

## Tax Strategy

We are committed to managing our tax affairs in a responsible manner. This means paying the right amount of tax at the right time in compliance with UK tax rules and acting in accordance with the values set out in our corporate responsibility framework.

References to 'tax' include taxes that we incur (corporation tax, business rates, employer's NIC, VAT and various environmental taxes) as well as taxes that we administer and collect on HMRC's behalf (PAYE and employee's NIC).

### Our Approach to Tax

Our approach to tax is overseen by the Severn Trent Plc Board and is governed by the following key principles:

- 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 otherwise 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

The effective management of our tax affairs is in the best interests of customers as it helps to keep our bills as low as possible.

### Tax Governance

Responsibility for tax governance sits with the Chief Financial Officer, with oversight from the Board and Audit Committee and day-to-day support from a team of qualified in-house tax professionals.

In accordance with group risk management procedures, tax risks are recorded and monitored throughout the year. If a material uncertainty is identified, external advice may be sought to ensure that our interpretation of the relevant UK tax rules is appropriate. We may also seek to resolve an uncertain tax position directly with HMRC before a tax return is filed, in accordance with HMRC's framework for co-operative compliance.

Any significant tax risk is reported to, and overseen by, the Group's Audit Committee, who also receive tax status updates as part of the interim and year-end financial reporting programmes.

## Relationship with HMRC

In maintaining a good working relationship with HMRC, we seek to ensure that HMRC are kept up to date with business developments, including any commercial transactions with potentially significant tax implications. Where queries arise, these are managed on the basis of full disclosure.

We will make representations to, and consult with, HMRC on issues that could adversely affect investment in UK infrastructure or our customers' bills.

## Non-UK operations

Substantially all of the Group's revenues and profits are generated in the UK and are subject to UK tax. Details of the Group's overseas subsidiaries at 26 March 2018 are set out below:

- Severn Trent Response Limited is a 60% owned subsidiary company operating in Ireland. It designs, builds, operates and maintains water infrastructure assets in Ireland and is subject to Irish tax.
- Lyra Insurance Guernsey Limited and Derwent Insurance Limited are wholly owned subsidiary companies incorporated in Guernsey and Gibraltar respectively. They were established to provide insurance services to the Group. Both companies are subject to the UK Controlled Foreign Company (CFC) rules and therefore the Group incurs tax at the UK Corporation Tax rate on their profits.
- Severn Trent Holdings SA is a wholly owned subsidiary company incorporated in Belgium. It was the holding company for businesses that the Group previously owned in Belgium. Following the disposal of those businesses the holding company was retained to deal with a number of legacy legal issues. These issues have now been resolved and the Group is considering options for liquidating the company. This company is subject to Belgian tax.
- Severn Trent Africa (Pty) Ltd is a dormant company incorporated in South Africa. It has no impact on the Group's tax.

## Scope

This Tax Strategy covers the period ended 31 March 2018 and applies to Severn Trent Plc and its UK subsidiary undertakings. It is published in compliance with the Finance Act 2016 requirement for large businesses to publish their tax strategy.

26 March 2018