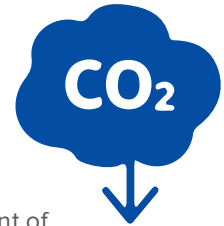


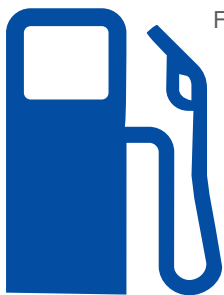
# Our taxes explained

Last year we made a total tax contribution of **£143,500,000**. This is made up of the tax we pay directly and the tax we collect.

Our contribution to the Exchequer amounted to **£65.5 million** in 2016–17. This included:



Carbon Reduction Commitment of **£3.3 million** collected on our power costs.



Fuel duties and VAT collected on our non-domestic sales.



Business rates on our buildings of **£26.0 million** paid to local authorities.

Corporation tax of **£0.1 million** paid on profits of the Southern Water subsidiary, Southern Water Services (Finance) Ltd.



**£0.2 million** tax paid on the insurance premiums we take out to manage our business risks.



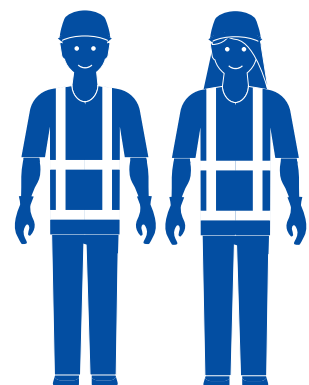
Employment taxes of **£28.3 million** paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

We also collected taxes of **£78.0 million** on behalf of the Exchequer for 2016–17, which included:

**£77.8 million** VAT on the purchase of the goods and services required to run our business and deliver our capital investment programme.



**£0.2 million** of Construction Industry Tax deducted from payments made to some of our contractors.



## About us

Southern Water is a privately-owned water company based solely in the UK.

We provide water and sewerage services to more than 4.6 million customers across Sussex, Kent, Hampshire and the Isle of Wight. Southern Water is working to deliver a resilient water future for the South East, developing shared strategies and leading our sector. We will do this by looking after our customers, investing wisely, planning collaboratively, innovating successfully and working sustainably.

This is a simple explanation of all the taxes paid by Southern Water but a full and transparent accounting can be found in our Annual Report – this can be viewed at [southernwater.co.uk/annualreport](https://southernwater.co.uk/annualreport).

## Our policy

Southern Water's approach to tax is to support our business and reflect commercial and economic activity and the interests of our customers, stakeholders and the environment.

We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. We also pay taxes via our supply chain, for example, landfill tax.

## Maintaining public trust

We are committed to complying fully with tax legislation. We focus on maintaining a strong culture of compliance and having open and constructive relationships with tax authorities.

We apply government and fiscal authority tax incentives and exemptions, where they exist. For example, the UK tax system recognises the benefit to the economy of investment in infrastructure and environmental protection so the corporation tax Southern Water pays is lower than the headline rate. Any benefits of this are passed to our customers.

All companies within the Southern Water and wider Greensands group are registered for tax within the

UK, irrespective of where they were set up, and do not engage in tax avoidance schemes or aggressively interpret tax legislation.

Since Autumn 2017 Southern Water has been working towards closing its subsidiary finance company in the Cayman Islands.

Southern Water and all Southern Water group companies pay taxes in the UK and have never used offshore companies to avoid tax or levies. We have a Cayman-registered subsidiary company which was set up to issue debt in the UK. However, we know that this company has contributed to misconceptions about our business practices which is why we are working towards closing it by year end.

Our funding comes from a variety of sources such as bank loans and sterling bonds listed on the UK stock market, and is conducted to ensure long-term financial strength and stability.

## Our approach to risk

We seek to minimise the impact of uncertainty or disputes on customers' bills.

Any risk – including how they are managed, monitored and assured – are regularly reported to the Board Audit Committee which provides the necessary governance and oversight.

Our tax team works within the wider business to ensure that levels of risk remain within acceptable limits and the proper checks, balances and processes are in place. In addition, our internal audit team provides assurance on our financial processes.

When necessary, these teams do this with the support of third-party industry tax experts who check what we are doing and provide guidance on new compliance challenges.

HMRC has recognised this practice and has assessed us as a 'low-risk' company.

### Tax paid:

These are the taxes directly paid to the tax authorities – including business rates, profit taxes and National Insurance contributions



### Tax collected:

These are taxes generated by our operations, but are not a direct cost to Southern Water. We collect and administer these on behalf of the government



### Total tax contribution:

The sum total of all the taxes paid and collected by Southern Water



**Tax paid + Tax collected = Total tax contribution**