Daiwater Investment Limited

Group Tax strategy

The Daiwater Investment Limited Group Tax Strategy, which includes Daiwater Investment Limited and all its subsidiaries, has been approved by the Board of Directors. This document complies with the duty under Paragraph 16(2) of Schedule 19 of the Finance Act 2016 to publish a Group Tax Strategy for the financial year ended 31 March 2018.

Introduction

Our approach to tax is based on the values incorporated in the “Behave ethically” section of the Affinity Water Limited Code of Conduct:

“We always act honestly, openly and responsibly, so that we are trusted. We uphold the Affinity Way together by complying with the law and regulatory requirements, making decisions with integrity, and speaking up when we believe that conduct falls short of our principles.

We believe in doing business legally and ethically and expect our suppliers to do the same. We operate a “level playing field” showing no favour to any individual customer or supplier in the competitive market.

We operate according to principles of good governance and to relevant recognised standards. We make sure the standards and practices of those who work with us are consistent with ours.

We never offer or accept bribes, or participate in any kind of fraudulent or corrupt practice. We do not give or receive money, gifts or favours that could influence decisions or be open to misinterpretation. We only offer or accept hospitality or gifts that are proportionate and that have been properly declared and authorised.

We are transparent in our dealings with government and regulators, fulfilling our obligations honestly and promptly. We don’t hide information that should be in the public domain and we don’t disclose information that we shouldn’t. We are clear and honest about our services, processes, policies, achievements and prospects.

We encourage people to speak up whenever they see conduct that falls short of our principles and we take their concerns seriously.”

Our reputation for integrity is a valuable business asset. If we damage it by behaving dishonestly or doing something underhand, unfair, unethical or immoral, we will lose the trust of our customers, colleagues and all who work with us.

Approach to Risk Management and Governance

Tax strategy is part of our overall risk management and governance framework, which is overseen by the Audit Committee and the Board.

Stuart Ledger, the Group Chief Financial Officer (“CFO”), is ultimately responsible for tax strategy. Responsibility for day to day tax matters, and for reporting to the Audit Committee and the Board on the Group’s tax position, is delegated to the Group Tax Manager. The Tax Manager reports directly to the CFO.

The CFO meets with the Group Tax Manager, Group Treasurer and Group Financial Controller most weeks, to discuss current business issues and forthcoming significant transactions. The frequency of these meetings ensures that the Tax Manager is involved in one-off transactions at an early stage and has time to identify tax risks and assess their potential impact on the business.

The CFO, Tax Manager and Head of Audit, Risk and Compliance review the Group's tax risks every other month. We maintain a risk register, which documents potential impact on the business and controls in place to minimise risk. The Head of Audit, Risk and Compliance reports key tax risks to the Executive Management Team.

We consider our main tax risk to be the introduction of new legislation or changes in tax practice, which could result in increased tax payments that have not been included in the current regulatory settlement for Affinity Water Limited's appointed business.

Attitude to Tax Planning

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities, and we always comply with what we understand to be both the letter and the spirit of the law. We operate solely in the UK and all of our customers are based here. All of our profits are taxed in the UK.

One of our two financing subsidiaries is incorporated in the Cayman Islands but resident in the UK for tax purposes. By being resident in the UK for tax purposes we are clear that this arrangement does not avoid UK tax and brings no tax benefit. No funds are held off-shore, and all finance is raised and held within the UK. The Cayman Islands company makes only a nominal profit (£6k in the year ended 31 March 2017).

Whilst we do not interpret tax legislation aggressively, we have an obligation to minimise our tax liability so that our customers are not funding excessive and unnecessary charges through increased bills. We are able to reduce our Corporation Tax charge by making beneficial claims and elections, such as those available for investment in Water & Energy saving technology and in Research & Development activities, reflecting the scale of our investment in assets vital to securing the ongoing delivery of an essential service to our customers and communities.

The tax implications of significant transactions are initially assessed by the Tax Manager, with assistance from external advisers when necessary. We seek external advice in order to reduce uncertainty and to ensure that our interpretation of current tax law and practice is correct.

Level of Acceptable Risk in relation to UK Tax

Our approach to tax risk is part of our wider risk management framework, in the context of our regulatory settlement.

The level of acceptable UK tax risk is not rigidly defined, however the Group generally seeks to reduce tax risk. Uncertainties over the interpretation of tax law are resolved as far as possible by seeking advice from external experts, our industry group or HMRC.

Dealing with HMRC

We have an open relationship with HMRC, and we advise them of any complex issues so that we can work with them to determine the correct amount of tax due. Whenever possible, we agree the tax treatment with HMRC before the tax returns are submitted. If this is not possible we draw HMRC's attention to complex issues at the time of submitting the tax returns.

We actively engage with HMRC and other relevant authorities on proposed changes to tax legislation by responding to public consultations and attending engagement meetings for businesses. This is done either directly or as part of our industry group.

It is rare for us to disagree with HMRC over the interpretation of tax law, however when disagreements occur they are resolved through discussion rather than litigation.