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

Opinion on financial statements of Severn Trent plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated income statement;
- the Consolidated and Company statements of comprehensive income;
- the Consolidated and Company balance sheets;
- the Consolidated cash flow statement;
- the Consolidated and Company statements of changes in equity; and
- the related Notes to the group financial statements 1 to 48 and the related Notes to the parent company financial statements 1 to 17.

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

Summary of our audit approach	
Key risks	The key risks that we identified in the current year were: • Determination of the provision for impairment of trade receivables in Severn Trent Water Limited; • Revenue recognition risk in relation to the estimation of metered unbilled revenue in Severn Trent Water Limited; • Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited; • Determining the amount of the group's retirement benefit obligations; and • Determination of current and deferred tax balances.
Materiality	The materiality that we used in the current year was £18 million (2016: £18 million) which was determined on the basis of profit before tax, losses/gains on financial instruments and exceptional items.
Scoping	Our audit scoping has resulted in over 90% of the group's net operating assets and profit before tax, gains/losses on financial instruments and exceptional items being subject to audit testing.
Significant changes in our approach	Changes to our scoping approach include: • Audit of the newly incorporated joint venture, Water Plus Limited • Audit of the acquisition balance sheet of Dee Valley Group plc

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

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 49.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 50 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 50 to 55 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 49 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

There have been no changes to the risks identified in the prior year.

Determination of the provision for impairment of trade receivables in Severn Trent Water Limited (£125.4 million (note 22)	
Risk description	A proportion of Severn Trent Water Limited's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management makes estimates regarding future cash collection when calculating the bad debt provision. Provisions are made against Severn Trent Water Limited's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories. The risk has been focussed on the determination of the ageing of the trade receivables balance as this determines the level of provisioning to be recorded. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	We reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in Severn Trent Water Limited in the year using data analytics to understand the collection of previously aged trade receivables and to recompute the ageing analysis. We evaluated the design and implementation of key management review controls and those relating to the production of the data used in the bad debt model.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivable are appropriate and no additional provision was identified from the audit work performed.

Revenue recognition risk in relation to the estimation of unbilled metered revenue in Severn Trent Water Limited (£113.4 million of the £143 million in Severn Trent Water Limited) (note 22)	
Risk description	For water and waste water customers with water meters, the amount of unbilled revenue recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. There is a risk that these estimates are incorrect. The risk has been focussed on the usage estimate, because this is based on historical data and assumptions around consumption patterns upon which management then recognises unbilled revenue. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	We used data analytics to recompute the total level of unbilled revenue for the current year in Severn Trent Water Limited as well as evaluating the design and implementation of key management review controls and those relating to the key data inputs to the model. In addition, we challenged the validity of management's estimate of current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques.
Key observations	We are satisfied that management's assumptions around the recognition of unbilled revenue are appropriate.

Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited (note 19)	
Risk description	Severn Trent Water Limited has a substantial capital programme (property, plant and equipment additions in the year were £466.4 million) which has been agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year (£136.2 million) in which it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the risk has been focused on the allocation of costs between capital and operating expenditure as this process is inherently judgemental. Whilst under AMP 6, total expenditure, or 'Totex', is a key driver of regulatory performance rather than capital expenditure which was monitored under AMP 5, the accounting distinction between operating and capital expenditure remains, and therefore it is important that capital project expenditure is accounted for correctly in accordance with International Financial Reporting Standards. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a critical judgement in note 5 to the financial statements.
How the scope of our audit responded to the risk	We assessed the group's capitalisation policy to determine compliance with relevant accounting standards and evaluated the design and implementation and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the group's capital programme during the year. This includes consideration of the allocation of costs between capital and operating expenditure. In addition, for a sample of capital projects, we assessed the application of the capitalisation policy to the costs incurred by understanding the initial business case for the project and ensuring that it had been approved by the relevant capital programme board. We also agreed a sample of costs to third party invoices and assessed whether the split between capital and operating expenditure split is aligned to the original approved business plan.
Key observations	Based on our audit of a sample of capital projects, and our review of the project budgets, we consider that the classification of costs between operating and capital expenditure is appropriate.

Determining the amount of the group's retirement benefit obligations (£574.6 million net deficit) (note 29)	
Risk description	This is an area involving significant estimation because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning the discount rate, inflation and pension increases, along with investment returns and the longevity of current pensioners in order to determine the value of the scheme's liabilities. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	We evaluated the design and implementation of key controls and with support from the pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 29, specifically challenging the change in methodology in calculating the discount rate, inflation rate and mortality assumptions with reference to comparable market and other third party data.
Key observations	We are satisfied that management's assumptions in the valuation of the retirement benefit obligation, including discount rates are appropriate and within a reasonable range.

Determination of current and deferred tax balances (£7.1 million charge) (note 14)	
Risk description	The group has entered into a number of one-off transactions during the year, which involve complex tax accounting considerations. The risk has been focused on the tax accounting consequences for these one-off transactions, specifically in relation to the acquisition of Dee Valley Group plc and the asset-backed funding structure for the group's pension scheme. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a critical judgement in note 5 to the financial statements.
How the scope of our audit responded to the risk	We evaluated the design and implementation of key controls and with support from the tax specialists within our audit team, using our technical expertise, we have assessed the tax accounting consequences for the one-off transactions in order to test whether the tax outcome is appropriate and the accounting is in compliance with IAS 12 Income taxes.
Key observations	We are satisfied that the tax outcome is appropriate and the accounting for tax related to the one-off transactions is in compliance with IAS 12 Income taxes.

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

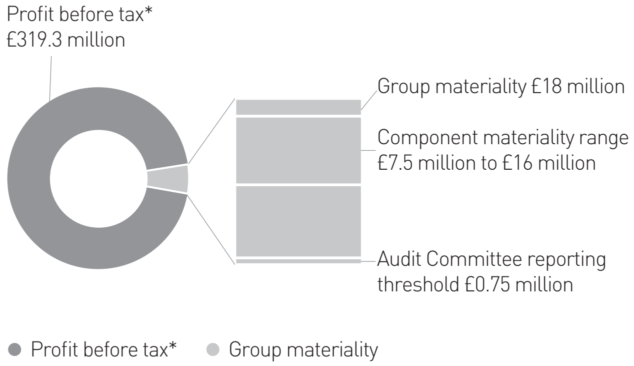
Independent auditor's report to the members of Severn Trent Plc continued

Our application of materiality

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

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

Group materiality	£18 million (2016: £18 million)
Basis for determining materiality	Approximately 6% (2016: approximately 6%) of profit before tax, losses/gains on financial instruments and exceptional items.
Rationale for the benchmark applied	As in 2016, profit before tax, losses/gains on financial instruments and exceptional items has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting.



* Represents profit before tax, losses/gains on financial instruments and exceptional items.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2016: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Based on that assessment, we focused our group audit scope on the consolidation at the parent company level and the group's two business segments being Regulated Water and Waste Water and Business Services.

Regulated Water and Waste Water

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited which was subject to a full statutory audit using component materiality of £15 million (2016: £15 million) and accounts for over 90% (2016: over 90%) of the group's net operating assets and operating profit. The group audit team performs the audit of Severn Trent Water Limited without the involvement of a component audit team. The audit procedures on Dee Valley Group plc were focussed on performing an audit on the acquisition balance sheet and analytical reviews on the income statement from acquisition date to the year end to component materiality of £7.5 million.

Business Services

The extent of our testing on the Business Services segment was based on our assessment of the risks of material misstatement and the materiality of the segment's global business operations, principally in the UK and the US. These components were subject to full audit scopes. The materiality of each component is lower than that of the group, with materiality of £9 million (2016: £9 million) applied to each of the US and UK components.

Parent company and consolidation

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The audit of Water Plus Limited, the joint venture incorporated during the year, was performed by component auditors to a materiality of £9 million.

The group audit team follows a programme of planned visits to the auditors of each of the significant components of the group not audited by the group team. In years when we do not visit a significant component, we will include the component audit team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

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

Kari Hale, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

22 May 2017

Consolidated income statement

For the year ended 31 March 2017

	Notes	2017 £m	2016 (restated) £m
Turnover	6, 7	**1,819.2**	1,753.7
Operating costs before exceptional items	8	**(1,294.1)**	(1,250.3)
Exceptional items	9	**18.6**	1.0
Total operating costs		**(1,275.5)**	(1,249.3)
Profit before interest, tax and exceptional items	6	**525.1**	503.4
Exceptional items	9	**18.6**	1.0
Profit before interest and tax		**543.7**	504.4
Finance income	11	**73.3**	73.1
Finance costs	12	**(277.3)**	(282.4)
Net finance costs		**(204.0)**	(209.3)
Net (losses)/gains on financial instruments	13	**(1.8)**	7.7
Share of net (loss)/profit of joint venture accounted for using the equity method	20	**(1.8)**	0.1
Profit on ordinary activities before taxation		**336.1**	302.9
Current tax	14	**(36.9)**	(51.3)
Deferred tax	14	**(22.4)**	(13.7)
Exceptional tax	14	**52.2**	78.6
Taxation on profit on ordinary activities	14	**(7.1)**	13.6
Profit for the year from continuing operations		**329.0**	316.5
Profit for the year from discontinued operations	40	**13.6**	14.8
Profit for the year		**342.6**	331.3
Attributable to:			
Owners of the Company		**342.8**	330.0
Non-controlling interests		**(0.2)**	1.3
		342.6	331.3

Earnings per share

		2017 pence	2016 (restated) pence
From continuing operations			
Basic	16	**140.1**	133.5
Diluted	16	**139.5**	132.8
From continuing and discontinued operations			
Basic	16	**145.9**	139.8
Diluted	16	**145.3**	139.1

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	2017 £m	2016 £m
Profit for the year	**342.6**	331.3
Other comprehensive (loss)/income		
Items that will not be reclassified to the income statement:		
Net actuarial (loss)/gain	**(311.2)**	148.3
Tax on net actuarial loss/gain	**56.3**	(26.7)
Deferred tax arising on change of rate	**(3.1)**	(9.6)
	(258.0)	112.0
Items that may be reclassified to the income statement:		
Losses on cash flow hedges	**(8.0)**	(2.7)
Deferred tax on losses on cash flow hedges	**1.3**	0.4
Amounts on cash flow hedges transferred to the income statement	**2.9**	12.2
Deferred tax on transfer to the income statement	**(0.4)**	(2.2)
Exchange movement on translation of overseas results and net assets	**5.2**	(1.1)
Cumulative exchange (gains)/losses taken to the income statement	**(2.8)**	11.7
	(1.8)	18.3
Other comprehensive (loss)/income for the year	**(259.8)**	130.3
Total comprehensive income for the year	**82.8**	461.6
Attributable to:		
Owners of the company	**83.1**	460.2
Non-controlling interests	**(0.3)**	1.4
	82.8	461.6

Consolidated statement of changes in equity

For the year ended 31 March 2017

	Equity attributable to owners of the company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 April 2015	233.7	100.2	98.2	323.5	755.6	13.4	769.0
Profit for the year	–	–	–	330.0	330.0	1.3	331.3
Losses on cash flow hedges	–	–	(2.7)	–	(2.7)	–	(2.7)
Deferred tax on losses on cash flow hedges	–	–	0.4	–	0.4	–	0.4
Amounts on cash flow hedges transferred to the income statement	–	–	12.2	–	12.2	–	12.2
Deferred tax on transfer to the income statement	–	–	(2.2)	–	(2.2)	–	(2.2)
Exchange movement on translation of overseas results and net assets	–	–	(1.2)	–	(1.2)	0.1	(1.1)
Cumulative exchange losses transferred to income statement	–	–	11.7	–	11.7	–	11.7
Net actuarial gains	–	–	–	148.3	148.3	–	148.3
Tax on net actuarial gains	–	–	–	(26.7)	(26.7)	–	(26.7)
Deferred tax arising from rate change	–	–	–	(9.6)	(9.6)	–	(9.6)
Total comprehensive income for the year	–	–	18.2	442.0	460.2	1.4	461.6
Share options and LTIPs							
– proceeds from shares issued	0.7	6.6	–	–	7.3	–	7.3
– value of employees' services	–	–	–	5.2	5.2	–	5.2
– own shares purchased	–	–	–	(4.6)	(4.6)	–	(4.6)
Current tax on share based payments	–	–	–	1.2	1.2	–	1.2
Deferred tax on share based payments	–	–	–	(0.5)	(0.5)	–	(0.5)
Share buy back	–	–	–	(10.0)	(10.0)	–	(10.0)
Share cancellation	(0.1)	–	0.1	–	–	–	–
Disposal of non-controlling interest	–	–	–	–	–	(13.7)	(13.7)
Dividends paid	–	–	–	(197.0)	(197.0)	–	(197.0)
As at 31 March 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5
Profit for the year	–	–	–	342.8	342.8	(0.2)	342.6
Losses on cash flow hedges	–	–	(8.0)	–	(8.0)	–	(8.0)
Deferred tax on losses on cash flow hedges	–	–	1.3	–	1.3	–	1.3
Amounts on cash flow hedges transferred to the income statement	–	–	2.9	–	2.9	–	2.9
Deferred tax on transfer to the income statement	–	–	(0.4)	–	(0.4)	–	(0.4)
Exchange movement on translation of overseas results and net assets	–	–	5.3	–	5.3	(0.1)	5.2
Cumulative exchange gains transferred to income statement	–	–	(2.8)	–	(2.8)	–	(2.8)
Net actuarial losses	–	–	–	(311.2)	(311.2)	–	(311.2)
Tax on net actuarial losses	–	–	–	56.3	56.3	–	56.3
Deferred tax arising from rate change	–	–	–	(3.1)	(3.1)	–	(3.1)
Transfer net of deferred tax	–	–	7.0	(7.0)	–	–	–
Total comprehensive income for the year	–	–	5.3	77.8	83.1	(0.3)	82.8
Share options and LTIPs							
– proceeds from shares issued	0.4	5.7	–	–	6.1	–	6.1
– value of employees' services	–	–	–	6.2	6.2	–	6.2
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Deferred tax on share based payments	–	–	–	0.1	0.1	–	0.1
Disposal of non-controlling interest	–	–	–	–	–	(0.8)	(0.8)
Dividends paid	–	–	–	(190.4)	(190.4)	–	(190.4)
As at 31 March 2017	**234.7**	**112.5**	**121.8**	**454.3**	**923.3**	**–**	**923.3**

Consolidated balance sheet

At 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Goodwill	17	**81.0**	14.8
Other intangible assets	18	**80.9**	72.2
Property, plant and equipment	19	**8,116.4**	7,718.6
Investments in joint ventures and associates	20	**37.4**	5.1
Derivative financial instruments	21	**67.0**	40.2
Trade and other receivables	22	**58.1**	49.6
Retirement benefit surplus	29	**9.8**	–
Available for sale financial assets		**–**	0.1
		8,450.6	7,900.6
Current assets			
Inventory		**16.2**	21.0
Trade and other receivables	22	**517.8**	467.0
Current tax receivable		**7.3**	–
Derivative financial instruments	21	**–**	0.7
Cash and cash equivalents	23	**44.6**	55.2
		585.9	543.9
Total assets		**9,036.5**	8,444.5
Current liabilities			
Borrowings	24	**(559.4)**	(280.6)
Derivative financial instruments	26	**(0.6)**	(1.1)
Trade and other payables	27	**(451.9)**	(454.1)
Current tax payable		**–**	(11.1)
Provisions for liabilities and charges	30	**(17.5)**	(12.3)
		(1,029.4)	(759.2)
Non-current liabilities			
Borrowings	24	**(4,719.6)**	(4,626.1)
Derivative financial instruments	26	**(184.1)**	(178.0)
Trade and other payables	27	**(955.7)**	(870.8)
Deferred tax	28	**(623.7)**	(664.7)
Retirement benefit obligations	29	**(584.4)**	(309.5)
Provisions for liabilities and charges	30	**(16.3)**	(17.7)
		(7,083.8)	(6,666.8)
Total liabilities		**(8,113.2)**	(7,426.0)
Net assets		**923.3**	1,018.5
Equity			
Called up share capital	31	**234.7**	234.3
Share premium account	32	**112.5**	106.8
Other reserves	33	**121.8**	116.5
Retained earnings		**454.3**	559.8
Equity attributable to owners of the company		**923.3**	1,017.4
Non-controlling interests		**–**	1.1
Total equity		**923.3**	1,018.5

Signed on behalf of the Board who approved the accounts on 22 May 2017.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number: 02366619

Consolidated cash flow statement

For the year ended 31 March 2017

		2017 £m	2016 £m
Cash generated from operations	42	**851.0**	797.5
Tax received	42	**20.6**	11.5
Tax paid	42	**(42.4)**	(44.9)
Net cash generated from operating activities		**829.2**	764.1
Purchases of property, plant and equipment		**(519.2)**	(431.4)
Purchases of intangible assets and goodwill		**(29.1)**	(24.3)
Contributions and grants received		**39.5**	34.9
Proceeds on disposal of property, plant and equipment		**7.5**	10.8
Purchases of subsidiary, net of cash acquired		**(77.7)**	–
Proceeds on disposal of subsidiaries and other businesses net of cash disposed		**5.1**	45.7
Investment in joint ventures and associates		**(13.5)**	–
Cash flows from transfer of business to joint venture		**(10.8)**	–
Net loans advanced to joint ventures and associates		**(109.0)**	–
Proceeds on maturity of forward contract		**4.3**	–
Interest received		**1.4**	5.3
Net cash flow from investing activities		**(701.5)**	(359.0)
Interest paid		**(172.6)**	(188.1)
Interest element of finance lease payments		**(5.8)**	(6.8)
Dividends paid to shareholders of the parent		**(190.4)**	(197.0)
Repayments of borrowings		**(276.2)**	(924.6)
Repayments of obligations under finance leases		**(1.5)**	(62.8)
New loans raised		**498.0**	926.7
Issues of shares		**6.1**	7.3
Share buy back		**–**	(92.5)
Purchase of own shares		**–**	(4.6)
Net cash flow from financing activities		**(142.4)**	(542.4)
Net movement in cash and cash equivalents		**(14.7)**	(137.3)
Net cash and cash equivalents at the beginning of the year		**55.2**	196.0
Effect of foreign exchange rates		**4.1**	(3.5)
Net cash and cash equivalents at end of the year		**44.6**	55.2
Cash and cash equivalents		**25.8**	23.4
Short term deposits		**18.8**	31.8
Net cash and cash equivalents at end of the year		**44.6**	55.2

Notes to the group financial statements

For the year ended 31 March 2017

1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 6.

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

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the group and the parent company have been prepared on the going concern basis (see strategic report on page 49) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value.

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2017.

(ii) Parent company financial statements

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

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

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

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

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

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

(iii) Prior year restatement

Prior year figures in the consolidated income statement and related notes have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details, see note 40.

b) Basis of consolidation

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

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

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

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

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

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

c) Revenue recognition

Revenue includes turnover and interest income.

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

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

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

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

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

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

d) Exceptional items

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

e) Taxation

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

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

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

f) Goodwill

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

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

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

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

g) Other intangible non-current assets

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

	Years
Software	3 – 10
Other assets	2 – 20

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

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

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

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

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

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

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

i) Property, plant and equipment

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

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

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

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

2 Accounting policies continued

i) Property, plant and equipment continued

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

The estimated useful lives are:

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

j) Leased assets

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

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

k) Grants and contributions

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

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

l) Impairment of non-current assets

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

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

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

Impairments are recognised in the income statement.

m) Parent company investments

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

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

n) Loans receivable

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

o) Trade receivables

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

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

p) Service concession agreements

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

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

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

q) Retirement benefits

(i) Defined benefit schemes

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

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

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

Changes in the retirement benefit obligation that arise from:

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

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

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

(ii) Defined contribution scheme

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

r) Provisions

Provisions are recognised where:

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

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

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

s) Purchase of own shares

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

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

t) Borrowings

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

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

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

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

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 35 a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

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

Derivatives not designated as hedging instruments

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

Derivatives designated as hedging instruments

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

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

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

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

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

2 Accounting policies continued

u) Derivative financial instruments continued

Fair value hedges

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

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

Cash flow hedges

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

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

Embedded derivatives

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

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

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

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

v) Share based payments

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

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

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

w) Cash flow statement

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

Net cash and cash equivalents include overdrafts repayable on demand.

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

x) Net debt

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

y) Foreign currency

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

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

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

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

y) Foreign currency continued

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

z) Discontinued operations and assets held for sale

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

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

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

then the component is classified as a discontinued operation.

3 Alternative performance measures

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

a) Exceptional items

See note 2 d).

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items.

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments, exceptional current tax and deferred tax.

d) Net debt

See note 2 x).

e) Effective interest rate

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

f) Effective cash cost of interest

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

g) PBITDA interest cover

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

h) PBIT interest cover

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

i) Underlying effective tax rate

Current tax charge for the year on continuing operations, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, net gains/losses on financial instruments and exceptional items.

4 New accounting policies and future requirements

The group has adopted all amendments to standards with an effective date relevant to this year end with no material impact on its results, assets or liabilities. All other accounting policies have been applied consistently.

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

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

4 New accounting policies and future requirements continued

The group's evaluation of the effect of adoption of these standards is ongoing but it is not currently anticipated that IFRS 9, IFRS 15 nor IFRS 16 will have a material effect on the financial statements. The EU has adopted both IFRS 9 and IFRS 15 but has not yet adopted IFRS 16.

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

5 Significant accounting judgements and key sources of estimation uncertainty

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

a) Judgements

(i) Tax provisions

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

(ii) Provisions for other liabilities and charges

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

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

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

b) Estimates

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

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the group's experience of similar assets. Details are set out in note 2 i). A one year change in the average remaining useful lives of property, plant and equipment would result in a £7 million change in the depreciation charge.

(ii) Retirement benefit obligations

Determining the amount of the group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 29 to the financial statements.

(iii) Unbilled revenue

Severn Trent Water raises bills and recognises revenue in accordance with its right to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and waste water customers with water meters, the amount recognised depends on the volume supplied, including an estimate of the value of the volume supplied between the date of the last meter read and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled volumes based on estimated usage from the last billing to the end of the financial year. The estimated consumption since the last bill, takes into account the most recent actual consumption data and the difference between actual and estimated consumption for the previous year. The difference between estimated and actual consumption is monitored regularly and is not material.

(iv) Provision for impairment of trade receivables

Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in a particular ageing category. The actual amounts collected could differ from the estimated level of recovery which could impact operating results. A 10% reduction in the cash collection estimate would increase the bad debt charge by £2.0 million.

(v) Goodwill arising on acquisition of Dee Valley Water

As set out in note 39, the fair values attributed to the assets and liabilities acquired are provisional and will be finalised in the year ending 31 March 2018. Any change to these estimates will result in an equal and opposite adjustment in the carrying value of the goodwill.

Notes to the group financial statements continued

For the year ended 31 March 2017

6 Segmental analysis

The group is organised into two main business segments:

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

Business Services includes the group's Operating Services businesses in the US, UK & Ireland and the group's Renewable Energy business.

On 15 February 2017, the group completed the acquisition of Dee Valley Group plc. This business has been included in the Regulated Water and Waste Water segment with effect from that date. Further details of the acquisition are set out in note 39.

The group sold its Operating Services businesses in Italy on 23 February 2017.

The disposal of the group's non-household retail business to the Water Plus joint venture with United Utilities received approval from the Competition and Markets Authority on 3 May 2016 and the business was classified as a discontinued operation on that date. The transaction was completed on 1 June 2016. The prior year segmental results have been restated to present the non-household retail business as a discontinued operation as set out in the stock market announcement dated 8 September 2016. See note 40.

The Water Purification business was also classified as a discontinued operation in the prior year. The sale of this business was completed on 2 July 2015. See note 40.

The Severn Trent Executive Committee ('STEC') is considered to be the group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Regulated Water and Waste Water's operations are described on pages 24 to 33 of the Strategic Review and those of Business Services on pages 36 to 40.

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

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT. A segmental analysis of sales and underlying PBIT is presented below.

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

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

a) Segmental results

	2017		2016 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,527.6**	**291.0**	1,504.4	257.2
Inter-segment turnover	**1.2**	**18.6**	1.7	19.5
Total turnover	**1,528.8**	**309.6**	1,506.1	276.7
Underlying PBIT	**494.7**	**37.2**	482.5	28.4
Exceptional items (see note 9)	**26.4**	**2.6**	1.0	–
Profit before interest and tax	**521.1**	**39.8**	483.5	28.4
Profit before interest, tax and exceptional items is stated after:				
Depreciation of property, plant and equipment	**299.4**	**9.6**	287.1	8.7
Amortisation of intangible assets	**17.4**	**1.8**	20.0	2.0
Loss/(profit) on disposal of fixed assets	**0.8**	**(0.1)**	(3.0)	(0.1)

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

	2017 £m	2016 (restated) £m
Regulated Water and Waste Water	**1,528.8**	1,506.1
Business Services	**309.6**	276.7
Corporate and other	**6.2**	3.2
Consolidation adjustments	**(25.4)**	(32.3)
	1,819.2	1,753.7

6 Segmental analysis continued

a) Segmental results continued

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

	2017 £m	2016 (restated) £m
Regulated Water and Waste Water	494.7	482.5
Business Services	37.2	28.4
Corporate and other	(6.0)	(7.9)
Consolidation adjustments	(0.8)	0.4
Underlying PBIT	525.1	503.4
Exceptional items:		
Regulated Water and Waste Water	26.4	1.0
Business Services	2.6	–
Corporate and other	(10.4)	–
Net finance costs	(204.0)	(209.3)
Net (losses)/gains on financial instruments	(1.8)	7.7
Share of results of joint ventures and associates	(1.8)	0.1
Profit before tax	336.1	302.9

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

b) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed, as shown below.

The following table shows the segmental capital employed:

	2017		2016	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	8,477.1	213.1	8,110.8	256.1
Goodwill	67.3	14.9	1.3	14.8
Interests in joint ventures and associates	–	37.4	0.1	5.1
Segment assets	8,544.4	265.4	8,112.2	276.0
Segment operating liabilities	(1,970.9)	(55.9)	(1,546.3)	(125.8)
Capital employed	6,573.5	209.5	6,565.9	150.2

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

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

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

	2017 £m	2016 £m
Segment assets		
Regulated Water and Waste Water	8,544.4	8,112.2
Business Services	265.4	276.0
Corporate and other	40.6	29.1
Other financial assets	111.6	96.2
Loan receivable from joint venture	108.6	–
Current tax receivable	7.3	–
Assets held for sale	–	–
Consolidation adjustments	(41.4)	(69.0)
Total assets	9,036.5	8,444.5

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

Notes to the group financial statements continued

For the year ended 31 March 2017

6 Segmental analysis continued

b) Segmental capital employed continued

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

	2017 £m	2016 £m
Segment liabilities		
Regulated Water and Waste Water	**(1,970.9)**	(1,546.3)
Business Services	**(55.9)**	(125.8)
Corporate and other	**(67.5)**	(40.1)
Other financial liabilities	**(5,463.7)**	(5,085.8)
Current tax	**–**	(11.1)
Deferred tax	**(623.7)**	(664.7)
Consolidation adjustments	**68.5**	47.8
Total liabilities	**(8,113.2)**	(7,426.0)

The consolidation adjustments comprise elimination of intra-group creditors.

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

	2017		2016	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**26.1**	**4.2**	21.9	1.8
Property, plant and equipment	**541.5**	**41.8**	452.4	38.9

c) Geographical areas

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

	2017 £m	2016 (restated) £m
UK	**1,632.1**	1,593.5
US	**160.5**	135.5
Other	**26.6**	24.7
	1,819.2	1,753.7

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

	2017 £m	2016 £m
UK	**8,345.6**	7,833.7
US	**28.2**	24.7
Other	**–**	2.0
	8,373.8	7,860.4

7 Revenue

	2017 £m	2016 (restated) £m
Water and waste water services	**1,527.6**	1,504.4
Other services	**211.7**	169.0
Service concession arrangements	**44.5**	44.4
Energy sales and related incentive payments	**35.4**	35.9
Turnover	**1,819.2**	1,753.7
Interest receivable	**1.5**	5.4
	1,820.7	1,759.1

8 Net operating costs

	2017			2016 (restated)		
	Before exceptional costs £m	**Exceptional costs £m**	**Total £m**	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	**305.3**	**–**	**305.3**	281.8	(0.3)	281.5
Social security costs	**22.7**	**–**	**22.7**	21.9	–	21.9
Pension costs	**21.2**	**(16.6)**	**4.6**	19.2	(0.7)	18.5
Share based payments	**6.2**	**–**	**6.2**	5.2	–	5.2
Total employee costs	**355.4**	**(16.6)**	**338.8**	328.1	(1.0)	327.1
Power	**73.3**	**–**	**73.3**	66.5	–	66.5
Carbon Reduction Commitment	**6.3**	**–**	**6.3**	7.1	–	7.1
Raw materials and consumables	**77.1**	**–**	**77.1**	75.4	–	75.4
Rates	**78.8**	**–**	**78.8**	77.7	–	77.7
Charge for bad and doubtful debts	**21.9**	**–**	**21.9**	20.6	–	20.6
Services charges	**33.1**	**–**	**33.1**	32.4	–	32.4
Depreciation of tangible fixed assets	**308.8**	**–**	**308.8**	293.9	–	293.9
Amortisation of intangible fixed assets	**19.3**	**–**	**19.3**	21.7	–	21.7
Hired and contracted services	**262.0**	**–**	**262.0**	239.8	–	239.8
Operating lease rentals						
– land and buildings	**2.7**	**–**	**2.7**	2.0	–	2.0
– other	**0.5**	**–**	**0.5**	1.7	–	1.7
Hire of plant and machinery	**4.6**	**–**	**4.6**	0.2	–	0.2
Research and development expenditure	**2.2**	**–**	**2.2**	3.5	–	3.5
Profit on disposal of tangible fixed assets	**(5.1)**	**–**	**(5.1)**	(0.9)	–	(0.9)
Profit on disposal of subsidiary undertaking	**(0.6)**	**(2.0)**	**(2.6)**	–	–	–
Exchange (gains)/losses	**(3.0)**	**–**	**(3.0)**	0.5	–	0.5
Infrastructure renewals expenditure	**136.2**	**–**	**136.2**	126.0	–	126.0
Ofwat licence fees	**3.6**	**–**	**3.6**	2.8	–	2.8
Net other operating costs	**49.9**	**–**	**49.9**	55.6	–	55.6
	1,427.0	**(18.6)**	**1,408.4**	1,354.6	(1.0)	1,353.6
Release from deferred credits	**(13.9)**	**–**	**(13.9)**	(10.5)	–	(10.5)
Own work capitalised	**(119.0)**	**–**	**(119.0)**	(93.8)	–	(93.8)
	1,294.1	**(18.6)**	**1,275.5**	1,250.3	(1.0)	1,249.3

Further details of exceptional costs are given in note 9.

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

	2017 £m	2016 £m
Fees payable to the company's auditors for:		
– the audit of the company's annual accounts	**0.2**	0.2
– the audit of the company's subsidiary accounts	**0.5**	0.4
Total audit fees	**0.7**	0.6
Fees payable to the company's auditors and their associates for other services to the group:		
– audit related assurance services	**0.1**	0.1
– other services relating to taxation	**0.1**	0.1
– other assurance services	**0.3**	0.6
Total non-audit fees	**0.5**	0.8

Details of directors' remuneration are set out in the Directors' remuneration report on pages 96 to 119.

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

Details of the group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee report on pages 85 and 90. No services were provided pursuant to contingent fee arrangements.

Notes to the group financial statements continued

For the year ended 31 March 2017

9 Exceptional items before tax

	2017 £m	2016 £m
Regulated Water and Waste Water		
Restructuring costs	–	(1.0)
Profit on disposal of fixed assets	(11.0)	–
Gain arising on pension exchange arrangement	(15.4)	–
	(26.4)	(1.0)
Business Services		
Gain arising on pension exchange arrangement	(0.6)	–
Gain on disposal of businesses	(2.0)	–
	(2.6)	–
Corporate and other		
Elimination of intra-group profit on disposal of fixed assets	11.0	–
Gain arising on pension exchange arrangement	(0.6)	–
	10.4	–
	(18.6)	(1.0)

Regulated Water and Waste Water has realised a gain of £11.0 million from sales of property on an arm's length basis to other group companies. The gain has been treated as exceptional in the segment results and has been eliminated on consolidation in the group results. The consolidation adjustment is shown in Corporate and other in the table above.

Exceptional tax is disclosed in note 14.

10 Employee numbers

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

	2017			2016		
	Continuing operations number	Discontinued operations number	Total number	Continuing operations number	Discontinued operations number	Total number
By type of business						
Regulated Water and Waste Water	5,813	14	5,827	5,236	–	5,236
Business Services	1,777	18	1,795	2,105	101	2,206
Corporate and other	12	–	12	17	–	17
	7,602	32	7,634	7,358	101	7,459

11 Finance income

	2017 £m	2016 £m
Interest income earned on:		
Bank deposits	0.2	0.4
Other financial income	1.3	5.0
Total interest receivable	1.5	5.4
Interest income on defined benefit scheme assets	71.8	67.7
	73.3	73.1

12 Finance costs

	2017 £m	2016 £m
Interest expense charged on:		
Bank loans and overdrafts	**22.7**	21.9
Other loans	**167.4**	170.6
Finance leases	**4.2**	6.8
Total borrowing costs	**194.3**	199.3
Other financial expenses	**0.3**	0.3
Interest cost on defined benefit scheme liabilities	**82.7**	82.8
	277.3	282.4

Borrowing costs of £18.6 million (2016: £16.5 million) incurred funding eligible capital projects have been capitalised at an interest rate of 3.94% (2016: 4.41%). Tax relief of £3.7 million (2016: £3.3 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £3.2 million (2016: £3.0 million).

13 Net (losses)/gains on financial instruments

	2017 £m	2016 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**17.6**	(0.7)
Loss arising on debt in fair value hedges	**(16.9)**	(1.1)
Exchange loss on other loans	**(11.1)**	(32.6)
Loss on cash flow hedges transferred from equity	**(2.9)**	(12.2)
Hedge ineffectiveness on cash flow hedges	**(0.1)**	0.5
Gain arising on swaps where hedge accounting is not applied	**11.1**	53.8
Amortisation of fair value adjustment on debt	**0.5**	–
	(1.8)	7.7

The group's hedge accounting arrangements are described in note 37.

14 Taxation

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

			2017			2016 (restated)
	Before exceptional tax £m	**Exceptional tax £m**	**Total £m**	Before exceptional tax £m	Exceptional tax £m	Total £m
Current tax at 20%						
Current year	**47.9**	**–**	**47.9**	53.7	–	53.7
Prior years	**(11.0)**	**(16.4)**	**(27.4)**	(2.4)	–	(2.4)
Total current tax	**36.9**	**(16.4)**	**20.5**	51.3	–	51.3
Deferred tax						
Origination and reversal of temporary differences:						
Current year	**16.4**	**–**	**16.4**	10.9	–	10.9
Prior years	**6.0**	**4.0**	**10.0**	2.8	–	2.8
Exceptional credit from rate change	**–**	**(39.8)**	**(39.8)**	–	(78.6)	(78.6)
Total deferred tax	**22.4**	**(35.8)**	**(13.4)**	13.7	(78.6)	(64.9)
	59.3	**(52.2)**	**7.1**	65.0	(78.6)	(13.6)

The total tax charge for the year was £7.1 million (2016: credit of £13.6 million).

The current tax charge before exceptional tax was £36.9 million (2016: £51.3 million). The exceptional current tax credit of £16.4 million (2016: nil) arises primarily from adjustments following agreement with HMRC of tax matters from several prior years. The deferred tax charge before exceptional tax was £22.4 million (2016: charge of £13.7 million).

In September 2016 the Government enacted legislation to reduce the rate of corporation tax to 17% from 2020. As a result we recorded an exceptional deferred tax credit of £39.8 million as the provision was recalculated at the new lower tax rate. In 2016, there was an exceptional deferred tax credit of £78.6 million arising from a reduction in the corporation tax rate, enacted in that year, from 20% to 18% with effect from 1 April 2020.

Notes to the group financial statements continued

For the year ended 31 March 2017

14 Taxation continued

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

The tax expense for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 (restated) £m
Profit on ordinary activities before tax from continuing operations	**336.1**	302.9
Tax at the standard rate of corporation tax in the UK 20% (2016:20%)	**67.2**	60.6
Tax effect of depreciation on non-qualifying assets	**3.8**	3.8
Utilisation of previously unrecognised tax losses	**(2.7)**	–
Impact of overseas tax rates	**(0.7)**	–
Tax effect of expenditure not deductible in determining taxable profits	**0.4**	1.4
Current year impact of rate change	**(3.7)**	(1.2)
Adjustments in respect of prior years	**(17.4)**	0.4
Exceptional deferred tax credit arising from rate change	**(39.8)**	(78.6)
Total tax charge/(credit)	**7.1**	(13.6)

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

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

	2017 £m	2016 £m
Current tax		
Tax on share based payments	**(0.8)**	(1.2)
Tax on pension contributions in excess of income statement charge	**(14.1)**	–
Total current tax credited to other comprehensive income or equity	**(14.9)**	(1.2)
Deferred tax		
Tax on actuarial gain/loss	**(42.2)**	26.7
Tax on cash flow hedges	**(1.3)**	(0.4)
Tax on share based payments	**(0.1)**	0.5
Tax on transfers to the income statement	**0.4**	2.2
Effect of change in tax rate	**3.1**	9.6
Total deferred tax (credited)/charged to other comprehensive income or equity	**(40.1)**	38.6

15 Dividends

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

	2017		2016	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2016 (2015)	**48.40**	**114.0**	50.94	121.2
Interim dividend for the year ended 31 March 2017 (2016)	**32.60**	**76.4**	32.26	75.8
Total dividends	**81.00**	**190.4**	83.20	197.0
Proposed final dividend for the year ended 31 March 2017	48.90	115.2		

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

16 Earnings per share

a) Basic and diluted earnings per share

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

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

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

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

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

	2017 £m	2016 (restated) £m
Profit for the period attributable to owners of the company	**342.8**	330.0
Adjusted for profit from discontinued operations (see note 40)	**(13.6)**	(14.9)
Profit for the period from continuing operations attributable to owners of the company	**329.2**	315.1

(ii) Number of shares

	2017 m	2016 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**235.0**	236.1
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**1.0**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.0**	237.2

b) Underlying earnings per share

	2017 pence	2016 (restated) pence
Underlying basic earnings per share	**122.4**	102.1
Underlying diluted earnings per share	**121.9**	101.6

The directors consider that underlying earnings per share provides a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

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

	2017 £m	2016 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**329.2**	315.1
Adjustments for:		
– exceptional items before tax	**(18.6)**	(1.0)
– current tax related to exceptional items	**0.1**	(0.2)
– net losses/(gains) on financial instruments	**1.8**	(7.7)
– current tax on net losses/gains on financial instruments	**4.9**	(0.2)
– exceptional current tax	**(16.4)**	–
– deferred tax	**(13.4)**	(64.9)
Earnings for the purpose of underlying basic and diluted earnings per share	**287.6**	241.1

Notes to the group financial statements continued

For the year ended 31 March 2017

17 Goodwill

	2017 £m	2016 £m
Cost		
At 1 April	**18.2**	17.7
Acquisition of Dee Valley Water	**66.0**	–
Disposal of Operating Services Italy	**(5.4)**	–
Exchange adjustments	**2.2**	0.5
At 31 March	**81.0**	18.2
Impairment		
At 1 April	**(3.4)**	(3.4)
Disposal of Operating Services Italy	**3.4**	–
At 31 March	**–**	(3.4)
Net book value at 31 March	**81.0**	14.8

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

A summary of the goodwill allocation by CGU is presented below.

	2017 £m	2016 £m
Dee Valley Water	**66.0**	–
Operating Services US	**15.0**	13.0
Operating Services Italy	**–**	1.8
	81.0	14.8

The group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2 l).

The value in use calculation for the Dee Valley Water CGU is based on the financial model used in the acquisition but restricted to the remaining three years of the current AMP. The key assumptions underlying this model are: RPI inflation in the final three years of the AMP, the operating cost efficiencies achieved and the growth rate beyond the three year period. The discount rate of 4.7% was based on an estimate for the weighted average cost of capital at the year end date based on the market rate for the cost of debt and the cost of equity included in the Dee Valley Water Final Determination for AMP6. The equivalent pre-tax rate discount rate is 5.9%.

Cash flows beyond the end of the three year period are extrapolated using an estimate of 2% for long term CPI and zero real growth.

The value in use calculations for Operating Services US use cash flow projections based on financial budgets approved by management covering a three year period. The key assumptions underlying these budgets are revenue growth and margin. Management determines assumptions based on past experience, current market trends and expectations of future developments. Cash flows beyond the three year period are extrapolated using an estimated nominal growth rate of 3.0% (2016: 3.0%). The growth rate does not exceed the long term average growth rate for the economy in which the CGU operates and is consistent with the forecasts included in industry reports.

Specific discount rates for Operating Services US are not available and hence a post tax discount rate of 3.5% (2016: 4.7%) reflecting risks relating to the CGU has been estimated and used to calculate the value in use of the CGU from its post tax cash flow projections. The equivalent pre-tax discount rate is 4.4% (2016: 5.9%).

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

18 Other intangible assets

	Computer software		Capitalised development costs and patents £m	Total £m
	Internally generated £m	Purchased £m		
Cost				
At 1 April 2015	178.9	89.1	13.5	281.5
Additions	10.1	13.8	–	23.9
Exchange adjustments	(0.1)	1.6	–	1.5
At 1 April 2016	188.9	104.5	13.5	306.9
Additions	14.7	14.5	1.1	30.3
Disposals	(1.1)	(1.2)	(0.7)	(3.0)
Disposal of subsidiaries	–	(5.0)	–	(5.0)
Exchange adjustments	0.2	1.0	–	1.2
At 31 March 2017	**202.7**	**113.8**	**13.9**	**330.4**
Amortisation				
At 1 April 2015	(149.5)	(51.3)	(11.4)	(212.2)
Amortisation for the year	(9.6)	(10.9)	(1.2)	(21.7)
Exchange adjustments	–	(0.8)	–	(0.8)
At 1 April 2016	(159.1)	(63.0)	(12.6)	(234.7)
Amortisation for the year	(7.7)	(10.8)	(0.8)	(19.3)
Disposals	0.7	0.3	0.7	1.7
Disposal of subsidiaries	–	3.6	–	3.6
Exchange adjustments	(0.1)	(0.7)	–	(0.8)
At 31 March 2017	**(166.2)**	**(70.6)**	**(12.7)**	**(249.5)**
Net book value				
At 31 March 2017	**36.5**	**43.2**	**1.2**	**80.9**
At 31 March 2016	29.8	41.5	0.9	72.2

Notes to the group financial statements continued

For the year ended 31 March 2017

19 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2015	2,980.9	4,762.0	3,574.8	65.0	672.1	12,054.8
Additions	2.7	21.4	16.0	5.8	445.7	491.6
Transfers on commissioning	194.8	156.8	216.9	–	(568.5)	–
Disposals	(10.6)	(0.3)	(17.4)	(4.3)	(4.1)	(36.7)
Exchange adjustments	0.2	–	(2.2)	0.5	–	(1.5)
At 1 April 2016	3,168.0	4,939.9	3,788.1	67.0	545.2	12,508.2
Additions	15.5	73.7	12.4	1.7	480.6	583.9
Transfers on commissioning	134.4	39.9	214.7	6.3	(395.3)	–
Disposals	(5.7)	(0.7)	(24.7)	(3.8)	–	(34.9)
Acquisition of subsidiary undertaking	0.8	61.4	64.3	–	–	126.5
Disposal of subsidiary undertaking	–	–	(4.7)	–	–	(4.7)
Exchange adjustments	–	–	2.2	2.7	–	4.9
At 31 March 2017	**3,313.0**	**5,114.2**	**4,052.3**	**73.9**	**630.5**	**13,183.9**
Depreciation						
At 1 April 2015	(1,048.4)	(1,225.0)	(2,207.2)	(42.5)	–	(4,523.1)
Charge for the year	(77.0)	(31.5)	(178.6)	(6.8)	–	(293.9)
Disposals	6.0	–	16.6	4.1	–	26.7
Exchange adjustments	(0.1)	–	1.2	(0.4)	–	0.7
At 1 April 2016	(1,119.5)	(1,256.5)	(2,368.0)	(45.6)	–	(4,789.6)
Charge for the year	(81.2)	(42.6)	(178.1)	(6.9)	–	(308.8)
Disposals	3.7	0.2	23.4	3.5	–	30.8
Disposal of subsidiary undertaking	–	–	3.5	–	–	3.5
Exchange adjustments	–	–	(1.4)	(2.0)	–	(3.4)
At 31 March 2017	**(1,197.0)**	**(1,298.9)**	**(2,520.6)**	**(51.0)**	**–**	**(5,067.5)**
Net book value						
At 31 March 2017	**2,116.0**	**3,815.3**	**1,531.7**	**22.9**	**630.5**	**8,116.4**
At 31 March 2016	2,048.5	3,683.4	1,420.1	21.4	545.2	7,718.6

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

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2017	**118.8**	**10.2**	**129.0**
At 31 March 2016	119.8	16.4	136.2

The depreciation charge for 2017 includes £5.0 million (2016: nil) in respect of the write off of redundant plant and equipment.

20 Interests in joint ventures and associates

Particulars of the group's principal joint venture undertakings at 31 March 2017 were:

Name	Type	Country of incorporation	Proportion of ownership interest
Jackson Water Partnership	Joint venture	United States	70%
Water Plus Limited	Joint venture	Great Britain	50%

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

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

	Interests in joint venture		Interests in associates		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Group's share of carrying value	**37.4**	0.2	**–**	4.9	**37.4**	5.1
Group's share of (loss)/profit and comprehensive (loss)/income	**(1.8)**	–	**–**	0.1	**(1.8)**	0.1

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

As at 31 March 2017 and 2016 the joint ventures and associates did not have any significant contingent liabilities to which the group was exposed and the group did not have any significant contingent liabilities in relation to its interests in joint ventures or associates. The group had no capital commitments in relation to its interests in the joint ventures or associates at 31 March 2017 or 2016.

21 Categories of financial assets

	Notes	2017 £m	2016 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**23.6**	10.4
Interest rate swaps – not hedge accounted		**23.6**	–
Foreign exchange forward contracts – not hedge accounted		**–**	0.7
		47.2	11.1
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**19.8**	17.7
Interest rate swaps – fair value hedges		**–**	12.1
		19.8	29.8
Total derivative financial assets		**67.0**	40.9
Available for sale investments carried at fair value			
Unquoted shares		**–**	0.1
Loans and receivables (including cash and cash equivalents)			
Net trade receivables	22	**214.2**	177.8
Loan receivable from joint venture	22	**108.6**	–
Short term deposits	23	**18.8**	31.8
Cash at bank and in hand	23	**25.8**	23.4
Total loans and receivables		**367.4**	233.0
Total financial assets		**434.4**	274.0
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**67.0**	40.2
Loan receivable from joint venture		**9.0**	–
Available for sale financial assets		**–**	0.1
		76.0	40.3
Current assets			
Derivative financial assets		**–**	0.7
Net trade receivables		**214.2**	177.8
Loan receivable from joint venture		**99.6**	–
Cash and cash equivalents		**44.6**	55.2
		358.4	233.7
		434.4	274.0

Notes to the group financial statements continued

For the year ended 31 March 2017

22 Trade and other receivables

	2017 £m	2016 £m
Current assets		
Trade receivables	**344.7**	304.7
Bad debt provision	**(130.5)**	(126.9)
Net trade receivables	**214.2**	177.8
Other amounts receivable	**38.5**	54.6
Prepayments	**5.7**	8.6
Unbilled revenue	**159.8**	226.0
Loan receivable from joint venture	**99.6**	–
	517.8	467.0
Non-current assets		
Prepayments	**21.4**	23.9
Amounts receivable from contract work	**27.7**	25.7
Loan receivable from joint venture	**9.0**	–
	58.1	49.6
	575.9	516.6

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

Doubtful debts provision

Movements on the doubtful debts provision were as follows:

	2017 £m	2016 £m
At 1 April	**126.9**	125.0
Charge for bad and doubtful debts (continuing and discontinued operations)	**21.9**	24.0
Acquisition of Dee Valley Water	**2.8**	–
Amounts written off during the year	**(21.1)**	(22.1)
At 31 March	**130.5**	126.9

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

	2017 £m	2016 £m
Up to 90 days	**1.0**	–
91 – 365 days	**6.3**	3.3
1 – 2 years	**2.8**	5.7
2 – 3 years	**3.9**	3.3
More than 3 years	**6.9**	5.0
	20.9	17.3

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

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

	2017 £m	2016 £m
Up to 90 days	**56.6**	38.6
91 – 365 days	**85.8**	83.1
1 – 2 years	**57.2**	51.0
2 – 3 years	**35.1**	32.4
More than 3 years	**68.0**	65.2
	302.7	270.3

22 Trade and other receivables continued

Doubtful debts provision continued

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

	2017			2016		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not due	21.1	–	21.1	17.1	–	17.1
Overdue not specifically provided	302.7	(109.6)	193.1	270.3	(109.6)	160.7
Overdue and specifically provided	20.9	(20.9)	–	17.3	(17.3)	–
	344.7	(130.5)	214.2	304.7	(126.9)	177.8

Credit risk

Trade receivables

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Severn Trent Water Limited, which represents 85% of group turnover and 88% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

Water Plus

In the year ended 31 March 2017, the group's joint venture, Water Plus, was the retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within the related parties note 47.

23 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	25.8	23.4
Short term deposits	18.8	31.8
	44.6	55.2

Short term bank deposits are held as security deposits for insurance obligations, which are not available for use by the group. In addition, £10.0 million (2016: £8.8 million) of cash at bank and in hand is restricted for use on the Ministry of Defence contract and is not available for use by the group.

24 Borrowings

	2017 £m	2016 £m
Current liabilities		
Bank loans	151.2	276.4
Other loans	406.1	2.6
Finance leases	2.1	1.6
	559.4	280.6
Non-current liabilities		
Bank loans	922.1	973.4
Other loans	3,683.9	3,537.1
Finance leases	113.6	115.6
	4,719.6	4,626.1
	5,279.0	4,906.7

Notes to the group financial statements continued

For the year ended 31 March 2017

25 Finance leases

Obligations under finance leases are as follows:

	2017 £m	2016 £m
Within 1 year	**6.1**	5.7
1 – 2 years	**6.5**	6.1
2 – 5 years	**22.6**	21.1
After more than 5 years	**121.9**	129.8
Gross obligations under finance leases	**157.1**	162.7
Less future finance charges	**(41.4)**	(45.5)
Present value of leases obligations	**115.7**	117.2

Net obligations under finance leases fall due as follows:

	2017 £m	2016 £m
Within 1 year	**2.1**	1.6
1 – 2 years	**2.6**	2.1
2 – 5 years	**11.5**	9.6
After more than 5 years	**99.5**	103.9
Included in non-current liabilities	**113.6**	115.6
	115.7	117.2

The remaining terms of finance leases ranged from 1 to 15 years at 31 March 2017. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.34% (2016: 5.35%). The lease obligations are secured against the related assets.

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

26 Categories of financial liabilities

	Note	2017 £m	2016 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**163.2**	164.9
Energy hedges – not hedge accounted		**0.8**	–
Foreign exchange forward contracts – not hedge accounted		**–**	0.7
		164.0	165.6
Derivatives designated as hedging instruments			
Interest rate swaps – fair value hedges		**20.7**	–
Interest rate swaps – cash flow hedges		**–**	10.3
Energy hedges – fair value hedges		**–**	3.2
		20.7	13.5
Total derivative financial liabilities		**184.7**	179.1
Other financial liabilities			
Borrowings	24	**5,279.0**	4,906.7
Trade payables	27	**24.0**	18.1
Total other financial liabilities		**5,303.0**	4,924.8
Total financial liabilities		**5,487.7**	5,103.9
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**184.1**	178.0
Borrowings		**4,719.6**	4,626.1
		4,903.7	4,804.1
Current liabilities			
Derivative financial liabilities		**0.6**	1.1
Borrowings		**559.4**	280.6
Trade payables		**24.0**	18.1
		584.0	299.8
		5,487.7	5,103.9

27 Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	**24.0**	18.1
Social security and other taxes	**5.8**	6.2
Other payables	**13.5**	16.9
Deferred income	**12.2**	10.9
Accruals	**396.4**	402.0
	451.9	454.1
Non-current liabilities		
Accruals	**2.1**	3.4
Deferred income	**953.6**	867.4
	955.7	870.8
	1,407.6	1,324.9

28 Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2015	840.0	(93.7)	(61.4)	6.1	691.0
Charge/(credit) to income	10.2	1.8	1.8	(0.1)	13.7
(Credit)/charge to income arising from rate change	(84.0)	1.9	4.1	(0.6)	(78.6)
Charge to equity	–	26.7	1.8	0.5	29.0
Charge to equity arising from rate change	–	7.5	2.1	–	9.6
At 1 April 2016	766.2	(55.8)	(51.6)	5.9	664.7
Reclassification	–	15.5	–	(15.5)	–
Acquired through business combinations	11.9	1.7	–	(1.1)	12.5
Charge/(credit) to income	23.3	–	3.2	(0.1)	26.4
(Credit)/charge to income arising from rate change	(42.5)	–	2.2	0.5	(39.8)
Credit to equity	–	(42.2)	(0.9)	(0.1)	(43.2)
Charge to equity arising from rate change	–	2.1	1.0	–	3.1
At 31 March 2017	**758.9**	**(78.7)**	**(46.1)**	**(10.4)**	**623.7**

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

	2017 £m	2016 £m
Deferred tax asset	**(135.2)**	(107.5)
Deferred tax liability	**758.9**	772.2
	623.7	664.7

Notes to the group financial statements continued

For the year ended 31 March 2017

29 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

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

Dee Valley Water ('DVW') participates in the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. DVW participates in the Dee Valley Water plc Section of the scheme ('the Section'). The Section funds are administered by trustees and are held separately from the assets of the group. Contributions are paid to the Section in accordance with the recommendations of an independent professionally qualified actuary, who carries out a formal actuarial valuation at triennial intervals. Members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history.

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

	Date of last formal actuarial valuation
Severn Trent Pension Scheme ('STPS')*	31 March 2016
Severn Trent Mirror Image Pension Scheme ('STMIPS')	31 March 2016
Water Companies Pension Scheme – Dee Valley Water plc Section ('DVWS')	31 March 2014

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

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

	2017			2016
	STPS and STMIPS £m	DVWS £m	Total £m	Total £m
Fair value of assets	2,281.9	70.9	2,352.8	2,039.8
Present value of the defined benefit obligations – funded schemes	(2,855.8)	(61.1)	(2,916.9)	(2,339.9)
	(573.9)	9.8	(564.1)	(300.1)
Present value of the defined benefit obligations – unfunded schemes	(10.5)	–	(10.5)	(9.4)
Retirement benefit obligation recognised in the balance sheet	**(584.4)**	**9.8**	**(574.6)**	(309.5)

STPS and STMIPS	2017 £m	2016 £m
Fair value of scheme assets		
Equities	897.9	922.4
Gilts	412.6	283.0
Corporate bonds	670.8	570.7
Property	174.9	171.4
Hedge funds	1.2	11.8
Cash	124.5	80.5
Total fair value of assets	**2,281.9**	2,039.8

DVWS	2017 £m
Fair value of scheme assets	
Equities	16.4
Diversified growth funds	5.3
Liquidity driven investment funds	42.6
Emerging markets multi-asset funds	3.3
High-yield bonds	3.3
Total fair value of assets	**70.9**

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

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

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

Movements in the fair value of the schemes' assets were as follows:

	2017 £m	2016 £m
Fair value at 1 April	2,039.8	2,086.8
Interest income on scheme assets	71.8	67.7
Contributions from the sponsoring companies	33.2	27.8
Contributions from scheme members	–	0.3
Return on plan assets (excluding amounts included in finance income)	227.6	(45.9)
Scheme administration costs	(3.3)	(2.3)
Benefits paid	(87.2)	(94.6)
Acquisition of Dee Valley Water	70.9	–
Fair value at 31 March	**2,352.8**	2,039.8

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

	2017 £m	2016 £m
Present value at 1 April	(2,349.3)	(2,555.7)
Exceptional past service credit	17.3	0.7
Interest cost	(82.7)	(82.8)
Contributions from scheme members	–	(0.3)
Actuarial gains arising from changes in demographic assumptions	16.6	–
Actuarial (losses)/gains arising from changes in financial assumptions	(470.6)	147.9
Actuarial (losses)/gains arising from experience adjustments	(84.8)	46.3
Benefits paid	87.2	94.6
Acquisition of Dee Valley Water	(61.1)	–
Present value at 31 March	**(2,927.4)**	(2,349.3)

Of which:

	2017 £m	2016 £m
Amounts relating to funded schemes	2,916.9	2,339.9
Amounts relating to unfunded schemes	10.5	9.4
Present value at 31 March	**2,927.4**	2,349.3

The group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £10.5 million (2016: £9.4 million) is included as an unfunded scheme within the retirement benefit obligation.

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

Notes to the group financial statements continued

For the year ended 31 March 2017

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

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

	2017 £m	2016 £m
Amounts credited/(charged) to operating costs		
Exceptional past service credit	**17.3**	0.7
Scheme administration costs	**(3.3)**	(2.3)
	14.0	(1.6)
Amounts charged to finance costs		
Interest cost	**(82.7)**	(82.8)
Amounts credited to finance income		
Interest income on scheme assets	**71.8**	67.7
Total amount credited/(charged) to the income statement	**3.1**	(16.7)

The actual return on scheme assets was a gain of £301.4 million (2016: £21.8 million).

Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a net loss of £622.0 million (2016: £310.8 million).

(iv) Actuarial risk factors

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

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

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

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

(v) Actuarial assumptions

The major assumptions used in the valuation of the STPS and STMIPS schemes were as follows:

	2017 %	2016 %
Price inflation – RPI	**3.1**	3.0
Price inflation – CPI	**2.1**	2.0
Discount rate	**2.7**	3.6
Pension increases in payment	**3.1**	3.0
Pension increases in deferment	**3.1**	3.0

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

We have revised our methodology for setting the discount rate to better reflect the credit risk for long dated bond yields where there is insufficient market data available. We now adjust the yield on long dated gilts for the market-implied spread that would be expected for an AA bond of similar term. Short dated yields are taken from market rates for AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate based on this constructed yield curve. We estimate that the change in methodology increased the discount rate by 0.15% – 0.2%.

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(v) Actuarial assumptions continued

The mortality assumptions are based on those used in the triennial valuation of the STPS as at 31 March 2016. The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows for STPS and STMIPS:

	2017		2016	
	Men	**Women**	Men	Women
Mortality table used	**S2NMA**	**S2NFA**	SAPS S1NMA_L	S1NFA_L
Mortality table compared with standard table	**95%**	**99%**	116%	92%
Future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	**22.5**	**24.1**	21.4	24.6
Remaining life expectancy at age 65 for members currently aged 45 (years)	**23.6**	**25.3**	22.8	26.1

The assumptions used in the valuation of the DVWS scheme were as follows:

	2017
Price inflation – RPI	**3.4%**
Price inflation – CPI	**2.4%**
Discount rate	**2.5%**
Pension increases in payment – uncapped CPI	**2.5%**
Pension increases in payment – CPI capped at 5% per annum	**2.4%**
Pension increases in deferment	**2.5%**
Pension salary increases (capped at 2% per annum)	**1.9%**
Life expectancy of a male aged 60 at the balance sheet date (years)	**27.9 years**
Life expectancy of a female aged 60 at the balance sheet date (years)	**29.8 years**
Life expectancy of a male aged 60, twenty five years after the balance sheet date (years)	**30.9 years**
Life expectancy of a female aged 60, twenty five years after the balance sheet date (years)	**32.3 years**

The mortality table used to calculate the DVWS assumptions were SAPS S2NA (1.5% for men, 1.25% for women).

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £53 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £46 million
Mortality	Increase in life expectancy by 1 year	Increase by £106 million

The following table summarises the estimated impact on DVWS scheme liabilities from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £1 million
Price inflation*	Increase/decrease by 0.1%	Increase/decrease by £0.8 million
Mortality	Increase in life expectancy by 1 year	Increase by £2 million

*The impact of pension increases is not material.

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

As the STPS and STMIPS were closed to future accrual on 31 March 2015, pension increases are now linked to RPI inflation and there are no active members. Therefore the assumption for pension increases is the same as the RPI assumption and the sensitivities are identical.

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

Notes to the group financial statements continued

For the year ended 31 March 2017

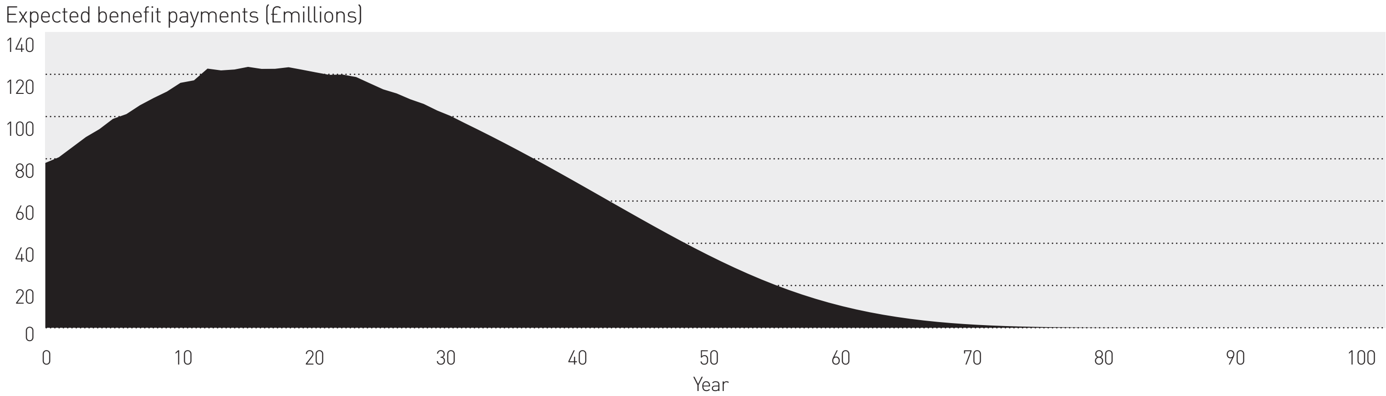
29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(vi) Effect on future cash flows

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

The average duration of the benefit obligation at the end of the year is 20 years for STPS and STMIPS (2016: 18 years) and 17 years for DVWS. The expected cash flows payable from the schemes are presented in the graph below:



The most recent formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2016 for the STPS and STMIPS schemes and 31 March 2014 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £10 million for the two financial years ending 31 March 2019 were agreed. Payments of £8 million per annum through an asset backed funding arrangement will continue to 31 March 2032. Further inflation linked payments of £15 million per annum will be made through a new asset backed funding arrangement, starting in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

b) Defined contribution pension schemes

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

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

The total cost charged to operating costs of £21.2 million (2016: £19.2 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2017, contributions amounting to £2.2 million (2015: £1.5 million) in respect of the current reporting period were owed to the schemes.

Dee Valley Water operates two defined contribution pension schemes, neither of which were material in the current year.

30 Provisions

	Restructuring £m	Insurance £m	Other £m	Total £m
At 1 April 2016	0.2	21.2	8.6	30.0
Charged to income statement	–	9.2	7.3	16.5
Utilisation of provision	–	(8.8)	(1.7)	(10.5)
Disposal of subsidiary	(0.2)	–	(2.1)	(2.3)
Exchange differences	–	–	0.1	0.1
At 31 March 2017	**–**	**21.6**	**12.2**	**33.8**

	2017 £m	2016 £m
Included in:		
Current liabilities	**17.5**	12.3
Non-current liabilities	**16.3**	17.7
	33.8	30.0

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes.

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

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

31 Share capital

	2017 £m	2016 £m
Total issued and fully paid share capital		
239,793,915 ordinary shares of 97 17/19p (2016: 239,344,614)	**234.7**	234.3

On 13 February 2015 the group entered into an irrevocable, non-discretionary arrangement to enable market purchases of ordinary shares of 97 17/19 pence each up to an amount of £110 million during the period commencing on 16 February 2015 and ending no later than 23 November 2015. During the year the company did not repurchase any shares (2016: 4,274,576). Of these repurchased shares, in 2016 51,514 were cancelled and the remaining 4,223,062 were held as treasury shares.

At 31 March 2017 4,223,062 treasury shares were held (2016: 4,223,062).

Changes in share capital were as follows:

	number	£m
Ordinary shares of 97 17/19p		
At 1 April 2015	238,683,513	233.7
Shares issued under the Employee Sharesave Scheme	712,615	0.7
Shares repurchased and cancelled	(51,514)	(0.1)
At 1 April 2016	239,344,614	234.3
Shares issued under the Employee Sharesave Scheme	449,301	0.4
At 31 March 2017	**239,793,915**	**234.7**

32 Share premium

	2017 £m	2016 £m
At 1 April	**106.8**	100.2
Share premium arising on issue of shares for Employee Sharesave Scheme	**5.7**	6.6
At 31 March	**112.5**	106.8

Notes to the group financial statements continued

For the year ended 31 March 2017

33 Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2015	157.0	27.4	(86.2)	98.2
Total comprehensive income for the year	–	10.5	7.7	18.2
Purchase of own shares	0.1	–	–	0.1
At 1 April 2016	157.1	37.9	(78.5)	116.5
Total comprehensive income for the year	–	2.5	2.8	5.3
At 31 March 2017	**157.1**	**40.4**	**(75.7)**	**121.8**

The capital redemption reserve as at 1 April 2015 arose on the redemption of B shares. The movement in the prior year arose from the repurchase and cancellation of own shares, as outlined in note 31.

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

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

34 Capital management

The group's principal objectives in managing capital are:

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

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

The group has continued to increase exposure to currently low floating interest rates, primarily through raising £400 million of finance through a bond with a maturity of 15 years. The group has entered into a series of interest rate swaps in relation to this bond, to take advantage of low floating interest rates.

Whilst the group does not have a specific gearing target and seeks to maintain gearing at a level consistent with its capital management objectives described above, the group seeks to keep the net debt/RCV gearing ratio broadly in line with Ofwat's notional assumption of 62.5% for AMP6.

The group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The board has decided to set the 2016/17 dividend at 81.50 pence, an increase of 1% compared to the total dividend for 2015/16 of 80.66 pence. In the light of our strong operational and financial performance we have enhanced our policy and it is now to grow the dividend annually by at least RPI plus 4% until March 2020.

The group's capital at 31 March 2017 was:

	2017 £m	2016 £m
Cash and cash equivalents	**44.6**	55.2
Bank loans	**(1,073.3)**	(1,249.8)
Other loans	**(4,090.0)**	(3,539.7)
Finance leases	**(115.7)**	(117.2)
Cross currency swaps	**43.4**	28.1
Loans due from joint ventures and associated undertakings	**108.6**	–
Net debt	**(5,082.4)**	(4,823.4)
Equity attributable to owners of the company	**(923.3)**	(1,017.4)
Total capital	**(6,005.7)**	(5,840.8)

35 Fair values of financial instruments

a) Fair value measurements

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

	2017 £m	2016 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**43.4**	28.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at the spot rate.
Liabilities	**–**	–	
Interest rate swaps			Discounted cash flow
Assets	**23.6**	12.1	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(183.9)**	(175.2)	
Energy swaps			Discounted cash flow
Assets	**–**	–	Future cash flows are estimated based on forward electricity prices from observable indices at the year end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(0.8)**	(3.2)	
Foreign currency forward contracts			Discounted cash flow
Assets	**–**	0.7	Future cash flows are estimated based on observable forward exchange rates at the year end and contract forward rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**–**	(0.7)	

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

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

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Floating rate debt				
Bank loans	**776.3**	**782.0**	954.4	954.3
Currency bonds	**40.1**	**40.1**	36.6	36.6
Floating rate notes	**147.7**	**156.4**	147.6	150.3
	964.1	**978.5**	1,138.6	1,141.2
Fixed rate debt				
Bank loans	**186.4**	**186.6**	187.6	186.8
Sterling bonds	**2,257.2**	**2,746.2**	1,857.3	2,221.8
Fixed rate notes	**355.2**	**397.4**	326.9	399.0
Other loans	**6.7**	**6.7**	2.8	2.6
Finance leases	**115.7**	**130.5**	117.2	125.4
	2,921.2	**3,467.4**	2,491.8	2,935.6
Index-linked debt				
Bank loans	**110.6**	**126.7**	107.8	116.1
Sterling bonds	**1,195.8**	**2,063.1**	1,168.5	1,576.8
Other loans	**87.3**	**87.3**	–	–
	1,393.7	**2,277.1**	1,276.3	1,692.9
	5,279.0	**6,723.0**	4,906.7	5,769.7

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

Fixed rate sterling and currency bonds are valued using market prices, which is a Level 1 valuation technique.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models, which is a Level 2 valuation technique.

Notes to the group financial statements continued

For the year ended 31 March 2017

36 Risks arising from financial instruments

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

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

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

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

Interest rate swaps are held to mitigate the group's exposure to changes in market interest rates. Further details are set out in section a) (i) and note 37 b) (i).

Cross currency swaps are held to mitigate the group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and 37 a).

Energy swaps are held to mitigate the group's exposure to changes in electricity prices. Further details are provided in note 37 b) (ii).

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

a) Market risk

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

(i) Interest rate risk

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

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

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

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

	2017 £m	2016 £m
Net debt (note 42)	**5,082.4**	4,823.4
Cash and cash equivalents	**44.6**	55.2
Loan receivable from joint venture	**108.6**	–
Cross currency swaps included in net debt at fair value	**43.4**	28.1
Fair value hedge accounting adjustments	**(31.5)**	(15.2)
Exchange adjustments on currency debt not hedge accounted	**(21.2)**	(5.9)
Interest bearing financial liabilities	**5,226.3**	4,885.6

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

36 Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

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

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

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

2017	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(776.3)	(186.4)	(110.6)	(1,073.3)
Other loans	(167.6)	(2,586.4)	(1,283.3)	(4,037.3)
Finance leases	–	(115.7)	–	(115.7)
	(943.9)	**(2,888.5)**	**(1,393.9)**	**(5,226.3)**
Impact of swaps not matched against specific debt instruments	(205.3)	205.3	–	–
Interest bearing financial liabilities	**(1,149.2)**	**(2,683.2)**	**(1,393.9)**	**(5,226.3)**
Proportion of interest bearing financial liabilities that are fixed		**51%**		
Weighted average interest rate of fixed debt		**5.16%**		
Weighted average period for which interest is fixed (years)		**9.2**		

2016	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(954.4)	(187.6)	(107.8)	(1,249.8)
Other loans	(394.6)	(1,955.5)	(1,168.5)	(3,518.6)
Finance leases	–	(117.2)	–	(117.2)
	(1,349.0)	(2,260.3)	(1,276.3)	(4,885.6)
Impact of swaps not matched against specific debt instruments	419.8	(419.8)	–	–
Interest bearing financial liabilities	(929.2)	(2,680.1)	(1,276.3)	(4,885.6)
Proportion of interest bearing financial liabilities that are fixed		55%		
Weighted average interest rate of fixed debt		5.16%		
Weighted average period for which interest is fixed (years)		10.2		

Interest rate swaps not hedge accounted

The group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. Economically these swaps act to fix the interest cost of debt within the group which is denominated as floating rate and fixed rate debt, but they do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a charge of £3.3 million (2016: credit of £14.4 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2017 %	2016 %	2017 £m	2016 £m	2017 £m	2016 £m
Pay fixed rate interest						
5 – 10 years	**5.06**	5.06	**(450.0)**	(450.0)	**(125.3)**	(129.2)
10 – 20 years	**5.45**	5.45	**(68.1)**	(68.1)	**(37.8)**	(35.7)
	5.11	5.11	**(518.1)**	(518.1)	**(163.1)**	(164.9)
Receive fixed rate interest						
5 – 10 years	**3.34**	–	**75.0**	–	**5.8**	–
10 – 20 years	**2.92**	–	**550.0**	–	**17.8**	–
	2.97	–	**625.0**	–	**23.6**	–
			106.9	(518.1)	**(139.5)**	(164.9)

Notes to the group financial statements continued

For the year ended 31 March 2017

36 Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

Interest rate sensitivity analysis

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

	2017		2016	
	1.0% £m	-1.0% £m	1.0% £m	-1.0% £m
Profit or loss	(36.1)	54.3	45.9	(51.3)
Cash flow	8.8	(8.8)	6.2	(6.2)
Equity	(36.1)	54.3	45.9	(51.3)

(ii) Exchange rate risk

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

Certain of the group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to a charge of £0.1 million (2016: credit of £0.2 million) in the income statement.

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

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 37 a).

The group also has cross currency swaps with a sterling value of £98.3 million (2016: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the group which is denominated in foreign currency, but they do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a credit of £13.1 million (2016: credit of £39.2 million) in the income statement which is partly offset by the exchange loss of £15.4 million (2016: £32.6 million) on the underlying debt.

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

2017	Euro €m	US Dollar $m	Yen ¥bn
Borrowings by currency	(20.1)	(150.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	–	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	**(0.2)**	**–**	**–**

2016	Euro €m	US Dollar $m	Yen ¥bn
Borrowings by currency	(23.2)	(150.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	–	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(3.3)	–	–

36 Risks arising from financial instruments continued

b) Credit risk

Operationally the group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited, whose operating licence obliges it to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 22.

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

Credit risk analysis

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

	Credit limit		Amount deposited	
	2017 £m	2016 £m	**2017 £m**	2016 £m
AAA	**5.0**	5.0	**1.2**	1.2
Double A range	**100.0**	100.0	**1.8**	14.4
Single A range	**625.0**	615.0	**13.9**	14.1
Triple B range	**10.0**	20.0	**2.0**	2.1
	740.0	740.0	**18.9**	31.8

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

	Derivative assets	
	2017 £m	2016 £m
Double A range	**0.8**	–
Single A range	**66.2**	33.0
Triple B range	**–**	7.9
	67.0	40.9

c) Liquidity risk

(i) Committed facilities

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

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

	2017 £m	2016 £m
2 – 5 years	**1,000.0**	875.0

Notes to the group financial statements continued

For the year ended 31 March 2017

36 Risks arising from financial instruments continued

c) Liquidity risk continued

(ii) Cash flows from non-derivative financial instruments

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

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

2017 **Undiscounted amounts payable:**	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Trade payables £m**	**Payments on financial liabilities £m**
Within 1 year	(160.7)	(538.7)	(25.4)	(24.0)	**(748.8)**
1 – 2 years	(11.6)	(108.7)	(26.6)	–	**(146.9)**
2 – 5 years	(42.1)	(469.8)	(84.6)	–	**(596.5)**
5 – 10 years	(750.2)	(1,383.4)	(440.2)	–	**(2,573.8)**
10 – 15 years	(112.3)	(1,110.0)	(347.1)	–	**(1,569.4)**
15 – 20 years	–	(60.9)	(221.3)	–	**(282.2)**
20 – 25 years	–	(310.9)	(160.3)	–	**(471.2)**
25 – 30 years	–	–	(190.1)	–	**(190.1)**
30 – 35 years	–	–	(643.2)	–	**(643.2)**
35 – 40 years	–	–	(1,226.5)	–	**(1,226.5)**
40 – 45 years	–	–	(2,089.7)	–	**(2,089.7)**
45 – 50 years	–	–	(365.0)	–	**(365.0)**
Total	**(1,076.9)**	**(3,982.4)**	**(5,820.0)**	**(24.0)**	**(10,903.3)**

Undiscounted amounts receivable:	**Loans due from joint ventures £m**	**Trade receivables £m**	**Cash and short term deposits £m**	**Receipts from financial assets £m**
Within 1 year	99.6	214.2	44.6	**358.4**
5 – 10 years	12.5	–	–	**12.5**
Total	**112.1**	**214.2**	**44.6**	**370.9**

2016 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(286.9)	(121.8)	(25.3)	(18.1)	(452.1)
1 – 2 years	(166.1)	(519.7)	(25.7)	–	(711.5)
2 – 5 years	(44.3)	(437.4)	(80.4)	–	(562.1)
5 – 10 years	(636.5)	(1,230.8)	(423.9)	–	(2,291.2)
10 – 15 years	(191.7)	(768.9)	(334.0)	–	(1,294.6)
15 – 20 years	–	(76.9)	(125.7)	–	(202.6)
20 – 25 years	–	(60.9)	(153.1)	–	(214.0)
25 – 30 years	–	(262.2)	(183.0)	–	(445.2)
30 – 35 years	–	–	(217.8)	–	(217.8)
35 – 40 years	–	–	(646.6)	–	(646.6)
40 – 45 years	–	–	(3,163.9)	–	(3,163.9)
45 – 50 years	–	–	(29.4)	–	(29.4)
50 – 55 years	–	–	(426.5)	–	(426.5)
Total	(1,325.5)	(3,478.6)	(5,835.3)	(18.1)	(10,657.5)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	177.8	55.2	233.0

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

36 Risks arising from financial instruments continued

c) Liquidity risk continued

(iii) Cash flows from derivative financial instruments

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

	Derivative liabilities		Derivative assets			
				Cross currency swaps		
2017	Interest rate swaps £m	Energy swaps £m	Interest rate swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(25.4)	(0.2)	6.9	1.1	(0.2)	**(17.8)**
1 – 2 years	(24.9)	(0.5)	6.2	1.1	(0.2)	**(18.3)**
2 – 5 years	(73.4)	(0.3)	13.1	3.4	(0.8)	**(58.0)**
5 – 10 Years	(61.6)	–	4.3	23.9	(13.1)	**(46.5)**
10 – 15 Years	(11.6)	–	(6.4)	18.1	(9.0)	**(8.9)**
	(196.9)	**(1.0)**	**24.1**	**47.6**	**(23.3)**	**(149.5)**

	Derivative liabilities		Derivative assets			
				Cross currency swaps		
2016	Interest rate swaps £m	Energy swaps £m	Interest rate swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(23.4)	(0.4)	2.8	1.0	(0.2)	(20.2)
1 – 2 years	(24.7)	(0.8)	2.6	1.0	(0.2)	(22.1)
2 – 5 years	(66.4)	(2.9)	6.0	3.1	(0.9)	(61.1)
5 – 10 Years	(66.3)	–	1.7	23.5	(13.6)	(54.7)
10 – 15 Years	(12.5)	–	(0.4)	16.7	(9.3)	(5.5)
15 – 20 Years	(0.7)	–	–	–	–	(0.7)
	(194.0)	(4.1)	12.7	45.3	(24.2)	(164.3)

d) Inflation risk

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

Inflation rate sensitivity analysis

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

	2017		2016	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	**(11.2)**	**11.2**	(10.2)	10.2
Equity	**(11.2)**	**11.2**	(10.2)	10.2

Notes to the group financial statements continued

For the year ended 31 March 2017

37 Hedge accounting

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

a) Fair value hedges

(i) Cross currency swaps

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

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

	Notional principal amount		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Euro	**11.4**	11.4	**10.4**	9.8
Yen	**8.5**	8.5	**9.4**	7.9
	19.9	19.9	**19.8**	17.7

(ii) Interest rate swaps

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2017 %**	2016 %	**2017 £m**	2016 £m	**2017 £m**	2016 £m
10 – 20 years	**–**	3.36%	**–**	225.0	**–**	12.1

Hedge accounting for swaps previously designated in fair value hedging relationships have been discontinued, as they no longer meet the criteria set out in IAS 39. These swaps continue to economically increase the portion of debt within the group at floating rates.

b) Cash flow hedges

(i) Interest rate swaps

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

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

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2017 %**	2016 %	**2017 £m**	2016 £m	**2017 £m**	2016 £m
5 – 10 years	**1.70%**	–	**50.0**	–	**(1.1)**	–
10 – 20 years	**2.14%**	5.18%	**384.4**	38.1	**(19.6)**	(10.3)
	2.09%	5.18%	**434.4**	38.1	**(20.7)**	(10.3)

(ii) Energy swaps

The group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2020.

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

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2017 £/MWh**	2016 £/MWh	**2017 MWh**	2016 MWh	**2017 £m**	2016 £m
Less than 1 year	**43.6**	49.8	**66,272**	21,960	**(0.2)**	(0.4)
1 – 2 years	**48.5**	43.6	**205,296**	66,272	**(0.5)**	(0.8)
2 – 5 years	**48.6**	48.5	**21,955**	227,221	**(0.1)**	(2.0)
	47.4	47.6	**293,523**	315,453	**(0.8)**	(3.2)

38 Share based payments

The group operates a number of share based remuneration schemes for employees. During the year, the group recognised total expenses of £6.2 million (2016: £5.2 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £22.98 (2016: £21.44).

At 31 March 2017, there were no options exercisable (2016: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans ('LTIPs')

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

Awards made under the LTIP
The 2013 and 2014 LTIP awards were subject to Severn Trent Water's achievement of Return on Regulatory Capital Value in excess of the level included in the Severn Trent Water AMP5 business plan over a three year vesting period. The 2015 LTIP awards onwards are subject to Severn Trent Water's achievement of Return on Regulated Equity in excess of the level included in the Severn Trent Water AMP6 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2016: 100%).

Awards made under the Services LTIP
Awards are subject to achievement of turnover and profit targets over the three year period from the financial year that the awards were granted. It has been assumed that performance against the Services LTIP will be 0% (2016: 0%).

Awards outstanding

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

	Number of awards	
	LTIP	Services LTIP
Opening at 1 April 2015	433,118	64,524
Granted during the year	244,396	–
Vested during the year	(135,954)	–
Lapsed during the year	(65,682)	(30,660)
Outstanding at 1 April 2016	475,878	33,864
Granted during the year	195,415	–
Vested during the year	(132,697)	–
Lapsed during the year	(21,122)	(33,864)
Outstanding at 31 March 2017	**517,474**	**–**

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

		Number of awards	
Date of grant	Normal Date of Vesting	2017	2016
July 2012			
July 2013	2016	**–**	170,648
July 2014	2017	**153,724**	170,759
July 2015	2018	**168,335**	168,335
July 2016	2019	**195,415**	–
		517,474	509,742

Details of the basis of the LTIP schemes are set out in the Directors' remuneration report on pages 96 to 119.

Notes to the group financial statements continued

For the year ended 31 March 2017

38 Share based payments continued

b) Employee Sharesave Scheme

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

Options outstanding

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

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2015	3,019,131	1,321p
Granted during the year	746,446	1,724p
Forfeited during the year	(111,180)	1,409p
Cancelled during the year	(65,462)	1,486p
Exercised during the year	(712,615)	1,031p
Lapsed during the year	(17,709)	1,210p
Outstanding at 1 April 2016	2,858,611	1,492p
Granted during the year	868,766	1,663p
Forfeited during the year	(71,133)	1,579p
Cancelled during the year	(92,095)	1,636p
Exercised during the year	(449,301)	1,226p
Lapsed during the year	(8,241)	1,396p
Outstanding at 31 March 2017	**3,106,607**	**1,572p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	Normal date of exercise	Option price	2017	2016
January 2011	2016	1,137p	**–**	97,855
January 2012	2017	1,177p	**88,346**	91,194
January 2013	2016 or 2018	1,241p	**112,860**	451,766
January 2014	2017 or 2019	1,331p	**489,937**	521,944
January 2015	2018 or 2020	1,584p	**883,839**	950,908
January 2016	2019 or 2021	1,724p	**668,413**	744,944
January 2017	2020 or 2022	1,663p	**863,212**	–
			3,106,607	2,858,611

c) Share Matching Plan ('SMP')

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

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

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

38 Share based payments continued

c) Share Matching Plan ('SMP') continued

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

	Number of awards
Outstanding at 1 April 2015	50,670
Cancelled during the year	(23,057)
Outstanding at 1 April 2016	27,613
Cancelled during the year	(24,682)
Vested during the year	(2,931)
Outstanding at 31 March 2017	**–**

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

		Number of awards	
Date of grant	Normal Date of Vesting	2017	2016
May 2013	May 2016	–	27,613

d) Fair value calculations

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

	2017			2016		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,236**	**2,222**	**2,222**	2,167	2,151	2,151
Option life (years)	**3**	**3½**	**5½**	3	3½	5½
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**3.7**	**3.7**	**3.7**	3.7	3.7	3.7
Risk free rate (%)	**n/a**	**0.1**	**0.5**	n/a	0.8	1.3
Fair value per share (pence)	**2,224**	**407**	**429**	1,938	363	362

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

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

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

39 Acquisitions

On 15 February 2017, Severn Trent Water Limited acquired 100% of the issued ordinary share capital of Dee Valley Group plc and all of its subsidiaries including the regulated water company Dee Valley Water plc. This acquisition was made through a scheme of arrangement under which Severn Trent Water Limited paid for total consideration of £84.2 million, comprising £79.0 million in cash and £5.2 million in loan notes redeemable on demand.

The acquisition represents an opportunity for the group to deliver attractive returns to its shareholders through applying its successful operating model across an enlarged asset base, in a contiguous geographic area.

The acquisition has been accounted for using the acquisition method. Goodwill of £66.0 million has been capitalised attributable to the anticipated future synergies and outperformance arising as a result of the acquisition.

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

Notes to the group financial statements continued

For the year ended 31 March 2017

39 Acquisitions continued

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

	£m
Fair values on acquisition	
Property, plant and equipment	126.5
Inventories	0.4
Trade and other receivables	16.2
Cash and cash deposits	1.3
Retirement benefit surplus	9.8
Borrowings	(87.9)
Trade and other payables	(16.1)
Deferred income	(19.8)
Current tax	0.3
Deferred tax	(12.5)
Net assets acquired	18.2
Goodwill	66.0
Total consideration	84.2
Satisfied by:	
Cash	79.0
Loan notes issued	5.2
	84.2
Net cash flows arising on acquisition:	
Cash consideration	(79.0)
Cash and cash deposits acquired	1.3
	(77.7)
Dee Valley Group plc for the period since acquisition to 31 March 2017:	
Revenue	2.2
Loss before tax	(0.4)
Severn Trent Water group combined for the year ended 31 March 2017 if acquisition happened on 1 April 2016:	
Revenue	1,841.4
Profit before tax	336.9

The fair values included above are based on management's best estimates of the values as at 15 February 2017 based on all available data that has been received since that date. Given the proximity to the year end, full detailed fair value exercises have not been completed on all assets and liabilities acquired. Therefore, the amounts recognised for these assets and liabilities are provisional.

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

See note 17 for the reconciliation of goodwill recognised for the group.

Acquisition related costs amounting to £3.1 million were recognised as an expense in the income statement. No other acquisition costs were recognised.

40 Discontinued operations

Water Plus joint venture

On 1 March 2016 the group announced its intention, subject to approval from the Competition and Markets Authority ('CMA'), to enter into a joint venture with United Utilities PLC to compete in the non-household water and waste water retail markets in England and Scotland. On 3 May 2016 the CMA announced approval of the joint venture. On this date the group determined that completion of the proposed transaction became highly probable and the non-household retail business was classified as a disposal group and discontinued operation with effect from this date. On 31 May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1 June it exchanged the entire share capital of Severn Trent Select Limited for 50% of the share capital of Water Plus.

Water Purification disposal

On 23 January 2015 the board approved a process to dispose of the group's Water Purification business which formed part of the Business Services segment.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora S.p.A. The sale was completed on 2 July 2015. These operations were classified as discontinued. The results of discontinued operations are disclosed separately in the income statement.

40 Discontinued operations continued

Water Purification disposal continued

The results of the discontinued operations were as follows:

	2017		2016		
	Non-household retail (2 months) £m	Total £m	Non-household retail (1 year) £m	Water Purification (3 months) £m	Total £m
Turnover	66.0	66.0	397.9	29.7	427.6
Total operating costs	(67.3)	(67.3)	(378.5)	(27.6)	(406.1)
(Loss)/profit before tax	(1.3)	(1.3)	19.4	2.1	21.5
Attributable tax credit/(expense)	0.3	0.3	(3.9)	(0.1)	(4.0)
Gain/(loss) on disposal of discontinued operations	14.6	14.6	–	(2.7)	(2.7)
Profit/(loss) for the year	13.6	13.6	15.5	(0.7)	14.8
Attributable to:					
Owners of the company	13.6	13.6	15.5	(0.6)	14.9
Non-controlling interests	–	–	–	(0.1)	(0.1)
	13.6	13.6	15.5	(0.7)	14.8

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

	2017			2016		
	Result £m	Weighted average number of shares m	Per share amount pence	Result £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	13.6	235.0	5.8	14.9	236.1	6.3
Diluted earnings per share	13.6	236.0	5.8	14.9	237.2	6.3

The net assets of the business at the date of disposal were:

	Non-household retail £m	Water Purification £m
Goodwill	–	1.8
Other intangible assets	–	6.5
Property, plant and equipment	–	3.6
Investments	–	0.1
Inventories	–	14.6
Trade and other receivables	0.6	59.9
Cash and bank balances	3.5	11.0
Trade and other payables	(0.6)	(36.1)
Tax liabilities	–	(0.2)
Intercompany borrowings	–	(18.1)
Provisions for liabilities and charges	–	(1.5)
	3.5	41.6
Attributable to:		
Owners of the company	3.5	27.9
Non-controlling interest	–	13.7
	3.5	41.6

The net gain on disposals is calculated as follows:

	Non-household retail £m	Water Purification £m
Consideration	25.5	42.8
Net assets attributable to owners of the company	(3.6)	(27.9)
Disposal costs	(7.3)	(4.8)
Provisions arising on disposal	–	(1.1)
Net gain on disposal before foreign exchange losses	14.6	9.0
Foreign exchange losses recycled from reserves	–	(11.7)
Net gain/(loss) on disposal	14.6	(2.7)

Notes to the group financial statements continued

For the year ended 31 March 2017

40 Discontinued operations continued

Water Purification disposal continued

The net cash flows arising from the disposal groups were as follows:

	2017		2016		
	Non-household retail (2 months) £m	**Total £m**	Non-household retail (1 year) £m	Water Purification (3 months) £m	Total £m
Net cash flows attributable to:					
– operating activities	**2.9**	**2.9**	15.5	(0.5)	15.0
– investing activities	**–**	**–**	–	(11.6)	(11.6)
– financing activities	**(3.5)**	**(3.5)**	–	(6.4)	(6.4)
	(0.6)	**(0.6)**	15.5	(18.5)	(3.0)

The net cash flows arising from disposals were:

	Non-household retail £m	Water Purification £m
Consideration received in cash and cash equivalents	**–**	42.8
Settlement of intercompany loans	**–**	18.1
Disposal costs paid in cash and cash equivalents	**(7.3)**	(4.2)
Cash and bank balances disposed of	**(3.5)**	(11.0)
	(10.8)	45.7

41 Disposals

The group disposed of the Operating Services business in Italy on 23 February 2017 to Acea S.p.A. for proceeds of €9.4 million (£7.9 million), resulting in a gain on disposal of £2.0 million, after disposing of £7.9 million of net assets and incurring £1.6 million associated disposal costs.

The resulting gain on the disposal is presented in the income statement as an exceptional item. The disposal is not separately disclosed as a discontinued operation, as it did not represent a major line of business.

The net assets of the business at the date of disposal were:

	2017 £m
Net assets disposed of:	
Goodwill	**2.0**
Other intangible assets	**1.4**
Property, plant and equipment	**1.2**
Investments	**4.2**
Inventories	**7.5**
Trade and other receivables	**11.3**
Cash and bank balances	**1.5**
Trade and other payables	**(15.0)**
Borrowings	**(3.9)**
Provisions for liabilities and charges	**(2.3)**
	7.9

Attributable to:	
Owners of the company	**7.1**
Non-controlling interest	**0.8**
	7.9

41 Disposals continued

The net gain on disposal is calculated as follows:

	2017 £m
Consideration	7.9
Net assets attributable to owners of the company	(7.1)
Disposal costs	(1.6)
Net loss on disposal before foreign exchange gains	(0.8)
Foreign exchange gains recycled from reserves	2.8
Net gain on disposal	**2.0**

The net cash flows arising from disposal in the year were:

	2017 £m
Net cash flow arising from disposals:	
Consideration received in cash and cash equivalents	0.3
Settlement of intercompany loans	7.6
Disposal costs paid in cash and cash equivalents	(1.6)
Cash and bank balances disposed of	(1.5)
	4.8

42 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2017 £m	2016 (restated) £m
Profit before interest and tax from continuing operations	543.7	504.4
Profit before interest and tax from discontinued operations	13.6	18.8
Profit before interest and tax	**557.3**	523.2
Depreciation of property, plant and equipment	308.8	294.2
Amortisation of intangible assets	19.3	22.0
Pension service credit	(17.3)	(0.7)
Defined benefit pension scheme administration costs	3.3	2.3
Defined benefit pension scheme contributions	(33.2)	(27.8)
(Gain)/loss on sale of disposal group	(14.6)	2.7
Share based payments charge	6.2	5.2
Profit on sale of property, plant and equipment and intangible assets	(5.1)	(0.9)
Gain on disposal of businesses	(2.6)	–
Deferred income credit	(13.9)	(10.5)
Provisions charged to the income statement	16.5	5.9
Utilisation of provisions for liabilities and charges	(10.5)	(10.7)
Operating cash flows before movements in working capital	**814.2**	804.9
Increase in inventory	(1.3)	(2.8)
Decrease/(increase) in amounts receivable	60.3	(24.1)
(Decrease)/increase in amounts payable	(22.2)	19.5
Cash generated from operations	**851.0**	797.5
Tax received	20.6	11.5
Tax paid	(42.4)	(44.9)
Net cash generated from operating activities	**829.2**	764.1

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2016: nil). Assets transferred from developers and under the Private Drains and Sewers legislation at no cost were recognised at their fair value of £51.4 million (2016: £24.8 million).

Notes to the group financial statements continued

For the year ended 31 March 2017

42 Cash flow statement continued

c) Exceptional cash flows

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

	2017 £m	2016 £m
Restructuring costs	**–**	(4.0)
Costs of Pension Exchange Arrangement	**(0.7)**	–
Disposal of subsidiary	**4.8**	–
	4.1	(4.0)

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

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2016	55.2	(1,249.8)	(3,539.7)	(117.2)	28.1	–	(4,823.4)
Cash flow	(14.7)	176.2	(398.0)	1.5	–	109.0	(126.0)
Fair value adjustments	–	–	(16.3)	–	15.1	–	(1.2)
RPI uplift on index-linked debt	–	(2.8)	(27.5)	–	–	–	(30.3)
Acquisition of Dee Valley Water debt	–	–	(87.9)	–	–	–	(87.9)
Foreign exchange	4.1	–	(15.4)	–	–	–	(11.3)
Other non-cash movements	–	3.1	(5.2)	–	0.2	(0.4)	(2.3)
As at 31 March 2017	**44.6**	**(1,073.3)**	**(4,090.0)**	**(115.7)**	**43.4**	**108.6**	**(5,082.4)**

43 Contingent liabilities

Bonds and guarantees

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

44 Service concession arrangements

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

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

Since the group has an unconditional right to receive cash in exchange for the maintenance and upgrade services, the amounts receivable are recognised as a financial asset within prepayments and accrued income. At 31 March 2017 the amounts receivable were £27.7 million (2016: £25.7 million).

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

45 Financial and other commitments

a) Investment expenditure commitments

	2017 £m	2016 £m
Contracted for but not authorised in the financial statements	**221.0**	142.6

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

b) Leasing commitments

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

	2017 £m	2016 £m
Within 1 year	**3.2**	2.3
1 – 5 years	**7.6**	6.4
After more than 5 years	**7.0**	7.2
	17.8	15.9

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

46 Post balance sheet events

Dividends

Following the year end the board of directors has proposed a final dividend of 48.9 pence per share. Further details of this are shown in note 15.

47 Related party transactions

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

	Water Plus 2017 £m
Sale of services	**317.5**
Net interest income	**1.3**
Trade and other receivables due from related parties	**37.6**
Amounts due to related parties	**(8.8)**
Loans receivable from joint ventures	**109.0**

The related parties are associates and joint ventures in which the group has a participating interest. The retirement benefit schemes operated by the group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 29.

Remuneration of key management personnel

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

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 96 to 119.

	2017 £m	2016 £m
Short term employee benefits	**7.2**	6.0
Post employment benefits	**–**	0.1
Share based payments	**3.1**	2.7
	10.3	8.8

Notes to the group financial statements continued

For the year ended 31 March 2017

48 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2017 are given below. Details of the joint venture are set out in note 20. All subsidiary undertakings have been included in the consolidation.

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

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

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent LCP Limited
Biogas Generation Limited	Severn Trent Leasing Limited
Charles Haswell and Partners Limited	Severn Trent MIS Trustees Limited
Chester Water Limited	Severn Trent Metering Services Limited
City Analytical Services Limited	Severn Trent Overseas Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Pension Scheme Trustees Limited
Dee Valley Group Limited	Severn Trent PIF Trustees Limited
Dee Valley plc	Severn Trent Power Generation Limited
Dee Valley Services Limited	Severn Trent Property Solutions Limited
Dee Valley Water (Holdings) Limited	Severn Trent QUEST Limited
Dee Valley Water plc	Severn Trent Reservoirs Limited
East Worcester Water Limited	Severn Trent Retail and Utility Services Limited
Energy Supplies UK Limited	Severn Trent Services (Water and Sewerage) Limited
Etwall Land Limited	Severn Trent Services Defence Holdings Limited
Gunthorpe Fields Limited	Severn Trent Services Defence Limited
Midlands Land Portfolio Limited	Severn Trent Services Finance Limited
North Wales Gas Limited	Severn Trent Services Holdings Limited
Northern Gas Supplies Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent (W&S) Limited	Severn Trent Services International Limited
Severn Trent Corporate Holdings Limited	Severn Trent Services Operations UK Limited
Severn Trent Data Portal Limited	Severn Trent Services Purification Limited
Severn Trent Draycote Limited	Severn Trent SSPS Trustees Limited
Severn Trent Enterprises Limited	Severn Trent Systems Limited
Severn Trent Finance Holdings Limited	Severn Trent Trimpley Limited
Severn Trent Finance Limited	Severn Trent US Funding Management Limited
Severn Trent Financing and Investments Limited	Severn Trent Utilities Finance Plc
Severn Trent Funding Limited	Severn Trent Utility Services Limited
Severn Trent General Partnership Limited	Severn Trent Water Limited
Severn Trent Green Power Limited	Severn Trent Wind Power Limited
Severn Trent Holdings Limited	UKTalks Limited
Severn Trent Home Services Limited	Wrexham Water plc

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Derwent Insurance Limited	Gibraltar	100%	Ordinary
Lyra Insurance Guernsey Limited	Guernsey	100%	Ordinary
Procis Software Limited	United Kingdom	100%	A and B Ordinary
Severn Trent (Del.) Inc	United States	100%	Common Stock
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Environmental Services, Inc	United States	100%	Ordinary
Severn Trent Holdings SA	Belgium	100%	Ordinary
Severn Trent Luxembourg Overseas Holdings S.à r.l.	Luxembourg	100%	Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary
Severn Trent Services, Inc	United States	100%	Common
ST Delta Limited	United Kingdom	100%	A and B Ordinary

48 Subsidiary undertakings continued

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

Company	Registered office
Aqua Deva Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Chester Water Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Group Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Services Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Water (Holdings) Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Water plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
Energy Supplies UK Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
North Wales Gas Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Northern Gas Supplies Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Severn Trent (Del.) Inc	220 Gibraltar Road, Horsham PA 19044, United States
Severn Trent Africa (Pty) Ltd	2 Elgin Road, Sunninghill, Johannesburg, South Africa
Severn Trent Environmental Services, Inc	220 Gibraltar Road, Horsham PA 19044, United States
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Holdings SA	Rond Point Schuman 6 box 5, 1040 Brussels, Belgium
Severn Trent Luxembourg Overseas Holdings S.à r.l.	7A, rue Robert Stümper, L-2557, Luxembourg
Severn Trent Response Limited	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Severn Trent Services, Inc	220 Gibraltar Road, Horsham PA 19044, United States
Wrexham Water plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2017 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

	Company number
Charles Haswell and Partners Limited	2416605
City Analytical Services Limited	2050581
East Worcester Water Limited	2757948
Gunthorpe Fields Limited	4240764
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Corporate Holdings Limited	4395566
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent Financing and Investments Limited	6312635
Severn Trent General Partnership Limited	SC416614
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Services Purification Limited	2409826
Severn Trent Services UK Limited	8120387
Severn Trent Systems Limited	2394552
Severn Trent Utility Services Limited	4125386

Company statement of comprehensive income

For the year ended 31 March 2017

	2017 £m	2016 £m
Profit for the year	**173.0**	292.1
Other comprehensive (loss)/income		
Items that will not be reclassified to the income statement:		
Deferred tax arising on change of rate	**(0.1)**	(0.2)
	(0.1)	(0.2)
Items that may be reclassified to the income statement:		
Amounts on cash flow hedges transferred to the income statement	**–**	1.2
Deferred tax on transfer to the income statement	**–**	(0.2)
	–	1.0
Other comprehensive (loss)/income for the year	**(0.1)**	0.8
Total comprehensive income for the year	**172.9**	292.9

Company statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2015	233.7	100.2	159.6	2,895.5	3,389.0
Profit for the year	–	–	–	292.1	292.1
Amounts on cash flow hedges transferred to the income statement	–	–	1.2	–	1.2
Deferred tax on transfer to the income statement	–	–	(0.2)	–	(0.2)
Deferred tax arising from rate change	–	–	–	(0.2)	(0.2)
Total comprehensive income for the year	–	–	1.0	291.9	292.9
Share options and LTIPs					
– proceeds from shares issued	0.7	6.6	–	–	7.3
– value of employees' services	–	–	–	5.2	5.2
– own shares purchased	–	–	–	(0.6)	(0.6)
Share buy back	–	–	–	(10.0)	(10.0)
Share cancellation	(0.1)	–	0.1	–	–
Dividends paid	–	–	–	(197.0)	(197.0)
At 31 March 2016	234.3	106.8	160.7	2,985.0	3,486.8
Profit for the year	–	–	–	173.0	173.0
Deferred tax arising from rate change	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year	–	–	–	172.9	172.9
Share options and LTIPs					
– proceeds from shares issued	0.4	5.7	–	–	6.1
– value of employees' services	–	–	–	6.2	6.2
Dividends paid	–	–	–	(190.4)	(190.4)
At 31 March 2017	**234.7**	**112.5**	**160.7**	**2,973.7**	**3,481.6**

Company balance sheet

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible fixed assets	1	**0.3**	0.4
Tangible fixed assets	2	**0.3**	0.3
Investments in subsidiaries	3	**3,325.1**	3,318.8
Deferred tax asset	4	**0.1**	0.7
Trade and other receivables	5	**1.0**	492.7
		3,326.8	3,812.9
Current assets			
Trade and other receivables	5	**493.6**	19.7
Current tax receivable		**21.4**	43.5
Derivative financial instruments		**–**	0.7
		515.0	63.9
Total assets		**3,841.8**	3,876.8
Current liabilities			
Borrowings	6	**(5.6)**	(7.7)
Derivative financial liabilities		**–**	(0.7)
Trade and other payables	7	**(265.2)**	(199.4)
Provisions for liabilities and charges	8	**(2.4)**	–
		(273.2)	(207.8)
Non-current liabilities			
Borrowings	6	**(82.3)**	(80.7)
Trade and other payables	7	**(3.0)**	(101.5)
Provisions for liabilities and charges	8	**(1.7)**	–
		(87.0)	(182.2)
Total liabilities		**(360.2)**	(390.0)
Net assets		**3,481.6**	3,486.8
Equity			
Called up share capital	9	**234.7**	234.3
Share premium account	10	**112.5**	106.8
Other reserves	11	**160.7**	160.7
Retained earnings		**2,973.7**	2,985.0
Total equity		**3,481.6**	3,486.8

The profit for the year is £173.0 million (2016: £292.1 million).

Signed on behalf of the Board who approved the accounts on 22 May 2017.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number: 02366619

Notes to the parent company financial statements

For the year ended 31 March 2017

1 Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2015	0.9
Additions	0.2
As at 31 March 2016 and 31 March 2017	**1.1**
Amortisation	
At 1 April 2015 and 1 April 2016	(0.7)
Amortisation for the year	(0.1)
At 31 March 2017	**(0.8)**
Net book value	
At 31 March 2017	**0.3**
At 31 March 2016	0.4

2 Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Total £m
Cost			
At 1 April 2015	0.1	0.6	0.7
At 31 March 2016 and 31 March 2017	**0.1**	**0.6**	**0.7**
Depreciation			
At 1 April 2015	–	(0.4)	(0.4)
At 31 March 2016 and 31 March 2017	**–**	**(0.4)**	**(0.4)**
Net book value			
At 31 March 2017	**0.1**	**0.2**	**0.3**
At 31 March 2016	0.1	0.2	0.3

3 Investments in subsidiaries

	£m
At 1 April 2016	3,318.8
Additions	6.3
At 31 March 2017	**3,325.1**

Details of principal subsidiaries of the company are given in note 48 to the group financial statements.

4 Deferred tax

	Accelerated tax depreciation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2015	0.1	1.2	0.6	1.9
Charge to income	–	(0.8)	–	(0.8)
Credit/(charge) to income arising from rate change	–	0.1	(0.1)	–
Charge to equity	–	(0.2)	–	(0.2)
Charge to equity arising from rate change	–	(0.2)	–	(0.2)
At 1 April 2016	0.1	0.1	0.5	0.7
Charge to income	–	–	(0.6)	(0.6)
Credit to income arising from rate change	–	0.1	–	0.1
Charge to equity arising from rate change	–	(0.1)	–	(0.1)
At 31 March 2017	**0.1**	**0.1**	**(0.1)**	**0.1**

Notes to the parent company financial statements continued

For the year ended 31 March 2017

5 Trade and other receivables

	2017 £m	2016 £m
Current assets		
Other amounts receivable	**3.0**	0.8
Prepayments	**0.5**	3.1
Amounts owed by group undertakings under loan agreements	**467.7**	–
Amounts owed by group undertakings	**22.4**	15.8
	493.6	19.7
Non-current assets		
Amounts owed by group undertakings under loan agreements	**1.0**	492.7
	494.6	512.4

6 Borrowings

	2017 £m	2016 £m
Current liabilities		
Bank overdrafts	**5.6**	7.7
Non-current liabilities		
Other loans	**82.3**	80.7
	87.9	88.4

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

At the balance sheet date the company had £100 million (2016: £100 million) undrawn borrowings facilities.

7 Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	**0.2**	–
Social security and other taxes	**0.1**	0.1
Other payables	**2.8**	6.2
Accruals	**1.1**	2.0
Amounts due to group undertakings	**261.0**	191.1
	265.2	199.4
Non-current liabilities		
Amounts due to group undertakings	**3.0**	101.5
	268.2	300.9

8 Provisions

	Other £m
At 1 April 2016	–
Charged to income statement	5.2
Utilisation of provision	(1.1)
At 31 March 2017	**4.1**

	2017 £m	2016 £m
Included in:		
Current liabilities	**2.4**	–
Non-current liabilities	**1.7**	–
	4.1	–

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

9 Share capital

	2017 £m	2016 £m
Total issued and fully paid share capital		
239,793,915 ordinary shares of $97\frac{17}{19}$p (2016: 239,344,614)	**234.7**	234.3

Changes in share capital were as follows:

	Number	£m
Ordinary shares of $97\frac{17}{19}$p		
At 1 April 2015	238,683,513	233.7
Shares issued under the Employee Sharesave Scheme	712,615	0.7
Shares repurchased and cancelled	(51,514)	(0.1)
At 1 April 2016	239,344,614	234.3
Shares issued under the Employee Sharesave Scheme	449,301	0.4
At 31 March 2017	239,793,915	234.7

During the year ended 31 March 2016, the company repurchased 4,274,576 shares under its share buy back programme. Of these repurchased shares, 51,514 were cancelled and the remaining 4,223,062 are held as treasury shares at 31 March 2017.

10 Share premium

	2017 £m	2016 £m
At 1 April	**106.8**	100.2
Share premium arising on issue of shares for Employee Sharesave Scheme	**5.7**	6.6
At 31 March	**112.5**	106.8

11 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2015	157.0	2.6	159.6
Total comprehensive income for the year	–	1.0	1.0
Purchase of own shares	0.1	–	0.1
At 1 April 2016	157.1	3.6	160.7
At 31 March 2017	**157.1**	**3.6**	**160.7**

The capital redemption reserve arose on the redemption of B shares. The movement in the prior year arose from the repurchase and cancellation of own shares.

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

Notes to the parent company financial statements continued

For the year ended 31 March 2017

12 Share based payments

For details of employee share schemes and options granted over the shares of the company, see note 38 of the group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the company during the year are also disclosed in that note.

13 Pensions

Defined benefit schemes

The group operates defined benefit pension schemes, of which some employees of the company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The scheme closed to future accrual on 31 March 2015. The cost of contributions to the group schemes amount to nil (2016: nil). There were no amounts outstanding for contributions to the defined benefit schemes (2016: nil).

Information about the plans as a whole is disclosed in note 29 to the group financial statements.

14 Related party transactions

The retirement benefit schemes operated by the company are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 13.

The company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £18.5 million and the guarantee for the Severn Trent Water loan is for the amount due.

15 Contingent liabilities

a) Bonds and guarantees

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

b) Bank offset arrangements

The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2017, the company had no contingent liabilities (2016: nil).

16 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 48.90 pence per share.

17 Dividends

For details of the dividends paid in the years ended 31 March 2017 and 31 March 2016 see note 15 in the group financial statements.

Five year summary

Continuing operations	2017 £m	2016 (restated)[1] £m	2015 £m	2014 £m	2013 £m
Turnover	**1,819.2**	1,753.7	1,801.3	1,756.7	1,831.6
Profit before interest, tax and exceptional items	**525.1**	503.4	540.3	523.8	495.4
Net exceptional items before tax	**18.6**	1.0	(18.7)	(15.2)	(5.8)
Net interest payable before (losses)/gains on financial instruments and exceptional finance costs	**(204.0)**	(209.3)	(240.0)	(247.9)	(244.3)
(Losses)/gains on financial instruments	**(1.8)**	7.7	(133.5)	58.0	(45.3)
Results of associates and joint ventures	**(1.8)**	0.1	0.1	0.2	0.2
Profit on ordinary activities before taxation	**336.1**	302.9	148.2	318.9	200.2
Current taxation on profit on ordinary activities	**(36.9)**	(51.3)	(37.8)	(55.8)	(27.9)
Deferred taxation	**(22.4)**	(13.7)	5.1	(21.5)	8.2
Exceptional tax	**52.2**	78.6	–	230.2	38.4
Profit on ordinary activities after taxation	**329.0**	316.5	115.5	471.8	218.9
Results from discontinued operations	**13.6**	14.8	4.7	–	–
Profit for the period	**342.6**	331.3	120.2	471.8	218.9
Net assets employed					
Fixed assets	**8,315.7**	7,810.8	7,620.0	7,418.3	6,906.1
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(916.8)**	(798.4)	(799.0)	(631.1)	(273.8)
Derivative financial instruments[2]	**(161.1)**	(166.3)	(177.7)	(197.1)	(279.8)
Net retirement benefit obligation	**(574.6)**	(309.5)	(468.9)	(348.3)	(383.7)
Provisions for liabilities and charges and deferred tax	**(657.5)**	(694.7)	(725.4)	(758.5)	(827.5)
Net assets held for sale	**–**	–	72.6	–	–
	6,005.7	5,841.9	5,521.6	5,483.3	5,141.3
Financed by					
Called up share capital	**234.7**	234.3	233.7	233.9	233.3
Reserves	**688.6**	783.1	521.9	789.4	599.9
Total shareholders' funds	**923.3**	1,017.4	755.6	1,023.3	833.2
Non-controlling interests	**–**	1.1	13.4	12.5	10.8
Net debt[3]	**5,082.4**	4,823.4	4,752.6	4,447.5	4,297.3
	6,005.7	5,841.9	5,521.6	5,483.3	5,141.3
Statistics					
Earnings per share (continuing) – pence	**140.1**	133.5	48.3	198.5	90.9
Underlying basic adjusted earnings per share – pence	**122.4**	102.1	107.2	92.5	92.6
Dividends per share (excluding special dividend) – pence	**81.5**	80.7	84.9	80.4	75.8
Dividend cover (before exceptional items and deferred tax)	**1.5**	1.3	1.3	1.2	1.3
Gearing[4]	**84.6%**	82.6%	86.1%	81.1%	83.6%
Ordinary share price at 31 March – pounds	**23.82**	21.73	20.59	18.23	17.12
Average number of employees					
– Severn Trent Water	**5,813**	5,236	5,532	5,634	5,458
– Other	**1,789**	2,122	1,910	1,914	2,763

1 Restated as set out in note 2 to the group financial statements.

2 Excludes instruments hedging foreign currency debt.

3 Includes instruments hedging foreign currency debt.

4 Gearing has been calculated as net debt divided by the sum of equity and net debt.

Information for shareholders

Severn Trent shareholder helpline

The Company's registrar is Equiniti. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments.

If you have any queries relating to your Severn Trent Plc shareholding you should contact Equiniti.

Registrar contact details:

Online: www.shareview.co.uk from here, you will be able to securely email Equiniti with your query.

Telephone: 0371 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0371 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

Corporate website

Shareholders are encouraged to visit our website www.severntrent.com which provides:

- Company news and information;
- links to our operational businesses' websites;
- details of our governance arrangements;
- details of our strategy;
- details of the Group's business models and business plan; and
- the Company's approach to operating responsibly.

There is also a dedicated investors' section on the website which contains up to date information for shareholders including:

- comprehensive share price information;
- financial results;
- a history of dividend payment dates and amounts; and
- access to current and historical shareholder documents such as the Annual Report and Accounts.

Electronic communications

By registering to receive shareholder documentation from Severn Trent Plc electronically shareholders can benefit from being able to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when shareholder documents are available;
- cast their AGM vote electronically; and
- manage their shareholding quickly and securely online, through Shareview.

Electronic shareholder communications also enable the Company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs.

For further information and to register for electronic shareholder communications visit www.shareview.co.uk.

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account.

The benefits of doing this are that you will:

- receive cleared funds in your bank account on the payment date;
- avoid postal delays; and
- remove the risk of your cheques getting lost in the post.

To take advantage of this service or for further details contact Equiniti or visit www.shareview.co.uk.

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited.

Telephone: 0371 384 2268*

Telephone number from outside the UK: +44 121 415 7173

Buying and selling shares in the UK

If you wish to buy or sell certificated Severn Trent Plc shares, you may need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online services available to you.
If you are selling, you will need to present your share certificate at the time of sale. Details of low cost dealing services may be obtained from www.shareview.co.uk or 0345 603 7037**.

Share price information

Shareholders can find share price information on our website and in most national newspapers. For a real time buying or selling price, you should contact a stockbroker.

Shareholder security

Fraudsters use persuasive and high pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.

- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember, if it sounds too good to be true, it probably is.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive please contact:

The Mailing Preference Service ('MPS'), Freepost 29 LON20771, London W1E 0ZT

Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599.

American Depositary Receipts ('ADRs')

Severn Trent has a sponsored Level 1 American Depositary Receipt ('ADR') programme, for which The Bank of New York Mellon acts as Depositary.

The Level 1 ADR programme trades on OTCQX which is the premier tier of the US over the counter ('OTC') market under the symbol STRNY (it is not listed on a US stock exchange). Each ADR represents 1 Severn Trent Ordinary Share.

If you have any enquiries regarding Severn Trent ADRs please contact The Bank of New York Mellon.

By post: BNY Mellon Shareowners Services, PO Box 30170, College Station, TX 77842-3170, US

By telephone:
If calling from within the US: (888) 269 2377 (toll-free)

If calling from outside the US: +1 201 680 6825

By email: shrrelations@cpushareownerservices.com

Website: www.mybnymdr.com

* Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England and Wales).

** Lines are open Monday to Friday, 8:00am to 4:30pm for dealing, and until 6:00pm for enquiries.

Financial calendar

Ex dividend date – final dividend	15 June 2017
Record date to be eligible for the final dividend	16 June 2017
AGM	19 July 2017
Interim management statement – Q1 year ending 31 March 2018	19 July 2017
Final dividend payment date	21 July 2017
Interim results announcement – year ending 31 March 2018	23 November 2017
Ex dividend date – interim dividend	30 November 2017
Record date to be eligible for the interim dividend	1 December 2017
Interim dividend payment date	5 January 2018

All dates are indicative and may be subject to change.

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