Kelda Group Tax Strategy and Policies

Adopted by the Board of Kelda Holdings Limited on 25 November 2020

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 2021.

Our approach to management of our tax affairs is driven by the overall strategic direction of the Group, the most relevant aspects relating to the following two of our five "Big Goals":

- **Being a Great Partner** – in particular the aspects of this goal to, "lead by example" and, "be open about what we do"; and
- **Keeping Services Affordable** – "We want our services and bills to be affordable for everyone." Managing the Group's tax liabilities by recognising appropriate legislative concessions and reliefs is of benefit to customers.

We also use the concept of the Six Capitals and our tax strategy and associated decision-making is influenced by the following Capitals:

- Social Capital – our relationships and customers' trust in us; and
- Financial Capital – our financial health and efficiency.

Bearing these Goals and Capitals in mind mean that the Group has a tax strategy and policies that address the need to be transparent regarding our approach to tax matters, to build and maintain trust with stakeholders while also recognising appropriate legislative concessions and reliefs for the benefit of customers.

Goal - Being a Great Partner Capital - Social Capital

The Group is committed to acting with integrity and to adopt the highest standards of openness and transparency with regards to its approach to its tax affairs. 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, 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 two overseas companies have arisen as a result of non-tax driven business decisions and are either inactive 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 our Goal of Being a Great Partner, 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.

Goal – Keeping Services Affordable Capital - Financial Capital

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).

The Group's tax strategy and policies seek to make use of such appropriate reliefs and to control the Group's tax costs so that money is not wasted. Decisions regarding such reliefs are taken using a decision-making framework that addresses the control of tax costs with being trusted by stakeholders.

Whilst seeking to manage tax liabilities, the Group's policy is not to take an aggressive interpretation of tax legislation or use artificial tax avoidance schemes.

Tax governance

Tax is part of the Finance function of our Group and is the ultimate responsibility of the Chief Finance Officer 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 Financeability Governance Group, chaired by the Chief Finance Officer. 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 Team with appropriate input from the Head of Corporate Finance, Chief Finance Officer in conjunction with the Chief Executive. Day-to-day tax matters are delegated to the Head of Corporate Finance 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.