

Anti – Facilitation of Tax Evasion

PURPOSE

The purpose of this policy is to outline the requirements of Group companies to comply with relevant legislative, ethical standards and best practice on preventing the criminal facilitation of tax evasion. This policy provides information and guidance to those working for and on Group's behalf on how to recognise tax evasion and how we seek to implement and enforce effective systems to counter tax evasion facilitation.

SCOPE AND APPLICATION

This policy is managed by Group General Counsel and Company Secretary and the Group Financial Officer, approved by the Pennon Group Board and enforced without discrimination across the Pennon Group and its subsidiary companies ("Group"). It applies to all Group company employees or those working on our behalf in any capacity, including employees at all levels, directors, officers, agency workers, seconded workers, volunteers, interns, agents, contractors, external consultants, third-party representatives and business partners, sponsors, or any other person associated with us, wherever located.

GOVERNANCE

It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to facilitation of tax evasion, whether under UK law or under the law of any foreign country.

We will uphold all laws and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. Wherever we operate we will implement and enforce effective systems to counter tax evasion facilitation and will uphold all laws relevant to countering tax evasion, including the Criminal Finances Act 2017.

Sanctions

As an employer, if we fail to prevent our employees, workers, agents or service providers facilitating tax evasion, we can face criminal sanctions including an unlimited fine, exclusion from tendering for public contracts and damage to our reputation. We therefore take our legal responsibilities seriously.

Our obligations

In this policy, **third party** means any individual or organisation you come into contact with during the course of your work for us. This includes actual and potential clients, customers, suppliers, distributors, business contacts, agents, advisers, and government and public bodies, including their advisers, representatives and officials, politicians and political parties.

What is tax evasion facilitation?

For the purposes of this policy:

- **Tax evasion** means the offence of cheating the public revenue or fraudulently evading UK tax, and is a criminal offence. The offence requires an element of fraud, which means there must be deliberate action, or omission with dishonest intent;
- **Foreign tax evasion** means evading tax in a foreign country, provided that conduct is an offence in that country and would be a criminal offence if committed in the UK. As with tax evasion, the element of fraud means there must be deliberate action, or omission with dishonest intent; and

- **Tax evasion facilitation** means being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of tax (whether UK tax or tax in a foreign country) by another person, or aiding, abetting, counselling or procuring the commission of that offence. Tax evasion facilitation is a criminal offence, where it is done deliberately and dishonestly.

Under the Criminal Finances Act 2017, a separate criminal offence is automatically committed by a corporate entity or partnership where the tax evasion is facilitated by a person acting in the capacity of an "associated person¹" to that body.

- For the offence to be made out, the associated person must deliberately and dishonestly take action to facilitate the tax evasion by the taxpayer.
- If the associated person accidentally, ignorantly, or negligently facilitates the tax evasion, then the corporate offence will not have been committed, however, it should be noted that the agreement of a jury that an associated person was not aware of facilitating tax evasion at the time is very subjective. The company does not have to have deliberately or dishonestly facilitated the tax evasion itself; the fact that the associated person has done so creates the liability for the company.
- Tax evasion is not the same as tax avoidance or tax planning. Tax evasion involves deliberate and dishonest conduct. Tax avoidance is not illegal and involves taking steps, within the law, to minimise tax payable (or maximise tax reliefs).
- In this policy, all references to tax include national insurance contributions.

As the offence is a strict liability offence, if both the acts of tax evasion by a third-party and tax evasion facilitation occur, we, as the relevant body, will have committed the corporate offence of facilitation of tax evasion. Further, a conviction of a third party for tax evasion is not a pre-requisite for bringing a prosecution against a Group company under the legislation.

Our defence: where we have put in place reasonable prevention procedures to prevent the criminal facilitation of tax evasion by an associated person (or where it is unreasonable to expect such procedures) we shall have a defence.

What you must not do

It is not acceptable for you (or someone on your behalf) to:

- engage in any form of facilitating tax evasion or foreign tax evasion;
- aid, abet, counsel or procure the commission of a tax evasion offence or foreign tax evasion offence by another person;
- fail to promptly report any request or demand from any third party to facilitate the fraudulent evasion of tax (whether UK tax or tax in a foreign country), or any suspected fraudulent evasion of tax (whether UK tax or tax in a foreign country) by another person, in accordance with this policy;
- engage in any other activity that might lead to a breach of this policy; or
- threaten or retaliate against another individual who has refused to commit a tax evasion offence or a foreign tax evasion offence or who has raised concerns under this policy.

Your responsibilities

You must ensure that you read, understand and comply with this policy.

¹ A person is "associated" with a relevant body if that person is an employee, agent or other person who performs services for or on our behalf. The offence is committed where the facilitation offences are committed by someone acting in the capacity of an associated person (who can be an individual or an incorporated body).

Management at all levels are responsible for ensuring those reporting to them understand and comply with this policy and are given adequate and regular training on it.

- *The prevention, detection and reporting of tax evasion and foreign tax evasion are the responsibility of all those working for us or under our control. You are required to avoid any activity that might lead to, or suggest, a breach of this policy.*
- You must notify your manager, the Legal Compliance Team (legalcompliance@pennon-group.co.uk), the Group General Counsel and Company Secretary, Head of Legal Compliance or our confidential Speak Up helpline (**0808 196 5852**) as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

You are encouraged to raise concerns about any issue or suspicion of tax evasion or foreign tax evasion at the earliest possible stage.

- If you become aware of any fraudulent evasion of tax (whether UK tax or tax in a foreign country) by another person in the course of your work, or you are asked to assist another person in their fraudulent evasion of tax (whether directly or indirectly), or if you believe or suspect that any fraudulent evasion of tax has occurred or may occur, whether in respect to UK tax or tax in a foreign country, you must notify your manager or the Group General Counsel and Company Secretary or Head of Legal Compliance or report it via our Speak Up line as soon as possible.
- If you are unsure about whether a particular act constitutes tax evasion or foreign tax evasion, raise it with your manager or the Group General Counsel and Company Secretary or Head of Legal Compliance or report it via our Speak Up line as soon as possible.
- You should note that the corporate offence is only committed where you deliberately and dishonestly take action to facilitate the tax evasion or foreign tax evasion.
- If you do not take any such action, then the offence will not be made out. However, a deliberate failure to report suspected tax evasion or foreign tax evasion, or "turning a blind eye" to suspicious activity could amount to criminal facilitation of tax evasion.

Your Protection

Individuals, who raise concerns or report another's wrongdoing, are sometimes worried about possible repercussions. We aim to encourage openness and will support anyone who raises genuine concerns in good faith under this or the whistleblowing policy, even if they turn out to be mistaken.

We are committed to ensuring no one suffers any detrimental treatment as a result of:

- refusing to take part in, be concerned in, or facilitate tax evasion or foreign tax evasion by another person;
- refusing to aid, abet, counsel or procure the commission of a tax evasion offence or a foreign tax evasion offence by another person; or
- reporting in good faith their suspicion that an actual or potential tax evasion offence or foreign tax evasion offence has taken place or may take place in the future.

Detrimental treatment includes dismissal, disciplinary action, threats or other unfavourable treatment connected with raising a concern. If you believe that you have suffered any such treatment, you should inform the Legal

Compliance team, Group Company General Counsel and Company Secretary or Head of Legal Compliance or report it through Speak Up.

What steps are being taken to prevent the facilitation of tax evasion?

Risk assessment

We conduct risk assessments to drive the identification and evaluation of our risks to ensure a risk-based approach in undertaken to implement appropriate measures and controls. Risk identification pinpoints the specific areas in which we face such risks and allows us to better evaluate and mitigate these risks and thereby protect ourselves. Business areas must assess the vulnerability of each business unit to these risks on an ongoing basis and is supported by Group Risk, Head of Tax and the Head of Legal Compliance. Risk assessment is intended to be an ongoing process with continuous communication between business areas and the Group Risk, Head of Tax and Head of Legal Compliance, with an annual sign-off provided by each business unit manager to Group Risk, the Head of Tax and Head of Legal Compliance.

Effective monitoring and internal control

Our businesses must all maintain an effective system of internal control and monitoring of our transactions. Once facilitation of tax evasion risks have been identified and highlighted via the risk assessment process, procedures can be developed in order to help mitigate these risks on an ongoing basis.

Each business unit manager must ensure that the business area for which he/she is responsible engages in effective risk assessment, declares and implements the necessary steps to prevent the facilitation of tax evasion, with the support from Group Risk, Head of Tax and the Head of Legal Compliance who will provide guidelines and principles for the identification, mitigation and monitoring of these risks.

Training and communication

We will ensure that mandatory training on this policy is offered to those employees, workers and associated persons who have been identified as being at risk of exposure to criminal tax evasion as necessary. Such training may form part of wider financial crime detection and prevention training.

Our zero-tolerance approach to tax evasion and foreign tax evasion must be communicated to all suppliers, contractors and business partners at the outset of our business relationship with them and as appropriate after that.

Business partners

As part of our onboarding process, each business partner is required to comply with our Code of Conduct for Supply Chain Partners which sets out the principles and values which must be upheld by all suppliers, subcontractors, sub-suppliers and any other business partners associated to any businesses within the Group. This being supplemental to any contractual requirements.

Where, further to a risk assessment, additional risk regarding a business partner or arrangement has been identified, the relevant business unit manager in conjunction with support from Group Risk, Head of Tax and Head of Legal Compliance, must:

- evaluate the background, experience and reputation of the business partner;
- understand the services to be provided, and methods of compensation payment;
- evaluate the business rationale for engaging the business partner;

- take reasonable steps to monitor the transactions of business partners appropriately;
- ensure there is a written agreement in place which acknowledges the business partners understanding and compliance with this policy.

Breaches of this policy

Any employee who breaches this policy will face disciplinary action, up to and including dismissal. We may terminate our relationship with other individuals and organisations working on our behalf if they breach this policy.

VERSION HISTORY

This section of the policy should be completed to detail changes made to the policy.

VERSION	STATUS	AREA OF CHANGES	DESCRIPTION OF CHANGES	APPROVED BY	DATE OF RELEASE DD/MM/YYYY
1.0	Current	All	Final Version	Pennon Board	25/03/2021

Appendix – ‘Red Flag’ risks

The following is a list of possible red flags that may arise during the course of you working for us and which may raise concerns related to tax evasion or foreign tax evasion but the list is not intended to be exhaustive.

If you encounter any of these red flags while working for us, you must report them promptly.

- you become aware, in the course of your work, that a third party has made or intends to make a false statement relating to tax, has failed to disclose income or gains to, or to register with, HMRC (or the equivalent authority in any relevant non-UK jurisdiction), has delivered or intends to deliver a false document relating to tax, or has set up or intends to set up a structure to try to hide income, gains or assets from a tax authority;
- you become aware, in the course of your work, that a third party has deliberately failed to register for VAT (or the equivalent tax in any relevant non-UK jurisdiction) or failed to account for VAT;
- a third party requests payment in cash and/or refuses to sign a formal commission or fee agreement, or to provide an invoice or receipt for a payment made;
- you become aware, in the course of your work, that a third party working for us as an employee asks to be treated as a self-employed contractor, but without any material changes to their working conditions;
- a supplier or other subcontractor is paid gross when they should have been paid net, under a scheme such as the Construction Industry Scheme;
- a third party requests that payment is made to a country or geographic location different from where the third party resides or conducts business;
- a third party to whom we have provided services requests that their invoice is addressed to a different entity, where we did not provide services to such entity directly;
- a third party to whom we have provided services asks us to change the description of services rendered on an invoice in a way that seems designed to obscure the nature of the services provided;
- you receive an invoice from a third party that appears to be non-standard or customised;
- a third party insists on the use of side letters or refuses to put terms agreed in writing or asks for contracts or other documentation to be backdated;
- you notice that we have been invoiced for a commission or fee payment that appears too large or too small, given the service stated to have been provided; or
- a third party requests or requires the use of an agent, intermediary, consultant, distributor or supplier that is not typically used by or known to us.