

Explaining our **tax** **contribution**

2018/19

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Foreword

We have a vision to become the most trusted water company by 2020. As part of this, we recognise the importance of managing our tax affairs in a straightforward and responsible way, and sharing that with our customers and wider stakeholders. That's why we're committed to being transparent on our approach to tax and to the tax contributions we make in the communities where we operate.

Last year we published our Tax Strategy for the first time, which explains our approach to tax and how we manage it across our business. A copy of our Tax Strategy is available at **severntrent.com**. This year we wanted to build on this and to provide our stakeholders with further information on the taxes we pay, how they fit into our business model, and how the interests of our stakeholders inform our approach to tax.

I hope it helps you understand better how we treat tax and how important the tax we pay is to local communities.

James Bowling
Chief Financial Officer



Our approach to tax is driven by the interests of all of our stakeholders

Customers

The effective management of our tax affairs is in the best interests of our customers as it helps to keep our bills as low as possible. This is particularly true for our regulated business where the taxes we pay are included in the calculation of customers' bills.

Shareholders

As a listed business, responsible and efficient management of our tax affairs helps us deliver attractive, sustainable post tax returns for our shareholders.

Colleagues

Our colleagues tell us they want to work for a socially responsible business that pays the right amount of tax at the right time, complies with all relevant tax laws and is open and transparent about its tax affairs.

Communities

The communities we serve have an interest in how we manage our taxes and want us to act in a socially responsible way.

We make a significant financial contribution to the communities we serve through the business rates we pay direct to local authorities as well as broader taxes.

Our Approach to Tax

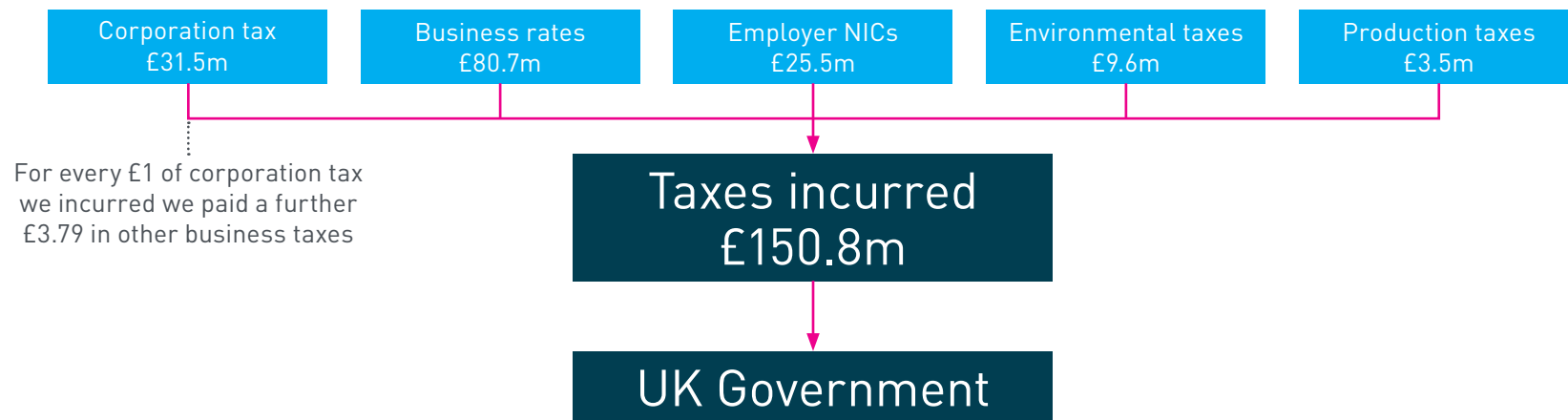
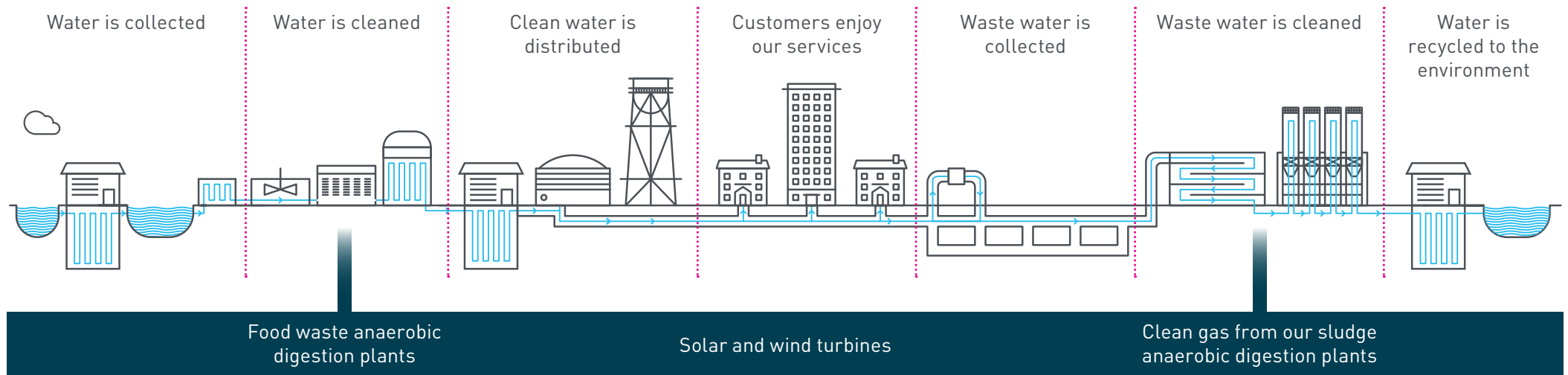
We will manage our tax affairs responsibly, in a manner consistent with our vision to be the most trusted water company by 2020.

We will not undertake aggressive tax planning or any planning not in support of business requirements.

We will make use of widely claimed incentives that Government has chosen to make available to encourage investment.

We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

What taxes do we pay?

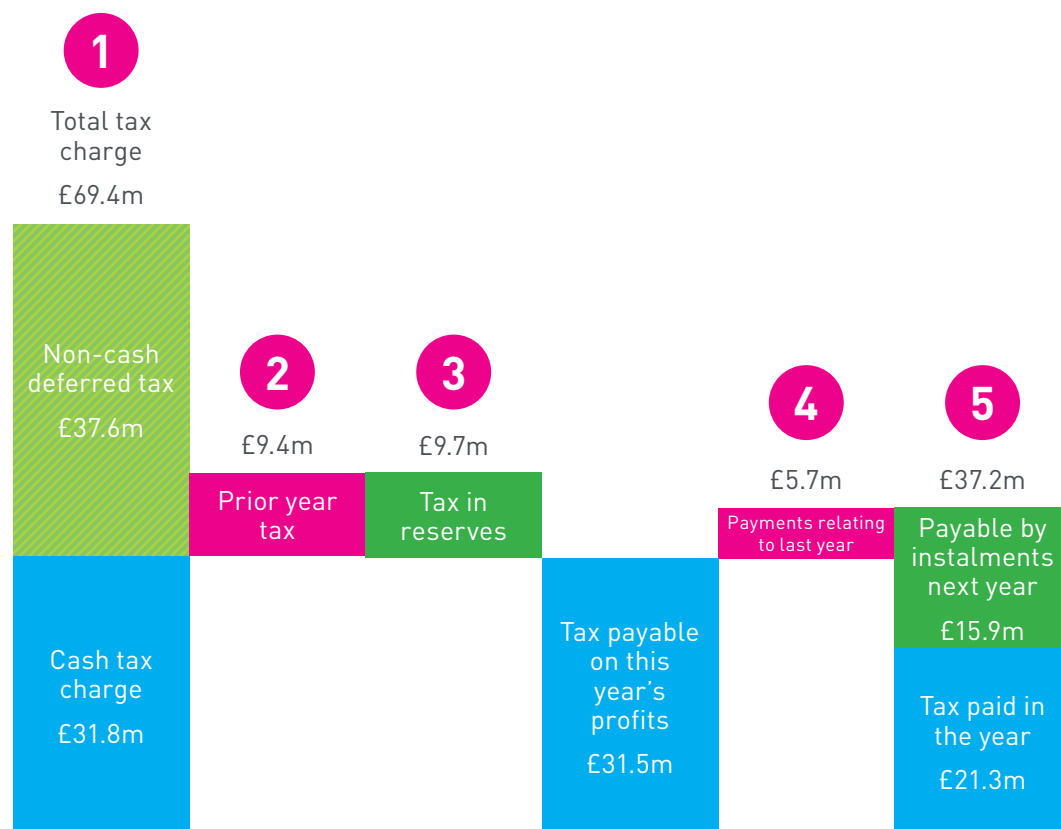


Corporation tax

We pay corporation tax on our profits.

Pretty much all of our profits are generated in the UK, so they're subject to UK corporation tax at the current rate of 19%. We receive tax relief on some of the money we spend, particularly on new capital projects which affects the amount of tax we pay in the year.

Here's how our tax payments for this year are calculated:



- 1 The tax charge on our profits represents the amount we expect to pay now and in the future.

The significant investments we make in our capital assets receive tax relief at a faster rate than we write them off in our accounts.

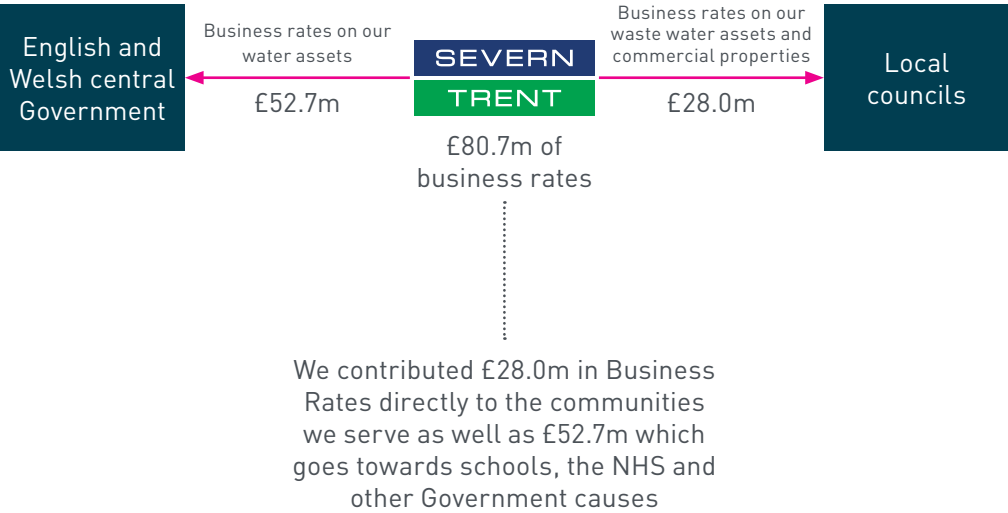
This difference defers some tax into future years.
- 2 We estimate our tax charge at the time of preparing our accounts and make adjustments in later periods to arrive at the amount of tax we owe.
- 3 We make significant contributions to our colleagues' pensions and share schemes, which we receive tax relief on.
- 4 We made payments to HMRC for tax relating to previous years.
- 5 Our tax liability is paid over two years. This will change in 2019/20 when it will all be paid in the year that the profits are made.

Business Rates

Just like any other company, we pay business rates on our properties and infrastructure.

Business rates on our water assets, such as our pipelines and service reservoirs, are paid directly to central Government.

For our waste water assets, such as sewage treatment works, we pay business rates directly to the local council where the assets are located, which means the tax goes directly to the communities we serve.

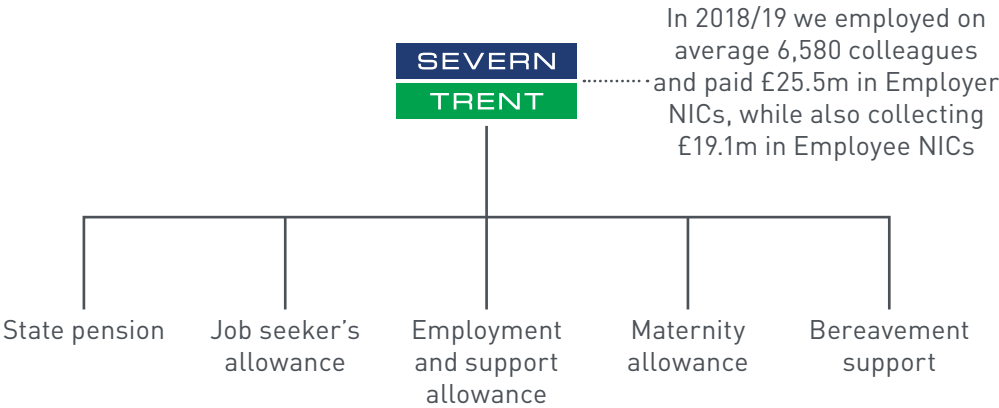


National Insurance Contributions

We manage two types of National Insurance Contributions (NICs):

- **Employer NICs** are a cost to us of employing our colleagues and are based on their wages and salaries.
- **Employee NICs** are costs incurred by our colleagues that we collect and pay to the UK Government on our colleagues' behalf.

How does the UK Government use our National Insurance Contributions?



Country by country data

We seek to declare profits in the country where the economic substance arises and therefore substantially all of our profits are generated in the UK and are subject to UK corporation tax. Profits arising in Guernsey, from our captive insurance business, are subject to the UK Controlled Foreign Company (CFC) rules which means we pay UK Corporation Tax on these profits.

Details of our global activities is provided below:

Country	Turnover £m	Profit/(loss) before tax £m	Current tax charge/(credit) £m	Net assets £m	Average number of employees	Employee costs* £m
United Kingdom	1,762.8	384.2	31.9	1,142.1	6,568	318.2
Ireland	4.6	(0.1)	(0.1)	0.1	13	0.8
Guernsey	-	1.0	-	2.2	-	-
Gibraltar	-	(0.3)	-	19.7	-	-
Belgium	-	(0.1)	-	-	-	-
South Africa	-	-	-	-	-	-
Group	1,767.4	384.7	31.8	1,164.1	6,580	319.0

*Employee costs includes all costs of paying wages, salaries, social security, pension and share based payments

Further details on our overseas subsidiaries can found in our tax strategy which is available at [severntrent.com](https://www.severntrent.com)

Key terms

Taxes incurred	Includes all taxes that represent a cost to us of running our business.
Corporation tax	The tax we pay on the profits we earn.
Business rates	Taxes charged on our properties and infrastructure.
Employer National Insurance Contributions (NICs)	Taxes charged on employing our colleagues.
Environmental taxes	Includes the Climate Change Levy and the Carbon Reduction Commitment which relate to the purchase and use of energy; Landfill Tax which applies to waste material taken to landfill for final disposal; and Aggregates Levy which applies to the purchase/use of virgin aggregate in construction.
Production taxes	Taxes charged on our transportation activities such as fuel duty and vehicle excise duty.

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