcome may vary significantly. Whilst a range of outcomes is reasonably possible, the extent of the range is additional liabilities of up to £20 million to a reduction in liabilities of up to £52 million. Any such variations will affect the tax financial results in the year in which such a determination is made.

In addition to provisions established for uncertain items, the Group has paid in full the tax HMRC interpret as due, and therefore would benefit by up to £70 million should such tax positions be concluded in the Group's favour.

43. CAPITAL COMMITMENTS

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Contracted but not provided	**374.4**	350.3	**–**	–

44. ACQUISITIONS

On 15 April 2015 Pennon Group Plc acquired 100% of the issued share capital of Sembcorp Bournemouth Water Investments Limited (renamed 'Bournemouth Water Investments Limited') including its non-regulated subsidiaries from Sembcorp Holdings Limited for a cash consideration of £100.3 million. Sembcorp Bournemouth Water Investments Limited is the holding company for Sembcorp Bournemouth Water Limited (renamed 'Bournemouth Water Limited').

The acquisition was in line with the Group's strategy to increase shareholder returns from the anticipated future synergies and outperformance arising from the merger into South West Water.

The acquisition has been accounted for using the acquisition method. Goodwill of £42.3m million has been capitalised attributable to the anticipated future synergies and outperformance arising from the merger into South West Water.

On 1 June 2015 Viridor Waste Management Limited acquired Commercial Recycling Limited's waste collection division in Dorset and Somerset for an initial £4.5 million. An additional payment of up to £1.0 million could be made in the future depending upon certain performance-related criteria. The acquisition has been accounted for using the acquisition method.

Goodwill of £3.4 million has been capitalised attributable to the profitability of the acquired business.

No amount of goodwill related to these acquisitions is expected to be deductible for tax purposes.

The residual excesses over the net assets acquired in each business combination has been recognised as goodwill.

	Bournemouth Water Investments Limited £m	Waste Collection Division £m
Fair values on acquisition		
Intangible assets	2.3	1.6
Property, plant and equipment	228.5	0.5
Inventories	0.1	–
Trade and other receivables	23.8	–
Cash and cash deposits	13.8	–
Retirement benefit surplus	1.9	–
Borrowings	(160.2)	–
Trade and other payables	(19.7)	–
Other liabilities	(0.5)	–
Taxation - current	(2.7)	–
Deferred tax liabilities	(24.8)	–
Provisions	(0.2)	–
Net assets acquired	62.3	2.1
Goodwill	42.3	3.4
Total consideration	104.6	5.5
Satisfied by:		
Cash	100.3	4.5
Transfer of amounts due to Bournemouth Water Investments Limited	4.3	–
Deferred consideration	–	1.0
	104.6	5.5
Net cash outflow arising on acquisition:		
Cash consideration	100.3	4.5
Cash and cash deposits acquired	(13.8)	–
	86.5	4.5
Revenue for the period since acquisition to 31 March 2016	41.9	4.6
Profit before tax for the period since acquisition to 31 March 2016	6.0	0.7
Directly attributable costs included in other operating expenses	2.9	0.2

The fair value of trade and other receivables in Bournemouth Water Investments Limited on acquisition was £23.8 million. This included gross contracted amounts receivable of £21.8 million, of which cash flows of £1.0 million were not expected to be collected.

	£m
Goodwill movement	
At 1 April 2015	339.3
Acquisition of Bournemouth Water Investments Limited	42.3
Acquisition of the waste collection division of Commercial Recycling Limited	3.4
At 31 March 2016	**385.0**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

45. POST BALANCE SHEET EVENTS

On 1 April 2016 the Company sold the entire share capital of Bournemouth Water Investments Limited to South West Water Limited for £104 million. The consideration was satisfied through Pennon Group Plc subscribing for an additional £100 million of new share capital in South West Water Limited and transferring a £4 million loan due to Bournemouth Water Limited to South West Water Limited.

46. RELATED PARTY TRANSACTIONS

During the year Group companies entered into the following transactions with joint ventures and associate related parties who are not members of the Group:

	2016 £m	2015 £m
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	**87.3**	99.0
INEOS Runcorn (TPS) Limited	**18.5**	5.6
Purchase of goods and services		
Viridor Laing (Greater Manchester) Limited	**0.3**	–
Lakeside Energy from Waste Limited	**12.1**	12.6
INEOS Runcorn (TPS) Limited	**4.3**	1.1
Dividends received		
Lakeside Energy from Waste Holdings Limited	**6.0**	6.0

Year-end balances

	2016 £m	2015 £m
Receivables due from related parties		
Viridor Laing (Greater Manchester) Limited (loan balance)	**36.8**	57.2
Lakeside Energy from Waste Limited (loan balance)	**8.9**	9.3
INEOS Runcorn (TPS) Limited (loan balance)	**35.5**	31.4
	81.2	97.9
Viridor Laing (Greater Manchester) Limited (trading balance)	**11.3**	12.8
Lakeside Energy from Waste Limited (trading balance)	**1.0**	1.0
INEOS Runcorn (TPS) Limited (trading balance)	**2.7**	5.6
	15.0	19.4
Payables due to related parties		
Lakeside Energy for Waste Limited (trading balance)	**2.3**	1.1
INEOS Runcorn (TPS) Limited (trading balance)	**1.6**	0.1
	3.9	1.2

The £81.2 million (2015 £97.9 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2016 and 2033. Interest is charged at an average of 13.0% (2015 13.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

	2016 £m	2015 £m
Sales of goods and services (management fees)	**10.5**	9.5
Purchase of goods and services (support services)	**0.4**	0.5
Interest receivable	**38.6**	35.6
Interest payable	**0.1**	0.1
Dividends received	**140.7**	311.6

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions which would also be available to unrelated third parties.

Year-end balances

	2016 £m	2015 £m
Receivables due from subsidiary undertakings		
Loans	**965.6**	936.6
Trading balances	**8.6**	8.5

Interest on £70.0 million of the loans has been charged at a fixed rate of 4.5%, on £373.6 million at a fixed rate of 5.0%, on £28.0 million at a fixed rate of 6.0% and on £0.5 million at a fixed rate of 1.4% (2015 £70.5 million at 4.5%, nil at 5.0%, £332.5 million at 6.0% and £0.5 million at 1.4%). Interest on £443.5 million of the loans is charged at 12 month LIBOR +1.0% (2015 £403.1 million). These loans are due for repayment in instalments over the period 2016 to 2043.

Interest on £50.0 million of the loans has been charged at 1 month LIBOR + 1.0% (2015 £130.0 million). This loan is expected to be repaid in 2016/17.

During the year there were no provisions (2015 nil) in respect of loans to subsidiaries not expected to be repaid.

	2016 £m	2015 £m
Payables due to subsidiary undertakings		
Loans	**287.2**	283.2
Trading balances	**14.6**	14.6

The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.