Kelda Group Tax Strategy and Policies

Adopted by the Board of Kelda Holdings Limited on 11 July 2018

This strategy applies to the group of companies headed by Kelda Holdings Limited ("the Group") in accordance with Schedule 19 to the Finance Act 2016. It is effective for the year ending 31 March 2019.

The Group's approach to management of its tax affairs is driven by the following Strategic Business Objectives ("SBOs"):

- Trusted Company – the way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future; and
- Strong Financial Foundations – we deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long term investment.

Such SBOs mean that the Group has a tax strategy and policies that address the need to build and maintain trust with stakeholders while also generating a fair and sustainable return for investors.

Trusted Company

The Group is committed to acting with integrity and transparency in all tax matters as part of our Trusted Company SBO. Our tax strategy and policies require that we fully comply with both the letter of UK tax law and its application as it was intended. We make timely and accurate tax returns that reflect our fiscal obligations to Government.

We aim for certainty on the tax positions that we adopt, however, tax law can be unclear at times or subject to interpretation. With this in mind, and as a Trusted Company, our policy is:

- not to enter into transactions that have a main purpose of gaining a tax advantage; and
- not to make interpretations of tax law considered to be opposed to the original published intention of the specific law.

To support us in ensuring that we have interpreted tax law and its intended application correctly, we seek advice from large accounting firms, legal firms and/or tax counsel as appropriate.

For example, we do not use artificial tax avoidance schemes or use tax havens to reduce the Group's tax liabilities. Our small handful of overseas companies have arisen as a result of non-tax driven business decisions and are either in the process of being wound down or are wholly and exclusively resident for tax purposes in the UK. A full explanation of our overseas companies is included within the statutory accounts of Yorkshire Water Services Limited a copy of which can be found on the Yorkshire Water website at;
https://www.yorkshirewater.com/reports

Relationship with HM Revenue & Customs

An important part of our tax strategy and policies, and to support Trusted Company status, is the maintenance of a strong, proactive working relationship with HM Revenue & Customs ("HMRC"). We are transparent with HMRC and, in cases of interpretation or complexity, work with them on a real time basis to determine the amount of tax due.

Tax disclosure

We understand the value of our financial reporting to customers, investors and other stakeholders. We work to provide enhanced, transparent and balanced disclosure in communicating our tax affairs.

Strong Financial Foundations

Managing the Group's tax liabilities by recognising appropriate legislative concessions and reliefs is of benefit to customers (through fair and affordable bills) and investors (through fair and sustainable returns).

In line with the Group's Strong Financial Foundations SBO, the Group's tax strategy and policies seek to make use of such appropriate reliefs and to control the Group's tax costs. Decisions regarding such reliefs are taken using a decision-making framework that addresses the Trusted Company and Strong Financial Foundations SBOs.

Whilst seeking to manage tax liabilities for the benefit of customers and investors, the Group's policy is not to take an aggressive interpretation of tax legislation or use artificial tax avoidance schemes in line with the Trusted Company SBO.

Tax governance

Tax is part of the Finance & Regulation function of our Group and is the ultimate responsibility of the Group Director of Finance, Regulation & Markets who is responsible for the Group's tax strategy and policies.

Tax strategy and policies are reviewed on an on-going basis by the Group's Audit Committee and Board of Directors. Our tax status is reported regularly through the Group's Tax & Treasury Review Group which reports to the Financeability Governance Group, chaired by the Director of Finance, Regulation & Markets. Tax status is also reported via the Audit Committee through the Group's Strategic Risk Register.

Tax strategy and policy issues are assessed on a case by case basis by the Tax & Treasury Team with appropriate input from the Group Director of Finance, Regulation & Markets in conjunction with the Group Chief Executive.

Day-to-day tax matters are delegated to the Head of Tax & Treasury and a team of in house professionals who hold a combination of accounting and tax qualifications.

Contribution

When considering the Group's tax contributions, there are several important factors to take into account:

- corporation tax is focused on by stakeholders, however, it is only one of a wide variety of taxes, duties and contributions that are levied on the Group. Amongst other things our costs include employment taxes, national insurance, carbon taxes, fuel duty and business rates;
- taxation is not the only method by which the UK Exchequer can raise revenue from businesses. Other mechanisms include business rates and licenses. These are important to public finances and must be taken into account when considering a company's part in society;
- large companies are an important source of employment leading to higher Government revenues from employment taxes and increased levels of consumer spending; and
- we are an important source of investment into national infrastructure achieving a benefit that would have to be funded directly by the state, most likely through public borrowing. The capital allowances we claim on this infrastructure and tax deductible interest costs on debt raised to fund infrastructure expenditure reflect public policy choices made by Government and, wholly intentionally, have the effect of reducing tax liabilities for companies whose investment decisions support those policy choices.