Preliminary Announcement of Annual Results
23 May 2017
Results for the year to 31 March 2017

SEVERN TRENT

Strong operational improvements and customer delivery support dividend policy upgrade

- Group financial results for the year reflect strong performance:
  - Group turnover of £1,819 million, up £66 million (3.7%)
  - Group underlying PBIT[1] of £525 million, up £22 million (4.3%)
  - Group reported PBIT of £544 million, up £39 million (7.8%)
  - 2016/17 Return on Regulatory Equity (RoRE) of 11.0%[2]
  - Cash generated from operations up £54 million (6.7%)
  - Underlying basic EPS[3] of 122.4 pence (up 19.9%), reported basic EPS from continuing operations 140.1 pence (up 4.9%)
  - Proposed final dividend of 48.90 pence, taking the 2016/17 dividend to 81.50 pence
- Customers are at the heart of our business:
  - **Lowest bills**: focusing on affordability, lowest combined average bills in Britain of £341 p.a. in 2017/18
  - **Helping customers**: achieved target of helping more than 50,000 vulnerable customers
  - **Network investments**: invested around £680 million in 2016/17 for the future of our network[4]
  - **Improved services**: including: ahead of regulatory commitments on supply interruptions by 17%, on leakage by 2%, and on sewer flooding by 21% to reach its lowest ever level
- Delivering tangible benefits for all stakeholders:
  - **Customer ODIs**: £47.6 million[2] reward reflecting strong operational outperformance, helped by a mild winter
  - **Efficiencies**: £100 million of extra totex savings identified; now forecasting £770 million efficiencies[5] for AMP6[6]. £610m of these efficiencies now locked in, including a further £70 million identified in H2 2016/17
  - **Financing**: 2016/17 effective interest rate reduced year-on-year by 10 basis points to 4.4%, despite rising RPI; now 100 basis points lower than final year of AMP5
- AMP6 dividend policy upgraded to growth of at least RPI+4%, taking the proposed 2017/18 dividend to 86.55 pence[7]

1. Underlying Profit before interest and tax (PBIT) excludes exceptional operating items
2. RoRE at 2012/13 prices, and customer ODIs quoted net, pre-tax at 2012/13 prices. RoRE calculated on the same basis as reported in 2015/16. Ofwat have provided further clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly. On this basis our estimated RoRE would be 10%.
3. Underlying Earnings per Share (EPS) is set out in note 11 to the financial statements
4. Comprises infrastructure renewals expenditure and capital expenditure in our Regulated Water and Waste Water business
5. Efficiencies quoted at actual and forecast nominal prices
6. AMP6 – Asset Management Plan regulatory period 2015 to 2020
7. Based on November 2016 RPI of 2.2%

Liv Garfield, Chief Executive, Severn Trent Plc, said:

"Customers are at the centre of everything we do and I am delighted that we have been able to deliver significant improvements in the things they care most about. Sewer floodings are down 21%, and we have further reduced both supply interruptions and leakages. We have done this while maintaining the lowest bills in Britain. These results are testament to the hard work of my colleagues over the past year.

Strong operational delivery resulted in net customer ODIs of £47.6 million, alongside which we are helping more than 50,000 vulnerable customers. New digital technology and improved processes are key building blocks in driving our ambition to be upper quartile versus our peers. We are improving our efficiency and have identified a further £100 million totex savings this regulatory period, taking total efficiencies to £770 million.

We are delivering both strong customer-focused and financial outperformance this regulatory period, and we feel it is now appropriate to share this with our investors. The Board is therefore pleased to announce an upgrade to our ordinary dividend policy, to growth of at least RPI +4%.

This year has had many highlights, however we know there is a lot of hard work needed to further improve our customers' experience when things go wrong and we are confident in our plans to deliver these improvements."

Group results from continuing operations

Underlying results

Year ended 31 March	2017	2016 (restated)[2]	Increase
	£m	£m	
Group turnover	**1,819.2**	1,753.7	3.7%
Underlying group PBIT[1]	**525.1**	503.4	4.3%

	pence/ share	pence/ share	
Underlying basic EPS[2]	122.4	102.1	19.9%
Total ordinary dividends	81.50	80.66	1.0%

Reported results

Year ended 31 March	2017	2016 (restated)[2]	Increase
	£m	£m	
Group turnover	**1,819.2**	1,753.7	3.7%
Group PBIT	**543.7**	504.4	7.8%

	pence/ share	pence/ share	
Basic earnings per share	**140.1**	133.5	4.9%

1 Underlying profit before interest and tax (PBIT) excludes exceptional operating items
2 Restated for discontinued operations

Note: FY2017/18 technical guidance is included in the Chief Financial Officer's section of this announcement

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Preliminary Results Presentation and Webcast

There will be a presentation of these results at 9:30am GMT on Tuesday 23 May at the Rothschild Sky Pavilion, New Court, St Swithin's Lane, London EC4N 8AL. This presentation will be available as a simultaneous webcast on the Severn Trent website (www.severntrent.com) and will remain on the website for subsequent viewing.

Chief Executive's Review

This is a strong set of results and I am proud of all we have achieved to improve the service we offer our customers and put the company in a leading position in a world of incentivisation. At the start of this regulatory period (AMP6) our customers defined what was important to them – through customer outcome delivery incentives (ODIs) – and our result this year reflects the hard work and dedication of my colleagues in driving better operational delivery, while ensuring our bills are affordable for all our customers. We are leaving no stone unturned in the pursuit of a more efficient business and delivering on the things our customers care about. In doing so, we are improving our financial outcomes and creating a platform for sharing outperformance with our shareholders. It is with this in mind that we have been able to revise our AMP6 dividend policy to growth of at least RPI +4%, starting in 2017/18.

Severn Trent continues to execute its strategy with success. Our five areas of priority support our ambition of becoming the most trusted water and sewerage company by 2020:

- Embedding customers at the heart of all we do
- Driving operational excellence and continued innovation
- Investing responsibly for sustainable growth
- Changing the market for the better
- Creating an awesome place to work

Embedding customers at the heart of all we do

To reach our vision of being the most trusted water and sewerage company by 2020, our customers must be at the centre of our decision making.

At Severn Trent, we are proud of our track record of having the lowest average combined water and sewerage bills in Britain, and this will continue through 2017/18, at £341 per annum. This year we have totally redesigned our bill format, making it visually simpler and easier for customers to understand. Our customers have told us they like the new bill format and we are seeing that they have less need to contact us, reducing the number of calls to our contact centres.

I am also proud of the progress we have made in ensuring affordability of our bills for all, providing assistance to the customers in our region who need help with their bills the most. As part of our business plan, we set out an ambitious target to help 50,000 vulnerable customers per year, and we have exceeded our target in 2016/17 through schemes such as WaterSure and our range of social tariffs.

We believe that we can deliver big benefits to customers through innovation and digitisation. In March, we hosted our Digital, Innovation and Technology day for investors and sector specialists to showcase the great things we have been doing across our business to enhance performance by the end of the AMP.

We have been investing in digital technology that touches on all areas of the business and that will improve customer service levels and generate further efficiencies. These investments are preparing us well for the future and helping propel us towards our upper quartile ambitions versus our peers. Our new customer management portal provides an intuitive, single view of the customer and enables faster and easier resolution of contacts. New portable devices for our field teams improve connectivity and include a range of Severn Trent designed apps to improve productivity and help to keep customers informed.

I was pleased that Seven Trent earned 'self-assured' status in Ofwat's annual review, one of only three companies to achieve this standard. This reflects the high quality of information and assurance we report and followed a consultation process with customers and stakeholders to better understand how they use the information we produce and the extent to which they trust it.

While we have had many positives this year, achieving the right level of customer experience – measured by Ofwat's service incentive mechanism (SIM) – remains an area in which we must improve. We were disappointed with our performance again this year and we are working hard to improve in order to meet our customers' expectations.

Our customer ODI performance shows that the overall level of service we are providing to our customers continues to improve. For example, within the Severn Trent area we have seen improvements since the end of AMP5, with the number of customers impacted by a sewer flooding incident having reduced by 40%, and we have reduced the likelihood of impacting the environment from a category 3 pollution incident by around 18%. However, we are aware that when our customers do need to contact us, they do not always have a perfect experience. We are working hard to improve this, and have a new team focused on keeping our customers informed throughout their jobs, improved escalation processes when things go wrong, reduced pending work, and we have gone live with the new customer management portal to improve the customer contact experience.

Driving operational excellence and continuous innovation

Our performance on customer ODIs is one of the successes I am most proud of this year. We have earned a net reward of £47.6 million through the hard work of our teams, the benefit of increased investment in our assets and a milder winter.

In the areas that matter most to our customers, and which carry the largest incentives and penalties, we have performed strongly. We have continued to reduce the number of customers affected by internal and external sewer flooding and are ahead of our regulatory targets by 9% and 23% respectively. We were ahead of our targets for supply interruptions by 17%, leakage by 2% and we have sustained our strong performance on category 3 pollution incidents, beating our target by 25%. On coliform detections, we were ahead of our target by 29%, although the reward on this ODI is only determined at the end of the AMP.

Our digital innovation agenda is helping to drive our strong operational performance. We are deploying new technology to help manage our network, investing in more pressure loggers and data analytics to improve decision making. We're also progressing with the use of drones to inspect our assets, and piloting cutting-edge satellite technology to help locate leaks.

We are not quite where we want to be across all of our metrics however. In particular, our performance on water quality complaints has to improve; we fell 32% short of our target this year. We have been investing in innovative technology and new processes to achieve this. For example, we are increasing usage of water-quality analytics, using the wealth of data in our systems to build our analytical capabilities and help assess the network. By doing this, we can identify areas at high risk of water-quality events and undertake active maintenance to maintain the health of our assets and prevent failures from occurring.

Investing responsibly for sustainable growth

Our ambition is to be one of the most efficient companies in our sector. Today we are pleased to announce that we have identified a further £100 million of AMP6 totex efficiencies, taking the total forecast efficiencies for AMP6 to £770 million. This is a £360 million outperformance against the challenging cost targets that were set out in our Final Determination.

Of the £770 million of efficiencies now announced, we have contracted an additional £70 million during 2016/17, meaning that we have now locked in £610 million. We have also made good progress with the £120 million of reinvestment that we announced in May last year, with around £50 million of initiatives underway in water quality, security and assisting vulnerable customers.

We have made strong progress this year on several key work streams of our largest project this AMP, the Birmingham Resilience Programme. On the Elan Valley Aqueduct element of the scheme, we have completed our first tunnel at Bleddfa in Wales, successfully diverting the flow and allowing decommissioning of the old tunnel, ahead of our target date. We have also started work on the construction of the pipe from Lickhill, on the River Severn, to our treatment works at Frankley, which will ensure a second source of supply for residents in the Birmingham area.

Our renewables team is on track to achieve our target of generating the equivalent of 50% of our energy needs by 2020. We will shortly start generating gas at our second food waste plant at Roundhill, near Stourbridge. Our renewables business has delivered a 16% growth in EBITDA, showing that investment in renewable energy is right for both the environment and our bottom line.

Protecting our environment is vitally important to us all at Severn Trent. Our teams work hard every day to ensure our drinking water is of the highest cleanliness and taste, while limiting the impact on the area in which we work. We put a high emphasis on our performance in this area and our customers expect us to be responsible custodians of the environment today and in the future. We are therefore proud that our strong environmental credentials have been recognised by the Environment Agency which continues to see us as one of the leaders in this area, awarding us the highest available 4* rating in two of the last four years.

During the year we divested a small business in Italy to our joint venture partners. Under their ownership, we believe the business is best placed to fulfil its future potential. This will allow us to have an even greater focus on our core business.

Changing the market for the better

We have been a strong voice in driving change and innovation in the sector through our 'Charting a Sustainable Course' publications. We recently published our latest instalment, 'Designing Incentives to Deliver for Customers' which looks at how the regulatory framework for the water sector could continue to evolve through greater incentives.

The non-household retail market opened on 1 April 2017 and our joint venture with United Utilities, Water Plus, is already active in the market. We are encouraged by Water Plus's early progress and customer wins.

We continue to contribute to the debate on future regulatory changes, and support Ofwat's proposals in areas such as the opening of water resource and bioresource markets to competition. We feel our operational strengths and our central geographic location position us for success as these opportunities open up.

We were pleased to complete the acquisition of Dee Valley Water in February 2017. We are progressing well with the integration and we expect to deliver efficiencies of at least 20% on annual operating costs as a result of joining the two businesses together. As part of bringing Dee Valley under the Severn Trent umbrella, we have retained the vast majority of their team and we are successfully working together. We have found roles for all but 12 people and all front line operational staff have remained in the business. We have also identified a number of areas of excellence in which Dee Valley operates, for example their strong performance on water quality, and we plan to embed these practices into the way we do things across the wider Severn Trent business.

Our preparations for PR 19 for the 2020-25 regulatory period are now well underway and we are making good progress against internal milestones, ahead of the submission of our business plan to Ofwat in September 2018. We are consulting with our customers and stakeholders on the key issues that are most important to them through our 'Shaping our Future' consultation, which was launched earlier this year.

Creating an awesome place to work

We place great value in having a highly motivated and enthusiastic workforce and believe that this is helping to drive service improvements, better ways of working and an improved customer experience. Our employee engagement scores have further improved and we remain above global benchmark indicators. Furthermore, we are adopting new ways of working, including extensive use of the latest technology to make colleagues' lives easier, thereby making the company more efficient.

At the start of the AMP we introduced a company-wide bonus scheme rewarding our employees for delivery on profit, customer ODIs and health and safety targets. We have been pleased with the success of the scheme in motivating our people and rewarding outperformance. From this year, to reflect our increased focus on improving our customer experience, we will be including a customer service measure, with up to 8% of bonuses being linked to a reduction in written customer complaints.

We take our corporate responsibility seriously and see our environmental, social and governance performance as key to our vision of being the UK's most trusted water company. The key ambitions are to make our region the most water efficient in the UK and to play a leading role in making our rivers even healthier. This year we have performed 12,000 home water efficiency checks, engaged with around 650 new farms as part of our catchment management scheme, and launched an innovative employee volunteering scheme encouraging our people to take two days of volunteering leave each year to help clean up riversides in our region.

We were once again named as a constituent within the FTSE4Good index of companies and continue to show alignment with the UN Global Compact principles, illustrating the commitments expected of a leading socially responsible business.

We have invested more in leadership and technical skills, delivering an almost 20% increase in training days this year and were named as one of the country's top 100 apprenticeship employers at the National Apprenticeship Awards. We are also proud to have been ranked joint first in the FTSE100 for female representation at board level by the Hampton-Alexander review.

Chief Financial Officer's Review

The group has delivered strong financial performance in 2016/17, reflecting the hard work and dedication of my colleagues. Our Regulated Water and Waste Water business has continued to reduce operating costs as our efficiency programmes deliver results. In Business Services we have delivered growth as promised both in revenues and underlying PBIT. We have enhanced our dividend policy for the remainder of AMP6, with effect from 2017/18, and will now increase the dividend by at least RPI +4% each year.

This year we have completed a number of strategic transactions that will allow us to build value in our core strengths of water, waste and renewable energy:

- On 1 June 2016 we completed the disposal of our Non-Household Retail activities to Water Plus, our joint venture with United Utilities. These activities have been reported as a discontinued operation and the previous year's figures have been restated to reflect this. Details of the restatement were set out in a separate stock market announcement on 8 September 2016.
- On 15 February 2017 we completed the acquisition of Dee Valley Water for total consideration of £84 million. We have made rapid progress in integrating the acquisition into our regulated business and we expect to see the benefit of our anticipated synergies in 2017/18.
- On 23 February 2017 we sold our Operating Services business in Italy to our former joint venture partner, Acea S.p.A, resulting in an exceptional gain before tax of £2 million.

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

- Group turnover from continuing operations was £1,819.2 million (2015/16: £1,753.7 million), an increase of 3.7% as our allowed prices in Regulated Water and Waste Water increased by 1.5% and Business Services' external turnover grew by 11.9%.
- We increased underlying PBIT by 4.3% to £525.1 million (2015/16: £503.4 million). Our efficiencies in Regulated Water and Waste Water enabled operating cost savings (excluding infrastructure renewals and depreciation) of £9.4 million year-on-year.
- Reported group PBIT was up 7.8% to £543.7 million (2015/16: £504.4 million).
- Cash from operations was up £53.5 million (6.7%).

On pensions, we have made good progress in managing our risks:

- We have successfully agreed the funding plan for the Severn Trent defined benefit pension schemes following formal closure of the triennial valuation. The new asset backed funding arrangement will provide index-linked annual payments, starting at £15 million in 2017/18, for 15 years or, if sooner, until no longer needed. In addition we will make annual payments of £10 million for three years starting in 2016/17 and we made a further payment of £15 million in 2016/17 in lieu of the payment from the new asset backed funding arrangement.
- We have agreed arrangements to reduce exposure to interest and inflation rate volatility on our pension liabilities.
- We completed the pension increase exchange arrangement announced at the half year, generating a finalised gain of £16.6 million, which we have disclosed as an exceptional item.

The accounting net deficit on the Severn Trent pension schemes has reduced from £711.7 million at 30 September 2016 to £574.6 million at 31 March 2017.

On financing, we have a strong funding position, with all our projected investment and cash needs through to January 2019 covered by cash or committed facilities. Moody's moved their outlook on our long-term rating from negative to stable during the year reflecting their anticipation of the Group benefiting from ODI rewards, totex outperformance, financing outperformance and a more favourable inflation environment.

- We raised £400 million in a sterling bond issue at the lowest coupon we have ever achieved and £100 million through a floating rate bank loan.

- Net finance costs were £204.0 million (2015/16: £209.3 million). Our effective interest rate was 4.4%, down from 4.5% in 2015/16 and down from 5.4% since the beginning of AMP6.

Our underlying effective tax rate was 16.6%, down from 18.5% in 2015/16 as we benefited from allowances on our increased capital programme.

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,528.8 million (2015/16: £1,506.1 million) and underlying PBIT was £494.7 million (2015/16: £482.5 million). As noted in our announcement on 8 September 2016, the prior year underlying PBIT has been restated by £9.6 million to reflect the share of costs incurred in Regulated Water and Waste Water that was previously reallocated to the non-household retail operations. As these activities are not transferring to the joint venture, they are deemed to remain with Regulated Water and Waste Water.

	2017	2016 (restated)	Better/(worse)	
	£m	£m	£m	%
Turnover	**1,528.8**	1,506.1	22.7	1.5%
Net labour costs	**(140.8)**	(144.7)	3.9	2.7%
Net hired and contracted costs	**(146.1)**	(150.4)	4.3	2.9%
Power	**(86.8)**	(89.1)	2.3	2.6%
Bad debts	**(20.6)**	(20.3)	(0.3)	(1.5%)
Other costs	**(186.8)**	(186.0)	(0.8)	(0.4%)
	(581.1)	(590.5)	9.4	1.6%
Infrastructure renewals expenditure	**(136.2)**	(126.0)	(10.2)	(8.1%)
Depreciation	**(316.8)**	(307.1)	(9.7)	(3.2%)
Underlying PBIT	**494.7**	482.5	12.2	2.5%

Turnover increased by 1.5%, as higher tariffs, including the impact of the annual RPI increase on prices, increased revenue by £22.6 million. Higher consumption added a further £3.1 million, offset by an increase in meter optants and other small movements that reduced revenue by £3.0m. Dee Valley Water contributed £2.2 million for the six weeks from the date of acquisition.

Net labour costs were £3.9 million (2.7%) lower. Gross employee costs increased by 9.2%, in part as a result of our strategy to bring more work in-house, and the increased activity on capital projects, which resulted in an increase in the level of own labour capitalised, £25.5 million higher than in the previous year.

Net hired and contracted costs decreased by £4.3 million. As well as driving supply chain efficiencies, we have been building our in-house skills and expertise to reduce our use of external consultants.

Our net labour and hired and contracted costs this year included £7.4 million (2015/16: £4.7 million) to prepare the wholesale business for non-household retail competition.

Power costs were £2.3 million lower year on year. We implemented a number of actions that successfully reduced consumption, despite higher water production driven by customer demand. The group manages its power costs through a combination of demand management, self-generation, forward price contracts.

The bad debt charge from household customers remained stable at 1.8% of household revenue. Total bad debt charges were £0.3 million greater reflecting the increased turnover. Following market opening, retailers now bear the credit risk for non-household customers and Regulated Water and Waste Water bears the credit risk on sales to retailers.

Other costs increased by just £0.8 million, despite the previous year benefiting from a rebate of £4.4 million from the Environment Agency.

Infrastructure renewals expenditure was £10.2 million greater in the year reflecting the planned step up in activity, and the completion of the Bleddfa tunnel (£20.2 million in 2016/17, £4.0 million greater than 2015/16), partially offset by operating efficiencies.

Depreciation of £316.8 million resulted from the impact of the 4% increase in depreciable assets.

Return on Regulated Equity (RoRE)

RoRE is a key performance indicator for the regulated business reflecting performance on totex, ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2017 and for the two years ended on that date is set out in the following table:

	2016/17 %[1]	AMP6 to Date %[1]
Base return[2]	5.6%	5.6%
Totex outperformance[3]	2.1%	1.4%
ODI outperformance[4]	1.3%	1.0%
Financing outperformance[5]	1.8%	1.6%
Other[6]	0.2%	0.1%
Regulatory return for the year	**11.0%**	**9.7%**

1 Based on RCV of £7,413 million for 2016/17 and £7,324 million for AMP6 to date, both in 2012/13 prices.
2 Based on Final Determination, with an adjustment to the 2016/17 base return to exclude the non-household retail return that is now being earned by Water Plus.
3 Company share of totex outperformance in the year/AMP to date, adjusted for phasing.
4 Company assessment of performance - 2016/17 performance will be subject to Ofwat review in Autumn 2017.
5 Based on actual financing cost and net debt. The nominal finance cost from the Final Determination has been deflated to 2012/13 prices using the Final Determination average RPI inflation for the period. Ofwat have provided further clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly. On this basis our estimated RoRE would be 10%.
6 Includes land sales and disposals, other income, the Wholesale Revenue Forecasting Incentive Mechanism and element of non-household retail revenue performance earned before the Water Plus joint venture.

We have delivered strong returns of 11.0%, and our performance has been strong across the board – with exceptional customer ODI performance, improved operational and investment efficiency service levels, and continuing outperformance on finance.

Ofwat have provided further clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly. On this basis our estimated RoRE would be 10%.

Under either measure, we are pleased to be delivering sustained, balanced outperformance for the benefit of our customers and investors.

Business Services

	2017	2016 (restated)	Increase	
	£m	£m	£m	%
Turnover				
Operating Services	**255.6**	226.7	28.9	12.7%
Renewable Energy	**54.0**	50.0	4.0	8.0%
	309.6	276.7	32.9	11.9%
Underlying PBIT				
Operating Services	**17.8**	11.5	6.3	54.8%
Renewable Energy	**19.4**	16.9	2.5	14.8%
	37.2	28.4	8.8	31.0%

In our Operating Services business, turnover increased by £28.9 million including £22.8 million from exchange rate impacts, and underlying PBIT increased by £6.3 million, as a result of strong performance in our US contracts and exiting some less profitable contracts. We sold our Italian businesses in February of this year, therefore they will not be included in next year's results.

In the Renewable Energy business, turnover increased by 8.0%, and underlying PBIT increased by just under 15%, largely driven by growth in generation from both sludge and crops.

The results above exclude the Non-Household Retail business, which was transferred to the Water Plus joint venture during the year and the Water Purification business, which was sold during the prior year. These businesses have been classified as discontinued operations in the current and previous periods.

Corporate and Other

Corporate overheads were £10.0 million (2015/16: £10.6 million) and our other businesses generated a net profit of £1.2 million (2015/16: £3.1 million).

Exceptional items before tax

An exceptional gain of £16.6 million arose (2015/16: nil) from the net benefit, after implementation costs, of a Pension Increase Exchange arrangement under which pensioners of the defined benefit schemes were offered the opportunity to exchange future non-statutory inflationary increases in a portion of their pensions earned prior to 1997 for a higher pension payment now.

The disposal of our Italian Operating Services businesses resulted in a gain of £2.0 million.

In 2015/16 there was a gain of £1.0 million arising from the release of a provision originally recorded as an exceptional charge.

Net finance costs

At the start of the AMP we took a series of actions to take advantage of low floating interest rates. The benefits of this approach are reflected in our net finance costs this year of £204.0 million, £5.3 million lower than the prior year (£209.3 million). Lower costs on floating rate debt were partially offset by higher inflation in the year, which led to higher finance costs on the 27% of our debt that is index-linked. Finance costs capitalised were higher than the prior year due to the increased level of capital activity in the year.

The effective interest rate, including index linked debt, for the year was 4.4% (2015/16: 4.5%). The effective cash cost of interest (which excludes the RPI uplift on index linked debt) was 3.8% (2015/16: 4.2%).

Our profit before interest, tax depreciation and amortisation (PBITDA) interest cover was 4.4 times (2015/16: 4.2 times) and PBIT interest cover was 2.7 times (2015/16: 2.6 times).

Gains/losses on financial instruments

We use financial derivatives solely to hedge risks associated with our normal business activities including:

- Exchange rate exposure on foreign currency borrowings;
- Interest rate exposures on floating rate borrowings; and
- Exposures to increases in electricity prices.

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

Where derivatives are held to their full term mismatches will net out over the life of the instrument. The changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore we show underlying earnings figures that exclude these non-cash items. In exceptional circumstances we may terminate swap contracts before their maturity date. The payments or receipts arising from the cancellations are charged or credited against the liability or asset on the balance sheet.

We hold interest rate swaps with a net notional principal of £106.9 million and cross currency swaps with a sterling principal of £98.3 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and so the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a gain of £11.1 million (2015/16: gain of £53.8 million) in relation to these instruments.

Note 6 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed around 85% of our estimated wholesale energy usage for 2017/18.

Taxation

The total tax charge for the year was £7.1 million (2015/16: credit of £13.6 million).

Note 7 in the financial statements sets out the tax charges and credits in the period, which are described in more detail below.

The current year tax charge before exceptional tax was £36.9 million (2015/16: £51.3 million). There was an exceptional credit of £16.4 million (2015/16: nil) from adjustments following agreement with HMRC of prior years' tax matters and our net tax paid was £11.6 million lower than the previous year.

The deferred tax charge before exceptional tax was £22.4 million (2015/16: £13.7 million).

In common with other utilities, we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets was charged to our profits. This provision does not represent a liability for tax payable but is released to the income statement as the depreciation catches up with the tax allowances received. The provision is calculated at the rate of tax applicable when the provision is expected to reverse. 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 2015/16, 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.

Our underlying effective current tax rate was 16.6% (2015/16: 18.5%). Higher capital allowances have reduced the effective rate in the current year.

Profit for the year and earnings per share

Profit for the year from continuing operations increased by 3.9% to £329.0 million (2015/16: £316.5 million).

The profit for the year from discontinued operations was £13.6 million (2015/16: profit of £14.8 million) and the total profit for the year including discontinued operations was £342.6 million (2015/16: £331.3 million).

Basic earnings per share from continuing operations increased by 4.9% to 140.1 pence (2015/16: 133.5 pence). Underlying basic earnings per share were 122.4 pence (2015/16: 102.1 pence). For further details see note 11.

Cash flow

	2017 £m	2016 £m
Cash generated from operations	**851.0**	797.5
Net capital expenditure	**(501.3)**	(410.0)
Net interest paid	**(177.0)**	(189.6)
Acquisition of subsidiaries	**(77.7)**	–
Proceeds on disposal of discontinued operations and subsidiaries	**(19.2)**	45.7
Proceeds on maturity of forward contracts	**4.3**	–
Tax paid	**(21.8)**	(33.4)
Free cash flow	**58.3**	210.2
Dividends	**(190.4)**	(197.0)
Issue of shares	**6.1**	7.3
Purchase of own shares	**–**	(97.1)
Change in net debt from cash flows	**(126.0)**	(76.6)
Non-cash movements	**(133.0)**	5.8
Change in net debt	**(259.0)**	(70.8)
Opening net debt	**(4,823.4)**	(4,752.6)
Closing net debt	**(5,082.4)**	(4,823.4)

	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)
Finances leases	**(115.7)**	(117.2)
Cross currency swaps	**43.4**	28.1
Loans due from joint ventures and associated undertakings	**108.6**	–
	(5,082.4)	(4,823.4)

At 31 March 2017 we held £44.6 million (2015/16: £55.2 million) in cash and cash equivalents. Average debt maturity was around 15 years (2015/16: 15 years). Including committed facilities, our cash flow requirements are funded until January 2019.

Net debt at 31 March 2017 was £5,082.4 million (2015/16: £4,823.4 million) and balance sheet gearing (net debt/net debt plus equity) was 84.6% (2015/16: 82.6%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2017 was 61.6% (2015/16: 61.6%).

The estimated fair value of debt at 31 March 2017 was £1,444 million higher than book value (2015/16: £863 million higher). The increase in the difference to book value is largely due to the decrease in the discount rates applied, driven by lower prevailing market interest rates.

Treasury management and liquidity

Our principal treasury management objectives are:

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

We invest cash in deposits with highly rated banks and liquidity funds. We regularly review the list of counterparties and report to the Treasury Committee.

In November 2016 we took advantage of low interest rates to issue a £400 million sterling bond with a maturity of 15 years. The proceeds were swapped to floating rate in line with our current strategy of increasing the proportion of floating rate debt in our mix. We also raised a further £100 million through a floating rate bank loan. This was drawn down in December 2016.

Our policy for the management of interest rates is that at least 40% of our borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2017, interest rates for 51% (2015/16: 55%) of our net debt of £5,082.4 million were fixed.

Our long term credit ratings are:

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

The outlook is stable for both agencies.

Pensions

We have three defined benefit pensions arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes closed to future accrual on 31 March 2015.

Formal three-yearly actuarial valuations have been completed as at 31 March 2016 for the Severn Trent schemes ('the Schemes') and we have agreed the future funding plan for the Schemes with the Trustee. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, includes:

- Inflation-linked payments of £15 million per annum through a new asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.
- Further payments of £10 million for the three financial years ending 31 March 2019 and an additional payment of £15 million in 2016/17 in lieu of the payment from the new asset backed funding arrangement, which will start in 2017/18.
- Continued payments under the existing asset-backed funding arrangement which provides £8.2 million per annum to 31 March 2032.
- In addition to these payments, the company will directly pay the annual Pension Protection Fund levy incurred by the STPS (£1.2 million in 2016/17).

We have agreed with the Trustees to enter into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Dee Valley Water participates in the Dee Valley Water plc section of the Water Companies Pension Scheme ("the Section"). The Section funds are administered by trustees and are held separately from the assets of the group.

On an IAS 19 basis, the net position (before deferred tax) of all of the group's defined benefit pension schemes was a deficit of £574.6 million at 31 March 2017. This compares to a deficit of £711.7 million at 30 September 2016 (31 March 2016: £309.5 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns. The sharp decrease in corporate bond yields in the first half of the year has partially reversed in the second half and this, together with the continued good performance of the Schemes' assets, particularly equities, has driven a reduction in the pension deficit in the second half year.

The movements in the net deficit during the period were:

	2017 **£m**	2016 £m
Present value at 1 April	**(309.5)**	(468.9)
Acquisition of Dee Valley Water	**9.8**	–
Change in actuarial assumptions	**(538.8)**	194.2
Asset out/(under)performance	**227.6**	(45.9)
Contributions in excess of the income statement charge	**36.3**	11.1
Present value at 31 March	**(574.6)**	(309.5)

On an IAS 19 basis, the funding level was 80% (31 March 2016: 87%).

Exchange rates

The trading results of overseas subsidiaries are translated to sterling at the average rate of exchange ruling during the period and their net assets are translated at the closing rate on the balance sheet date. The impact of changing exchange rates on the subsidiaries' trading results was immaterial.

Dividends

The Board has proposed a final ordinary dividend of 48.90 pence per share for 2016/17 (2015/16: 48.40 pence per share). This gives a total ordinary dividend for the year of 81.50 pence (2015/16: 80.66 pence). The final ordinary dividend is payable on 21 July 2017 to shareholders on the register at 16 June 2017.

We have enhanced our dividend policy for the remainder of AMP6, with effect from 2017/18, and will now increase the dividend by at least RPI +4% each year, taking the 2017/18 dividend to 86.55 pence.

Principal risks and uncertainties

The Board considers the principal risks and uncertainties affecting the group's business activities to be those detailed below:

Customer Perception:

- We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Legal and Regulatory Environment:

- We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.
- The regulatory landscape is complex and subject to ongoing change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation, leading to the risk of non-compliance.

Operations, assets and people:

- We may experience loss of data or interruptions to our key business systems as a result of cyber threats.
- We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.
- Failure of certain key assets or processes may result in inability to provide a continuous supply of clean water and safely take waste water away within our area.
- Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public as well as negatively impact our local and wider environment.
- We may be unable to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or be unable to successfully plan for future water resource supply and demand due to climate change.

Financial risks

- Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.
- We may be unable to fund the business sufficiently in order to meet our liabilities as they fall due.

The UK's decision to leave the European Union (EU)

- Severn Trent is less affected than other companies from the decision to leave the European Union – we operate principally in the UK and our supplier base and customers are predominantly domestic. We are, however, subject to some of the broader developments that flow from the decision, such as:
    - The effect on interest rates. Interest rates fell in the wake of the referendum decision. Lower rates reduce our cost of variable rate debt but they have an adverse impact on our pension deficit.
    - The impact on our sources of finance. Where we borrow money from will be affected by broader macro-economic considerations and whether we will still have access to the European Investment Bank (or its equivalent) after leaving the European Union.
    - Future changes to environmental regulation. EU-derived environmental regulation has historically been a major driver of our investment programmes. The extent to which the UK government will follow or deviate from EU environmental legislation in the future is unclear.
    - The impact on the domestic economy. The health of the domestic economy can impact the ability of some of our customers to pay their bills.
- We don't consider the uncertainty surrounding the Brexit negotiations as a Principal Risk in itself, but it will be an influencing factor on the potential causes of some of our Principal Risks. Understanding the implications of the Brexit negotiations will therefore form a key part of our future ERM risk review process and the assessment of our Principal Risks.

Technical Guidance 2017/18

Regulated Water and Waste Water[1]:

Revenues are expected to be in the range of £1.57 billion to £1.60 billion (2016/17: £1.53 billion).

We expect operating costs to be higher year on year (2016/17: £581.1 million) due to the inclusion of Dee Valley's costs and upward pressure from two sector-wide changes in business rates and energy pass-through costs. Further efficiencies will offset other inflationary pressures. In addition, we expect to incur £135 million to £155 million of net infrastructure renewals expenditure (2016/17: £136.2 million), which will be charged to the income statement.

We expect to earn net rewards for 2017/18 customer ODI[2] outperformance of around £23 million (2016/17: £47.6 million). If we continue our exceptional operating performance into FY2017/18, the tougher regulatory targets, a lower number of deadbands and factoring in the potential for less benign weather patterns after two very mild winters, will reduce net rewards to around £23m.

Wholesale Totex[3] is expected to be £1.2 billion to £1.3 billion (2016/17: £1.06[4] billion), of which 42.1% will be capitalised onto the RCV.

Business Services

We expect revenues to be flat, as the disposal of Italy is offset by growth in the remaining business, and PBIT to be higher year on year (2016/17: £309.6 million and £37.2 million respectively).

Group

The group interest charge is expected to be higher year on year (2016/17 £204.0 million), based on higher forecast RPI increasing the interest charge on our index-linked debt and a full year of Dee Valley.

The underlying effective rate of current tax for the group for 2017/18 is expected to be between 12% and 14% (2016/17 16.6%). The reduction is due to the fall in the corporation tax rate from 20% to 19% and an increase in capital allowances resulting from the increasing capital programme.

We estimate the Group's net capital expenditure (cash) under IFRS will be £620 million to £700 million (2016/17: £501.3 million).

In line with our newly announced policy, the dividend for 2017/18 will be 86.55p (2016/17: 81.5p) and will grow by at least 4% above RPI annually over the remainder of AMP6.

Our closing RCV at 31 March 2020, including Dee Valley and midnight adjustments, is now expected to be around £9.5 billion[5], impacted by higher RPI assumptions and savings on our totex programme.

1. Regulated Water and Waste Water will include a full year of Dee Valley Water in 2017/18.
2. Overall pre-tax reward at 2012/13 prices.
3. Excludes retail costs, includes regulated renewables.
4. Includes Wholesale's £12.8m share of the exceptional pension service credit.
5. Assumes average RPI of 3.3% for 2017 – 2020, based on Office of Budget Responsibility forecasts. Includes the impact of £360m of announced forecast totex outperformance and £120m of reinvestment. Also includes the forecast Dee Valley RCV at 2020 (£103m) and the forecast adjustment for the Capital Incentive Scheme (CIS) indexation error and the capex true up for 2014/15 (total adjustment of £149m), which Ofwat are due to finalise by summer 2017.

Further Information

For further information, including the group's preliminary results presentation, see the Severn Trent website (www.severntrent.com).

Investor Timetable

Ex Dividend Date (Final)	15 June 2017
Record Date (Final)	16 June 2017
AGM	19 July 2017
Q1 Trading Update	19 July 2017
Dividend Payment Date (Final)	21 July 2017
Half Year Results Announcement 2017/18	23 November 2017
Ex Dividend Date (Interim)	30 November 2017
Record Date (Interim)	1 December 2017
Dividend Payment Date (Interim)	5 January 2018

For more information please visit:
https://www.severntrent.com/investors/financial-calendar

Consolidated income statement
Year ended 31 March 2017

	Note	2017 £m	2016 (restated) £m
Turnover	2	**1,819.2**	1,753.7
Operating costs before exceptional items		**(1,294.1)**	(1,250.3)
Exceptional items		**18.6**	1.0
Total operating costs		**(1,275.5)**	(1,249.3)
Profit before interest, tax and exceptional items	2	**525.1**	503.4
Exceptional items	3	**18.6**	1.0
Profit before interest and tax		**543.7**	504.4
Finance income	4	**73.3**	73.1
Finance costs	5	**(277.3)**	(282.4)
Net finance costs		**(204.0)**	(209.3)
Net (losses)/gains on financial instruments	6	**(1.8)**	7.7
Share of net profit of joint ventures accounted for using the equity method		**(1.8)**	0.1
Profit on ordinary activities before taxation		**336.1**	302.9
Current tax	7	**(36.9)**	(51.3)
Deferred tax	7	**(22.4)**	(13.7)
Exceptional tax	7	**52.2**	78.6
Taxation on profit on ordinary activities	7	**(7.1)**	13.6
Profit for the year from continuing operations		**329.0**	316.5
Profit for the year from discontinued operations	9	**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	**140.1**	133.5
Diluted	**139.5**	132.8
From continuing and discontinued operations		
Basic	**145.9**	139.8
Diluted	**145.3**	139.1

Consolidated statement of comprehensive income
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 (losses)/gains 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
Year ended 31 March 2017

	Equity attributable to owners of the company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£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 minority 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 losses 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 minority 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

	Note	2017 £m	2016 £m
Non-current assets			
Goodwill		**81.0**	14.8
Other intangible assets		**80.9**	72.2
Property, plant and equipment		**8,116.4**	7,718.6
Investments in joint ventures and associates		**37.4**	5.1
Derivative financial instruments		**67.0**	40.2
Trade and other receivables		**58.1**	49.6
Retirement benefit surplus	12	**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		**517.8**	467.0
Current tax receivable		**7.3**	–
Derivative financial instruments		**–**	0.7
Cash and cash equivalents		**44.6**	55.2
		585.9	543.9
Total assets		**9,036.5**	8,444.5
Current liabilities			
Borrowings		**(559.4)**	(280.6)
Derivative financial instruments		**(0.6)**	(1.1)
Trade and other payables		**(451.9)**	(454.1)
Current tax payable		**–**	(11.1)
Provisions for liabilities and charges		**(17.5)**	(12.3)
		(1,029.4)	(759.2)
Non-current liabilities			
Borrowings		**(4,719.6)**	(4,626.1)
Derivative financial instruments		**(184.1)**	(178.0)
Trade and other payables		**(955.7)**	(870.8)
Deferred tax		**(623.7)**	(664.7)
Retirement benefit obligations	12	**(584.4)**	(309.5)
Provisions for liabilities and charges		**(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		**234.7**	234.3
Share premium account		**112.5**	106.8
Other reserves		**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

Consolidated cash flow statement
Year ended 31 March 2017

	Note	2017 £m	2016 £m
Cash generated from operations	13	**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
Purchase 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	8	**(77.7)**	–
Proceeds on disposal of subsidiaries net of cash disposed		**5.1**	45.7
Investments in joint ventures and associates		**(13.5)**	–
Cash flows from transfer of business to joint venture	9	**(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)
Issues of shares		**6.1**	7.3
Share buy back		**–**	(92.5)
Purchase of own shares		**–**	(4.6)
Repayments of borrowings		**(276.2)**	(924.6)
Repayments of obligations under finance leases		**(1.5)**	(62.8)
New loans raised		**498.0**	926.7
Net cash flow from financing activities		**(142.4)**	(542.4)
Net movement in cash and cash equivalents		**(14.7)**	(137.3)
Net cash 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

1. General information

a) Basis of preparation

The 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 and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

The financial information set out in this announcement does not constitute the company's statutory accounts, within the meaning of section 430 of the Companies Act 2006, for the years ended 31 March 2017 or 2016, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not comply with the disclosure requirements of IFRS. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The auditors have consented to the publication of the Preliminary Announcement as required by Listing Rule 9.7a having completed their procedures under APB bulletin 2008/2.

b) 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.

(i) Exceptional items

The group classifies items of income or expenditure as exceptional if individually or, if of a similar type, in aggregate they 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.

(ii) Underlying PBIT

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

(iii) 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.

(iv) Net debt

Net debt comprises borrowings, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), loans to or from joint ventures and cash and cash equivalents.

(v) 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.

(vi) 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).

(vii) 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.

(viii) PBIT interest cover

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

(ix) 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.

2. 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 8.

The disposal of the group's non-household retail business to the newly created 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 9.

The Water Purification business was classified as a discontinued operation in the prior year. The sale of this business was completed on 2 July 2015, see note 9.

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

	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 3)	**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

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 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 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

3. Exceptional items before tax

	2017 £m	2016 £m
Regulated Water & 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 & 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 & other in the table above.

Exceptional tax is disclosed in note 7.

4. 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

5. 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

6. 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

7. Taxation

	2017			2016		
	Before exceptional tax £m	**Exceptional tax £m**	**Total £m**	Before exceptional tax £m	Exceptional tax £m	Total (restated) £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 current year tax charge before exceptional tax was £36.9 million (2015/16: £51.3 million). The exceptional credit of £16.4 million (2015/16: nil) arises primarily from adjustments following agreement with HMRC of tax matters from several prior years.

The Finance Act 2016 was enacted in the current year, which implemented a reduction in the corporation tax rate to 17% with effect from 1 April 2020. This resulted in an exceptional deferred tax credit of £39.8 million (2015/16: £78.6 million) and a charge of £3.1 million (2015/16: £9.6 million) in reserves.

8. Acquisitions

On 15 February 2017, Severn Trent Water Limited acquired 100% of the issued share capital of Dee Valley Group plc and all of its subsidiaries including the regulated water company Dee Valley Water Limited. This acquisition was made through a scheme of arrangement under which Severn Trent Water Limited paid 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 the acquisition is expected to be deductible for tax purposes.

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 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. Therefore the amounts recognised for these assets and liabilities are provisional.

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

9. 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 a discontinued operation with effect from this date. On 31st May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1st 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. 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.

The profit for the period from discontinued operations was as follows:

	2017		2016		
	Non household retail (2 months)	**Total**	Non household retail (1 year)	Water Purification (3 months)	Total
	£m	**£m**	£m	£m	£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

Cash flows arising from the disposal group were:

	2017		2016		
	Non household retail	**Total**	Non household retail	Water Purification	Total
	£m	**£m**	£m	£m	£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)

Basic and diluted earnings per share from discontinued operations are:

	2017			2016		
	Result	**Weighted average number of shares**	**Per share amount**	Result	Weighted average number of shares	Per share amount
	£m	**m**	**pence**	£m	m	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	Water Purification
	£m	£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 disposal is calculated as follows:

	Non household retail	Water Purification
	£m	£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)

The net cash flows arising from disposals in the year 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

10. 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 paid	**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.

11. 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 period, 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 potentially dilutive 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 owners of the company.

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

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

	2017 £m	2016 (restated) £m
Profit for the year attributable to owners of the company	**342.8**	330.0
Adjusted for profit from discontinued operations (see note 9)	**(13.6)**	(14.9)
Profit for the year from continuing operations attributable to owners of the company	**329.2**	315.1

Number of shares

	2017 **number**	2016 number
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 the underlying figures provide 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 are as follows:

	2017 **£m**	2016 (restated) £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 gains/losses 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

12. Retirement benefit schemes

Movements in the liability recognised in the balance sheet were as follows:

	2017 £m	2016 £m
Present value at 1 April	**(309.5)**	(468.9)
Acquisition of Dee Valley Water	**9.8**	–
Exceptional past service credit	**17.3**	0.7
Net interest cost	**(10.9)**	(15.1)
Contributions from the sponsoring companies	**33.2**	27.8
Actuarial gains/(losses) recognised in the statement of comprehensive income	**(311.2)**	148.3
Scheme administration costs	**(3.3)**	(2.3)
Present value at 31 March	**(574.6)**	(309.5)

Disclosed as:

	2017 £m	2016 £m
Retirement benefit surplus	**9.8**	–
Retirement benefit obligation	**(584.4)**	(309.5)
	(574.6)	(309.5)

The principal assumptions used in the valuation of the Severn Trent defined benefit pension schemes were as follows:

	2017 %	2016 %
Price inflation	**3.1**	3.0
Discount rate	**2.7**	3.6
Salary increases	**n/a**	n/a
Pension increases in payment	**3.1**	3.0
Pension increases in deferment	**3.1**	3.0
Remaining life expectancy for members currently aged 65 (years)		
- men	**22.5**	21.4
- women	**24.1**	24.6
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
- men	**23.6**	22.8
- women	**25.3**	26.1

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%.

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 liabilities for all schemes 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 £54 million
Price inflation or pension increase	Increase/decrease by 0.1%	Increase/decrease by £47 million
Mortality	Increase in life expectancy by 1 year	Increase by £108 million

13. Cash flow

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 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)/loss 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 Private Drains and Sewers legislation at no cost were recognised at their fair value of £51.4 million (2015/16: £24.8 million).

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 movements 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)**

14. Post balance sheet events

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

15. 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.

16. Related party transactions

A summary of the trading transactions between the group and its associates and joint ventures are disclosed below.

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

The related party is a joint venture in which the group has a participating interest.

The company has given guarantees in favour of Water Plus 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.

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 12.

There have been no other related party transactions that materially affected the financial position or performance of the group during the year.

Cautionary statement regarding forward-looking statements

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

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

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest Annual Report and Accounts (which have not been updated since the date of its publication); changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. This document speaks as at the date of publication. Save as required by applicable laws and regulations, Severn Trent does not intend to update any forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc.

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