UK TAX POLICIES & OBJECTIVES – ANNUAL REPORT DISCLOSURE
YEAR ENDED 31 MARCH 2020

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer ("CFO") has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax.

The Head of Tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with key stakeholders from around the group in ensuring that tax risk is proactively managed. Where appropriate, he will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities in order to actively manage any such risk.

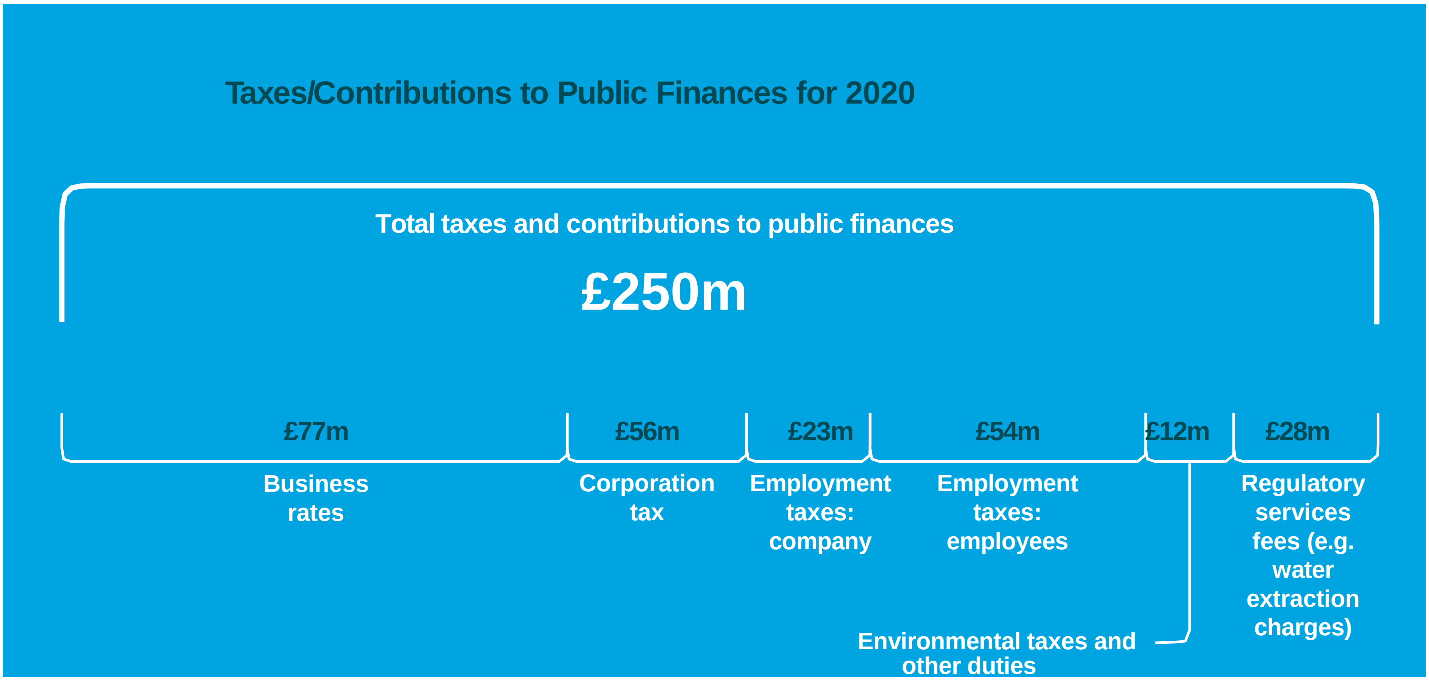
In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate due to the available tax deductions on capital investment and pension contributions. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers; reducing their bills. For 2019/20, the impact of tax deductions on capital investment alone reduced average household bills by around £25.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than profits relating to the group's 35 per cent holding in Tallinn Water which are fully taxable in Estonia on distribution).

The investment in Tallinn Water is directly held via United Utilities (Tallinn) BV, a Dutch holding company. There is no tax advantage to this historic intermediate holding company and the only income of the Dutch company is the annual dividends received from Tallinn Water of around £4m, which are fully taxable within Estonia and wholly paid onto the UK. The group's only other overseas subsidiary is a dormant company resident in Thailand, where the group had historic trading operations. This company is awaiting the necessary formalities before being dissolved and has no income.

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2020 of around £250m are set out below.



The above tax policy disclosure meets the group's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2020.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders

Recognising the group's commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to secure the Fair Tax Mark independent certification.