Tax Policies & Objectives – Years Ended 31 March 2018

United Utilities
helping life flow smoothly

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 aggressive or abusive tax avoidance;
- 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 applied at all levels

In line with the above, 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 taxation.

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 2017/18, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

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).

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its 5,000 strong workforce. Details of the total payments for 2018 of around £242m are set out below.

Taxes/Contributions to Public Finances for 2018

Total taxes and contributions to public finances

£242m

Business rates	£92m
Corporation tax	£36m
Employment taxes: company	£22m
Employment taxes: employees	£50m
Environmental taxes and other duties	£15m
Regulatory services fees (e.g water extraction charges)	£27m

We expect the above details, which apply for the year ended 31 March 2018, to fully comply with the new legislative requirements for "Publication of Group Tax Strategies" for UK groups.