

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

2020/21

WONDERFUL ON TAP

SEVERN
TRENT

Foreword

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.

Paying tax is also one of the important ways that we contribute to society. The contributions we make help fund vital public services and investment in people and public infrastructure. We believe that building trust with our customers, colleagues and other stakeholders on issues such as tax is important to the long-term sustainability of our business. This is why we are committed to paying our fair share of tax and helping our stakeholders understand our tax position and the contributions we make.

Over the past year, we are pleased to have:

- contributed over £150 million in taxes to public finances;
- been accredited the Fair Tax Mark for a second year, an independent accreditation recognising our commitment to paying the right amount of tax at the right time, and applying the 'gold standard of tax transparency'.

We have not used any of the Government's COVID-19 business support measures, and have continued to pay our fair share of tax through the pandemic.

We hope you enjoy reading our report.

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.



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.



Shareholders

As a listed business, responsible and efficient management of our tax affairs helps us deliver attractive, sustainable post tax returns in the form of dividends.



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 through taxes collected by central government.

Our Approach to Tax

- We will manage our tax affairs responsibly, recognising the interests of all our stakeholders;
- We will not undertake aggressive tax planning or any planning that is not aligned with the economic and commercial activities of our business;
- We will make use of widely claimed incentives offered by Government to encourage investment; and
- We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

A copy of our tax strategy is available at severntrent.com/content/dam/stw-plc/responsibility/tax-strategy.pdf. Compliance with our strategy is tested regularly by our internal audit function.

Tax risk control framework

As part of our overall risk management framework, all tax risks are reviewed annually for both the possibility of occurrence and the potential impact on our objectives. We have a robust tax risk framework where we identify key risks and implement controls to minimise the occurrence and impact of these risks.

One key tax risk is the introduction of unanticipated tax practice or legislative changes. We actively engage with relevant authorities to mitigate these risks and lobby both the government and Ofwat to reduce the impact of any such changes which could potentially affect us.

Our wider risk management framework and governance process gives us confidence that the tax returns we file are correct and complete and can be traced through the accounting system to the underlying source data, giving assurance to our commitment to pay the right amount of tax at the right time.

Tax transparency

We support measures aimed at enhancing tax transparency and are committed to providing regular information on our tax affairs in a clear and straightforward way that enhances our stakeholders' understanding and provides them with confidence that we are paying our fair share of tax.

To this end, we provide transparent disclosure of our tax affairs, the amounts and types of taxes we pay and where we pay tax.

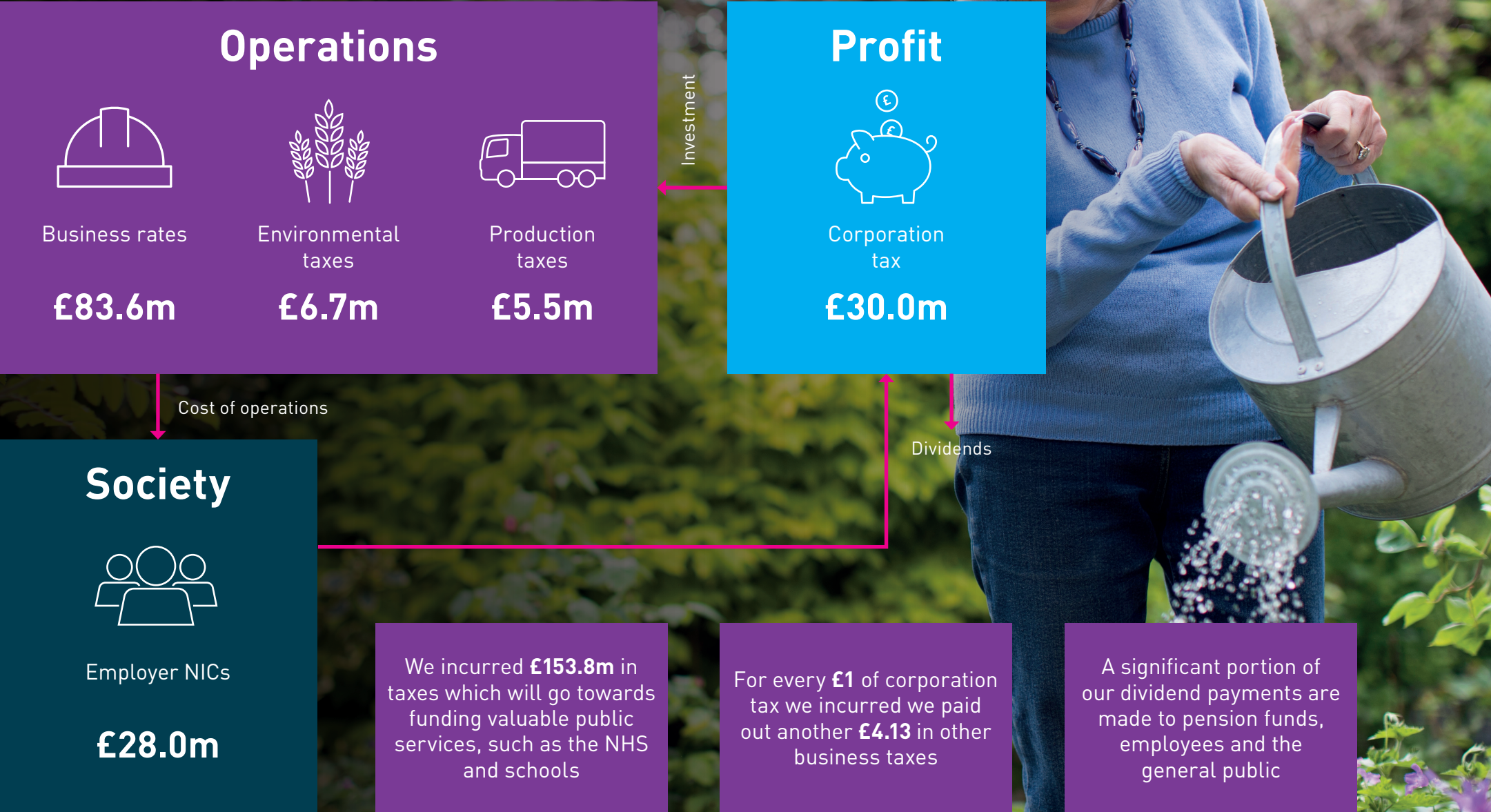
This year, we retained the Fair Tax Mark. It recognises that we're a company that does the right thing – paying the right amount of corporation tax, in the right place at the right time. Most importantly, this accreditation shows our customers that we are a responsible business taking a great deal of pride in being open and transparent in how we do things.



Fair Tax



What taxes do we incur?



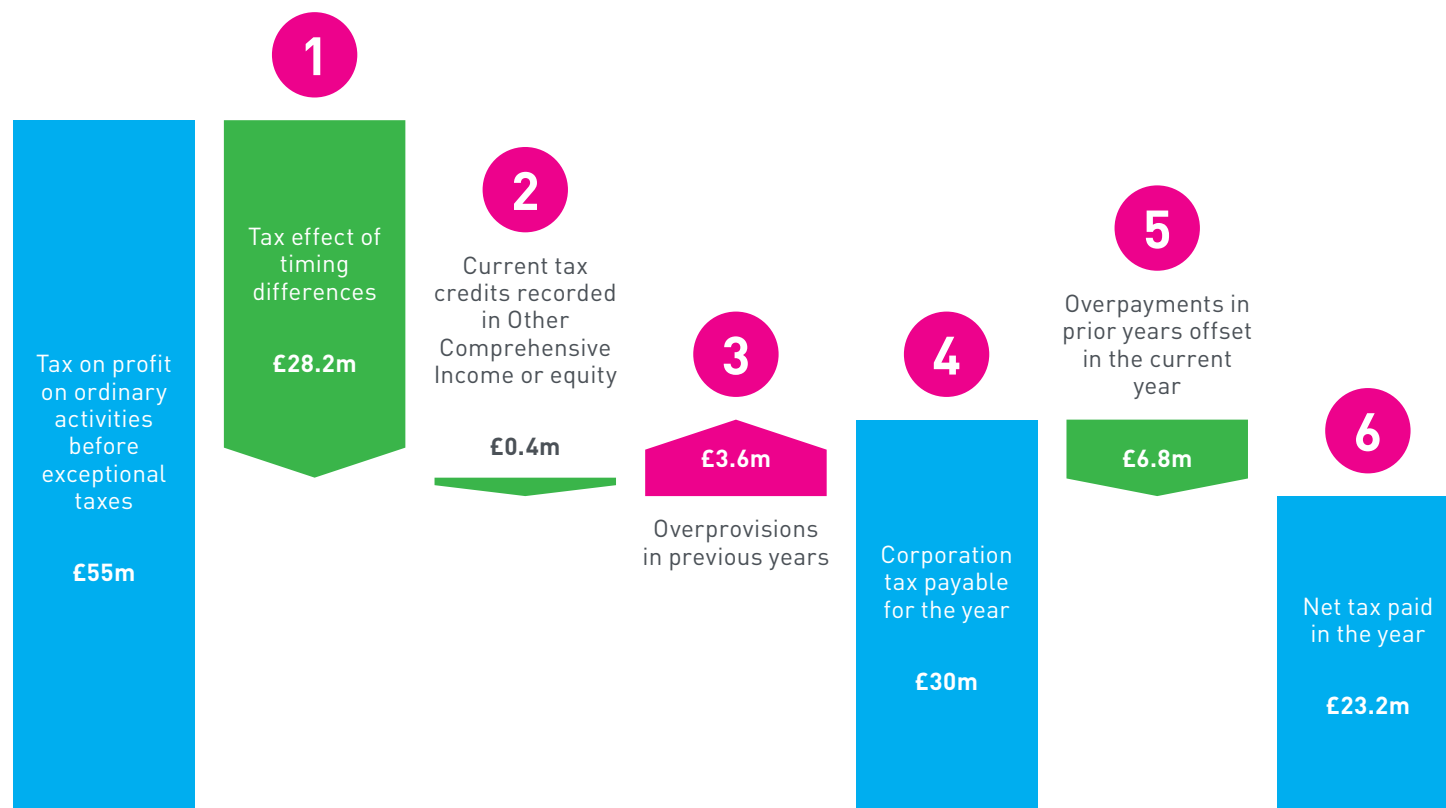
Corporation tax

We pay corporation tax on our profits, almost all of which are generated in the UK, so they're subject to UK corporation tax at the current rate of 19%.

Our full effective tax rate this year was 20.6%, which is higher than the UK rate of corporation tax, due to items of expenditure that are not deductible for tax.

Our adjusted effective tax rate was 11.4%. This is largely due to the significant investments we make in our capital assets. This expenditure receives tax relief at a faster rate than in our accounts and defers some tax into future years. This benefits customers via lower bills.

Why our corporation tax payments differ to the charge in our income statement



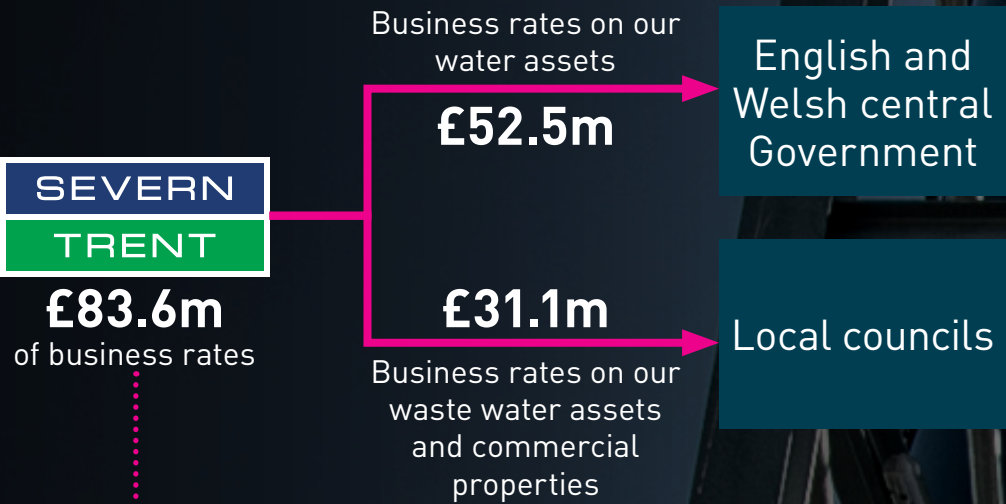
- 1 The tax charge on our profits includes amounts that are payable to HMRC now (current tax) and amounts that may become payable in the future where tax relief is received earlier than items are charged to our income statement (deferred tax).
- 2 We make contributions to our colleagues' share schemes, which we receive tax relief on but accounting rules require this benefit to be recorded outside of the income statement.
- 3 We estimate our tax charge when we prepare our accounts and make adjustments in later periods to arrive at the amount of tax we owe.
- 4 Our tax liability is paid in quarterly instalments in the year that the profits are made.
- 5 In 2020/21, our quarterly instalment payments were lower than the liability we calculated at the end of the year because we used our overpayments from prior years to settle part of the current year tax liability.
- 6 Net tax paid in the year of £23.2m (2019/20: £33.9m) includes £4.9m paid to our joint venture Water Plus for consortium relief (2019/20: nil).

Business Rates

Just like any other company, we pay business rates on all non-domestic property and infrastructure unless subject to a relief.

Business rates on our water assets, such as our pipelines and service reservoirs, are paid directly to central government. We work with the Valuation Office Agency ahead of each revaluation to ensure that the amount paid for these assets is fairly assessed.

We pay business rates on our waste water assets, such as sewage treatment works, directly to the local council where the assets are located, which means the tax goes directly to the communities we serve. We regularly review the individual valuations for each of our sites to ensure that the correct business rates are being paid for these sites.



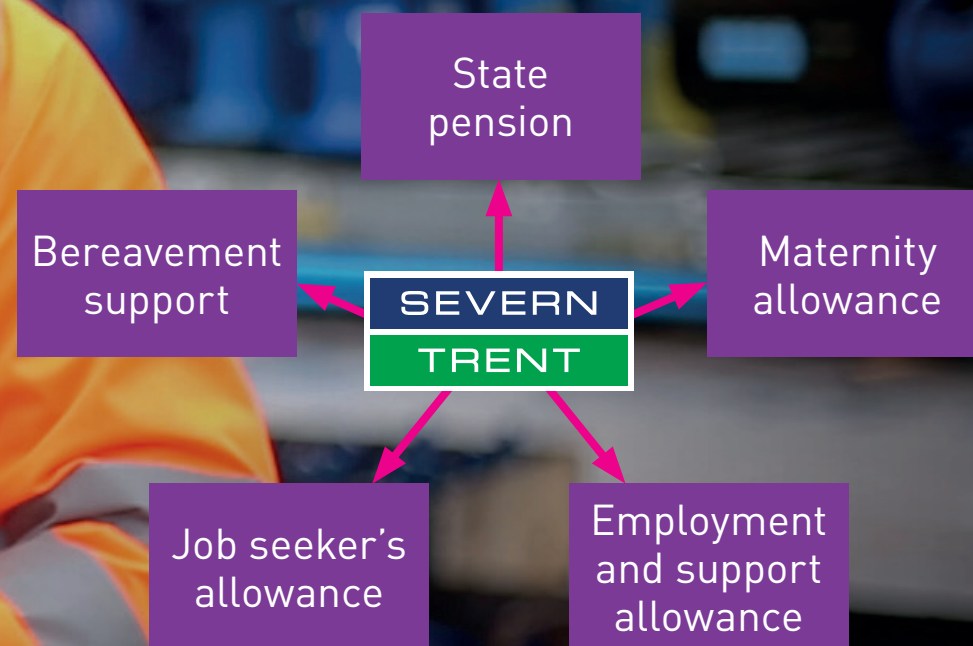
We contributed **£31.1m** in Business Rates directly to the communities we serve as well as **£52.5m** which goes towards schools, the NHS and other central government spending

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?



In 2020/21 we employed on average 7,033 colleagues and paid £28.0m in Employer NICs, while also collecting £21.2m in Employee NICs.

Environmental taxes

The process of providing clean water and cleaning waste water consumes a lot of energy. The consumption of energy is an area that the Government chooses to tax to encourage environmentally positive behaviours.

Most of the energy we use in our business is either generated from our waste and renewables businesses or purchased from renewable sources. Across the Severn Trent group, we currently generate renewable energy equivalent to 53% of our total electricity use and purchase the remainder from third parties, incurring £6.7m of Climate Change Levy this year.

Reducing our energy use and self-generating renewable, green energy tackles the main sources of our emissions and brings financial benefits for both ourselves and our customers. We are one of the few companies that have signed up to the triple pledge of:

- **Net zero carbon emissions by 2030.**
- **100% renewable energy use by 2030.**
- **100% electric vehicles by 2030** (where suitable models are available).

We are aiming to tackle this through innovative means such as energy generation from sewage, food waste and energy crops in addition to sources such as solar, wind and hydroelectricity.

We are currently on track with our Triple Carbon Pledge, and now only use fully renewable-backed electricity from our energy suppliers. Our electric vehicle fleet continues to increase in size. We have also offered our employees access to an electric vehicle scheme to encourage them to reduce their own impact, and aim to have installed over 350 electric car charging points over 65 sites by the end of 2021.



Production taxes

Production taxes include taxes on our transport activities and insurance policies.

We operate around the clock to ensure that our customers receive the high standard of service they expect from us. Transport is an essential part of delivering this service.

We have a fleet comprising a wide range of vehicles from large water and sludge tankers to the small vans we use for the routine sampling of customer taps.

We incur production taxes, such as fuel duty (£4.2m) and road fund licences (£0.6m), on our transportation activities.

We have already switched some of our fleet to electric vehicles and have pledged to switch our entire fleet to electric vehicles by 2030 where suitable models are available. As well as reducing overall mileage we are increasing the fuel efficiency of our transport. We carry out vehicle tracking and driver training in order to encourage our staff to drive in a safer and more efficient way.

Like any other business, our business faces many risks. We choose to protect ourselves by transferring some of these risks to insurance companies. Last year, we paid £0.8m of Insurance Premium Tax on insurance policies.



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.

Details of our global activities is provided below:

Country of operation	Tax jurisdiction	Total revenue	Profit/loss Before tax	Income Tax Accrued	Number of Employees	Employee costs*	Footnote
		£m	£m	£m		£m	
UK	UK	1,826.0	202.2	26.8	7,033	350.6	1
Gibraltar	Gibraltar	0	0	0	0	0	2
Guernsey	Guernsey	0.9	0.8	0	0	0	3
South Africa	South Africa	0	0	0	0	0	4
Ireland	Ireland	0.3	0.2	0	0	0.1	5
Hong Kong	UK	0.0	64.0	0	0	0.0	6
Group		1,827.2	267.2	26.8	7,033	350.7	

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

1. Severn Trent is one of the UK's largest water companies. We operate through regulated and non-regulated businesses. Our regulated businesses provide water and sewage services to more than 4.6 million households and businesses in the Midlands and Wales. Our non-regulated businesses design, build and operate water assets, as well as providing renewable energy generation, property development, developer services and property searches.
2. During the year the Group liquidated its Gibraltar subsidiary Derwent Insurance Limited.
3. Lyra Insurance Guernsey Limited is a wholly owned subsidiary company incorporated in Guernsey. It was established to provide insurance services to the Group. The company is subject to the UK Controlled Foreign Company (CFC) rules and therefore the Group incurs tax at the UK Corporation Tax rate on its profits which is included in the UK line.
4. Severn Trent Africa Proprietary Limited is a dormant company incorporated in South Africa and is in the process of being wound up. It has no impact on the Group's overall tax position.
5. During the year the Group disposed of its 60% interest in Severn Trent Response Limited, and we no longer have any presence in Ireland.
6. Athena Holdings Limited is a wholly owned subsidiary company incorporated in Hong Kong. The principal activity of the company is to act as an investment holding company. The company is subject to tax in the UK.

Nature of trade

Outlined in the table below is a brief description of nature of the trade of each entity within the Severn Trent group in the year ending 31 March 2021.

	Research and Development	Holding/ managing intellectual property	Manufacturing or Production	Property development	Administrative, Management or Support Services	Provision of services to unrelated parties	Internal Group Finance	Insurance	Holding shares or other equity instruments	Dormant	Disolved
Dee Valley Group Limited									X		
Dee Valley Limited									X		
East Worcester Water Limited							X				
Etwall Land Limited				X							
Hafren Dyfrdwy Limited						X					
Midlands Land Portfolio Limited				X							
Severn Trent (W&S) Limited							X				
Severn Trent Carsington Limited									X		
Severn Trent Data Portal Limited						X					
Severn Trent Draycote Limited									X		
Severn Trent Finance Holdings Limited									X		
Severn Trent Finance Limited									X		
Severn Trent General Partnership Limited					X						
Severn Trent Green Power Limited			X								
Severn Trent Green Power Holdings Limited									X		
Severn Trent Green Power Group Limited									X		
Severn Trent Green Power Biogas Limited									X		
Severn Trent Green Power (North London) Limited			X								
Severn Trent Green Power (Bridgend) Limited			X								
Severn Trent Green Power (Wallingford) Limited			X								
Severn Trent Green Power (RBWM) Limited			X								

	Research and Development	Holding/ managing intellectual property	Manufacturing or Production	Property development	Administrative, Management or Support Services	Provision of services to unrelated parties	Internal Group Finance	Insurance	Holding shares or other equity instruments	Dormant	Disolved
Severn Trent Green Power (Cassington) Limited			X								
Severn Trent Green Power (CW) Limited			X								
Severn Trent Green Power (West London) Limited			X								
Severn Trent Green Power Composting Limited									X		
Severn Trent Green Power (Ardley) Limited			X								
Severn Trent Green Power (Hertfordshire) Limited			X								
Severn Trent Holdings Limited									X		
Severn Trent Investment Holdings Limited									X		
Severn Trent LCP Limited							X				
Severn Trent Leasing Limited							X				
Severn Trent Metering Services Limited							X				
Severn Trent Overseas Holdings Limited									X		
Severn Trent Plc									X		
Severn Trent Property Solutions Limited						X					
Severn Trent Reservoirs Limited							X				
Severn Trent Retail and Utility Services Limited					X						
Severn Trent Services (Water and Sewerage) Limited						X					
Severn Trent Services Defence Holdings Limited									X		
Severn Trent Services Defence Limited						X					
Severn Trent Services Holdings Limited									X		
Severn Trent Services International (Overseas Holdings) Limited									X		
Severn Trent Services International Limited						X					
Severn Trent Services Operations UK Limited						X					
Severn Trent Services UK Limited											X
Severn Trent Trimply Limited							X				

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Key terms

Business rates	Taxes charged on our properties and infrastructure.
Corporation tax	The tax we pay on the profits we earn.
Employer National Insurance Contributions (NICs)	Taxes charged on employing our colleagues.
Environmental taxes	Taxes designed to promote environmentally positive behaviour including taxes on the energy we use, such as Climate Change Levy.
Production taxes	Taxes charged on our transportation activities, such as fuel duty and vehicle excise duty, and insurance policies, such as Insurance Premium Tax.
Taxes incurred	Includes all taxes that represent a cost to us of running our business.

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