Tax matters for net zero

Talking Tax 2023

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Aligning business and social objectives

SSE has set four core 2030 business goals directly linked to the four UN Sustainable Development Goals (SDGs) most material to its business. One of these 2030 Goals, linked to SDG 8 Decent Work and Economic Growth, contains a commitment to champion fair tax. You can read more about how SSE has been doing this in its Sustainability Report 2023 and on page 8 of this report.

Alternative Performance Measures
SSE assesses the performance of the Group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed 'non-GAAP' measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented and described on pages 194 to 201 of SSE's Annual Report 2023. The Alternative Performance Measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

About SSE

SSE is a UK-listed energy company headquartered in Perth, Scotland, and is a major contributor to the economies in the UK and Ireland. It employs around 12,000 people and is Real Living Wage, Living Hours and Fair Tax Mark accredited.

SSE is a leading generator of renewable electricity in the UK and Ireland, and is one of the largest electricity network companies in the UK. It is driven by a purpose to provide energy needed today while building a better world of energy for tomorrow.

To do this, it develops, builds, operates and invests in low-carbon electricity infrastructure in support of the transition to net zero, including onshore and offshore wind, hydro power, flexible thermal generation, electricity transmission and distribution networks, alongside providing energy products and services to customers. SSE's ambitions for the development of renewable energy now extend beyond the UK and Ireland to carefully selected international markets, including Asia-Pacific, Europe, and North America. For more detail about SSE's strategy and its business activities, see **sse.com.**

About this report

The principles of fair tax are core to SSE's approach to creating and sharing value with society, and it has been Fair Tax Mark accredited for almost a decade. SSE is proud to pay the right amount of tax at the right time and in the right place and believes it is the most appropriate way to contribute to the public services its business activities rely on. SSE also believes that tax has an important role to play in supporting an accelerated transition to net zero.

SSE fully discloses its tax affairs in its Annual Report 2023 (pages 237 to 239) according to international accounting standards and the enhanced disclosure requirements of the Fair Tax Mark. The purpose of this report is to complement these disclosures and provide additional transparency around the different types of taxes SSE pays in different jurisdictions, as well as outline SSE's strategy and approach to tax.

This report's objective is to provide a transparent and accessible account of SSE's tax affairs for the financial year 1 April 2022 to 31 March 2023, written in a way that is clear and understandable to non-tax specialists. However, it is sometimes necessary to use technical language and phrases. To help the reader understand these concepts, explanations for the main terms used in this booklet are provided on page 21 to 22.

Creating the conditions for investment in net zero

Over 2022/23 the case for achieving net zero greenhouse gas emissions continued to harden, as – for what feels like an all-too-common phrase over recent years – we saw unprecedented warnings around the urgent action needed to avoid the worst impacts of climate change.

With a cost of living crisis and gas supply shortages, the financial year was also characterised by the re-emergence of the energy trilemma – the challenge of simultaneously achieving security of supply and affordability whilst, at the same time, decarbonising the energy system.

The solution to all three challenges is significant investment to deliver the critical low-carbon infrastructure needed. Private sector companies, like SSE, have a crucial role to play in delivering this investment. In 2022/23, SSE invested record amounts as we work to deliver our ambitious £18bn capital investment plan in the five years to 2027 – the equivalent of £10m a day.

However, operating within the global context of market volatility and rapid change, governments must strive to create stable conditions that give the private sector the confidence to invest at scale. This means investment policy that secures the strategic long-term goal of net zero. Navigating all three elements of the energy trilemma is, understandably, one of the most difficult tasks facing governments and policy makers around the world. It can be tempting in the face of urgent issues to respond with policies that bring about short-term results, however these have potential to ultimately cost consumers more in the long run.

Tax can be a very useful tool for policy makers. Appropriate tax incentives for investment in the energy sector can encourage the scale of investment needed to deliver net zero. That environment supports the investment in a cleaner, more secure and more affordable energy system, which in turn will make it a successful company which can contribute to the public purse through the responsible payment of tax.

In publishing SSE's eighth Talking Tax report, SSE's objective remains the same as its very first publication – simple, transparent and understandable disclosures of SSE's tax affairs for its stakeholders.

While things might change – like SSE's expansion into overseas markets or policy regimes – the one thing that remains is SSE's unwavering commitment to fair tax principles.

I retire from my position as SSE's Finance Director on 30 November 2023 after 21 years on the Board, and can look back with pride on our achievements in relation to tax. When I joined SSE as the Group's Tax Manager 33 years ago, I had no idea that SSE would be the first FTSE 100 business to achieve Fair Tax Mark accreditation; that we'd win a tax case at the UK Supreme Court; or that we'd win awards for our tax reporting. SSE continues to lead from the front as a responsible taxpayer and I have no doubt it will continue to do so as I hand over the baton to Barry O'Regan as incoming Chief Financial Officer.

Gregor Alexander
Finance Director

SSE's tax contribution overview

SSE is responsible for several different taxes that arise from its direct operations, as well as upstream and downstream activities. SSE pays taxes directly to tax authorities, referred to as taxes paid. They are direct costs of running SSE's business.

In addition to these taxes paid, SSE's business activities generate commercial activity that gives rise to taxes which SSE collects and administers on behalf of governments. These do not represent a direct cost to SSE and are referred to as taxes collected. These taxes paid and collected combined represent SSE's total tax contribution, which is the total value of taxes that SSE has some responsibility for.

SSE's total tax contribution 2022/23

In the year to 31 March 2023, SSE's total tax contribution was £1.3bn compared to £944m the previous year. This was made up of £549m of taxes paid (compared to £375m in 2021/22) and £764m of taxes collected (compared to £569m in 2021/22).

The increase in total taxes paid in 2022/23 compared with the previous year was primarily due to an increase in profits made during the year, meaning that higher levels of corporation tax were paid. The increase in total taxes collected in 2022/23 compared with the previous year was primarily due to an increase in the value of sales made to business customers, resulting in an increase in value added tax (VAT) collected.

SSE's material trading operations are in the UK and Ireland. A full breakdown of SSE's taxes paid and collected split out by UK and Ireland is available on pages 15 to 17. SSE has some subsidiaries outside of these countries and is also beginning to expand internationally through its renewables business. SSE's country-by-country reporting for these jurisdictions can be found on page 12.

SSE'S tax value chain 2022/23

Profit tax
£217m
Taxes on profits that SSE makes. Corporation tax is one example of a tax paid on profit.

People tax
£72m
Taxes paid on wages earned by employees, for example an employer's share of National Insurance contributions.

Value added tax (VAT)
£488m
VAT is charged on goods and services, which are bought from suppliers or sold to customers. SSE collects VAT on behalf of national tax authorities.

Other taxes
£4m
A variety of smaller taxes contribute to this figure which is collected by SSE on behalf of governments.

SSE'S direct operations

Environmental tax
£67m
SSE pays environmental taxes in relation to its direct operations, the main one being the Climate Change Levy which is a tax it pays on fossil fuels used to generate electricity.

Property tax
£193m
Property taxes relate to owning or using properties and infrastructure. These include business rates paid to local councils, and taxes on transactions when properties are bought and sold.

Society

People tax
£172m
Taxes collected from employee wages on behalf of governments, for example income tax.

Environmental tax
£100m
SSE collects environmental taxes from its customers on behalf of governments, including the Climate Change Levy which is an environmental tax charged on the energy that businesses use.

Taxes Paid
£549m +

These are the taxes that SSE pays directly to tax authorities. They are direct costs of running SSE's business and include profit taxes, business rates and employer National Insurance contributions.

Taxes Collected
£764m =

These are taxes which are generated by SSE's operations but are not a direct cost to SSE. SSE's business activities generate the commercial activity that gives rise to these taxes and then it collects and administers them on behalf of governments.

Total Tax Contribution
£1.3bn

This is simply the total value of taxes that SSE has some responsibility for. It is the sum total of all the taxes paid and the taxes collected by SSE.

Why tax matters

In the transition to net zero, SSE seeks to share the value it is creating with society by generating economic value and contributing to the public purse.

Sharing the benefits from net zero
SSE is a major contributor to the UK and Irish economies, contributing £6.04bn and €429m to UK and Irish GDP respectively in 2022/23, and supported 42,370 jobs across these countries. SSE has plans to invest £18bn in the five years to March 2027, equivalent to around £10m a day, and in 2022/23 alone, it invested a record £2.8bn (adjusted capital investment and expenditure) exceeding the profits it made over the same period.

This scale of economic activity and investment carries with it a responsibility to ensure it is done in the right way, and the considerable value it generates is shared. By supporting jobs, businesses, and communities wherever it operates, SSE adds economic value and contributes to the public purse too. SSE considers being a responsible taxpayer a core element of its social contract with the societies in which it operates. As SSE's operations develop beyond the UK and Ireland it will strive to support the communities in these locations as much as it has at home to benefit local societies.

Tax is core to social contribution
Contributing to the public purse is one of the most important ways a company can share value with society. Tax is at the very centre of the social contract and companies are just as important to that contract as individuals.

Businesses contribute to the public purse through direct and indirect taxes and have a role to play by paying their fair share of tax. Tax helps to fund vital goods and services that the public rely on every day, such as health care, policing, roads, flood defence and education. The important role of tax has been highlighted more than ever in recent years, during times of increased public spending in response to coronavirus and to address the cost-of-living crisis.

Throughout the next few decades society is going to face more global challenges, like climate change, and investment will be required to finance the solutions to achieve net zero. Therefore, paying their share of tax in the right place becomes ever more important for large taxpayers, in order to enable public services to be operating at full capacity in times of need.

The role of tax in delivering net zero
Reaching net zero requires existing markets to expand, and creates new markets to deliver the infrastructure and systems the world needs to reduce carbon emissions and limit global warming to 1.5°C. There is a great opportunity for the companies within these markets to fully contribute to the tax system from the outset, and build an industry that does right by society by delivering a better net zero world, whilst paying the correct tax and being transparent about it. The right tax framework can help incentivise investment into net zero by removing uncertainty for investors and providing a clear signal from governments on their commitment to net zero goals. Tax incentives and a simplified tax regime can make it easier to guarantee return on investment, reducing hesitation and encouraging investment that delivers against long-term sustainability commitments.

"Playing fair by tax is at the heart of what we stand for and is a core element of our social contract with the society in which we operate. Paying our fair share of tax is the most appropriate way to support public services and contribute to the societies that enabled us to be successful in the first place."

Martin McEwen
Head of Tax, SSE

Public perception counts
Corporate tax avoidance has been the number one issue of public concern for over a decade in the annual Institute of Business Ethics' (IBE) assessment of the British public's opinion on business behaviour. It is a persistent issue and in the eyes of the public, business and government could, and should, be doing more.

In June 2023, The Fair Tax Foundation published its own assessment of public attitudes in its report Fair Tax Nation: UK public attitudes to corporate tax. The report analyses the results of seven years of polling of the UK public and reveals that corporate tax avoidance continues to be the country's number one concern when it comes to corporate behaviour, with 47% of respondents ranking it first.

The UK public want to see the Government do much more to ensure that all businesses, both large and small, pay their fair share of tax. An overwhelming majority of the public believe stronger measures should be taken including, requiring multinational businesses to disclose how much income, profit and tax they pay in each country in which they operate, as well as public procurement tenders taking into consideration a companies ethics and tax practices.

Equally, the public expect more of businesses too and it came through clearly that the public care deeply about 'tax justice' and this will influence their decisions around who they buy from and who they work for. For a company like SSE, this gets to the heart of why it sought to gain the Fair Tax Mark in the first place.

While it is hugely positive to see fair tax being seen as a priority in the UK, and there has been an increase in tax disclosures by companies, a lot still remains for businesses to do to rebuild public trust in this area.

A responsible approach to tax

SSE takes a responsible approach to tax, ensuring it pays its fair share and is transparent about its practices.

Why it is important that SSE pays its fair share
SSE is one of the UK's biggest taxpayers, being ranked 16th out of the 100 Group of Companies in terms of taxes paid in the 2022 PwC Total Tax Contribution survey. It is therefore important that SSE takes a responsible approach to tax, seeking to pay the right amount of tax on its profits, in the right place, at the right time.

While SSE has an obligation to its shareholders, customers, and other stakeholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use 'tax havens' to reduce its tax liabilities. SSE's tax policy is to operate within both the letter and spirit of the law at all times, see SSE's Tax Strategy on pages 18 to 20. SSE will remain committed and true to this approach as it expands globally.

A long-term commitment to fair tax
In 2014, SSE was the first FTSE 100 company to become Fair Tax Mark accredited. The Fair Tax Mark is an independent third-party accreditation which recognises organisations that pay the right amount of corporation tax, in the right place, at the right time. As tax affects everyone, the Fair Tax Foundation believes that companies should report on their tax practices transparently so stakeholders can understand how they are contributing. This means that one of the fundamental principles of the Fair Tax Mark accreditation is open tax disclosures that go well beyond the current requirements of UK company law.

While SSE has been Fair Tax Mark accredited for nearly a decade, it has continued to drive progress in this area. In 2019, SSE established four core business goals for 2030, one of which commits SSE to champion fair tax. These 2030 Goals are linked to a portion of Executive remuneration and put a responsible approach to tax at the core of SSE's strategy as a business.

In November 2022, SSE became the first Fair Tax Mark accredited business to transition from the Fair Tax Foundation's UK HQ Multinational accreditation to its new Global Multinational Business Standard. SSE remains a firm supporter of the Fair Tax Foundation and has welcomed its international focus and expansion believing that multinational corporations must pay regard and respect to the jurisdictions where economic activity is undertaken, and profits arise. SSE took this step to purposefully demonstrate its ongoing commitment to upholding the principles of fair tax as it expands internationally.

Fair Tax

Recognising fair tax practices

Over 2022/23, SSE has taken steps to promote the principles of fair tax and to celebrate others who are demonstrating fair tax practices. SSE has also been recognised itself for its responsible approach to tax.

Promoting Fair Tax:
SSE sponsored Fair Tax Week in June 2023, which celebrates the businesses and organisations that are proud to promote responsible tax conduct, and the positive contribution this makes to society.

Transitioning to a global fair tax standard:
In November 2022, SSE transitioned from the Fair Tax Foundation's UK HQ Multinational accreditation to its new Global Multinational Business Standard (see more information above).

Award winning disclosures:
In November 2022, SSE was recognised for its clear and transparent tax disclosures, winning the PwC Building Public Trust Award for 'Tax in the FTSE 350 – UK Focused Companies'. In November 2023, SSE won this category for the second consecutive year.

Principles for fair tax

SSE follows three core principles that guide both its strategic approach to tax and its day-to-day activities. Due to SSE's consistent approach its tax strategy does not significantly change year to year. These three principles are also an integral part of SSE's overseas expansion: SSE's tax strategy and approach to tax will not change as the group becomes more international. SSE's full tax strategy can be found on pages 18 to 20.

Playing fair

SSE does not take an aggressive stance in its interpretation of tax legislation and will not use artificial tax avoidance schemes or tax havens to reduce its costs. SSE believes businesses should pay the right tax in the right place; therefore, SSE's profits are taxed in the locations where it has business substance. SSE follows OECD Transfer Pricing Guidelines which are based on the arm's length principle. Transfer pricing arrangements are regularly reviewed to ensure profits are taxed where value is created. In addition, SSE never abuses jurisdictions to gain financial secrecy benefits.

Being accountable and transparent

SSE believes it is important for businesses to be clear and transparent about their worldwide activities, tax affairs and tax payments, and its policy is to operate within both the letter and spirit of the law at all times. The Group's primary objective from a tax perspective is to be compliant with all tax legislation requirements. Throughout 2022/23, there was complete compliance with SSE's Group Tax Policy. Good tax governance and reporting is essential, and SSE seeks to increase accountability with its senior leaders through linking a portion of executive remuneration with its 2030 Goal linked to championing Fair Tax.

Working with stakeholders

With one of its core 2030 business goals linked to championing fair tax, SSE seeks to promote the importance of paying a fair share of tax with stakeholders, and as a consequence be regarded as a low risk and responsible taxpayer. Stakeholders SSE engages with on tax matters include businesses, government, and wider societal groups, as well as the relevant tax authorities.

Talking tax with SSE's Head of Tax

Encouraging investment in green technologies

What have countries around the world done to attract investment in green technologies and how does the UK compare?
Unprecedented levels of fiscal action are being taken by governments around the world to encourage investment in green industrial development. For example, in Europe, the European Commission published its Green Deal Industrial Plan in February 2023, which aims to enhance the competitiveness of Europe's net zero industry by simplifying the regulatory framework and making the process for granting funding easier. The Commission is also seeking to speed up the green transition by promoting significant investment in renewable energy principally through loans and grants. The Inflation Reduction Act introduced in the United States in August 2022 applies a similar mechanism of loans and grants to spur investment in green technologies, alongside the use of tax credits for companies.

Other approaches taken have been in the form of new subsidies to boost domestic clean-technology manufacturing and tax breaks for electric vehicles in China, and the creation of a ten-year Green Innovation Fund in Japan, alongside a planned programme of tax credits, aimed at encouraging both public and private sector investment in the green transition. Governments are being really quite innovative in focusing incentives on specific technologies or our industry more broadly.

Unlike elsewhere, we haven't yet seen the UK introduce tax measures aimed specifically at the industrial development of the green energy sector. We believe there is room for targeted tax policies, alongside many other policy interventions, to make the UK more appealing for investments and close the competitiveness gap with others.

What changes could the UK make to tax incentives to attract private investment in the transition to net zero?
Tax relief on capital investment in the UK is largely available through the capital allowance regime, which provides tax relief on plant and machinery. Despite several temporary measures put in place within the regime recently to increase the tax relief available, there is no certainty that these measures will continue in the long run. Out with these temporary measures, tax relief for plant and machinery which has a predicted useful life of 25 years or more is very low. The energy sector is characterised by long-term investments meaning many long-life green energy assets benefit to a lesser extent from this regime compared to assets with a shorter life. To encourage the scale of investment needed in energy assets we need targeted tax incentives aimed at green investment in long-term assets. Introducing capital allowance rules specific to green technologies, which give investors certainty and allow green technologies to get full tax relief, would help to make the UK more attractive to investors in this sector.

Recent decisions in the tax courts have shown that the current capital allowances regime is not fit for purpose when it comes to allowing tax reliefs for all costs necessarily incurred on large infrastructure projects. Further competitiveness and investor confidence could be achieved through setting fiscal rules that give clarification on full relief for development and decommissioning costs, as is currently the case in the oil and gas sector.

Any targeted tax incentives would need to be carefully considered in the context of existing rules and regulations to ensure they have the desired impact. However, done well, these measures could be powerful tools for driving positive change and sustainable investment in net zero.

What changes should the UK make to tax arrangements to support customers?
While we believe that targeted tax reliefs can be a powerful tool in stimulating investment, sometimes, and in extreme circumstances, governments also have the ability to adapt tax regimes in the support of customers.

A new windfall tax was introduced last year to support customers with the extreme increases in energy process. The Electricity Generator Levy is a temporary 45% charge introduced on exceptional receipts that have arisen to some UK electricity generators following an increase in the wholesale price of electricity seen following the Ukraine invasion. The Republic of Ireland similarly introduced a price cap to enable an element of high wholesale electricity prices to be returned to customers. We supported the principle of these measuresto ensure that an appropriate amount of additional tax is paid where extraordinary earnings are realised when consumers are experiencing abnormally high prices. However, these measures were driven by exceptional circumstances and need to be temporary to avoid potentially adversely affecting the competitive positioning of the UK and Ireland as markets to invest in.

Martin McEwen
Head of Tax, SSE

Effective carbon taxes

SSE has long advocated for a strong carbon price to support investment in low-carbon activity. How can governments ensure that strong climate policies don't end up leaving businesses less competitive on a global stage?
Both the UK and European Union (EU) have Emission Trading Schemes (ETSs), which apply a 'cap and trade' principle and put a minimum price on carbon emissions to encourage the reduction of greenhouse gas emissions. A decreasing cap level and other potential changes including extending the scope of ETS to include a greater proportion of emissions may be used as tools as part of net zero strategies. However, it can risk making large emitters less competitive globally if it leads to increased operating costs.

This is where a carbon tax on imported goods could level the playing field in the UK, by ensuring strict climate policies at home don't hinder competition with overseas companies. It can be a critical policy tool for promoting fairness and addressing 'carbon leakage', by preventing the shifting of carbon-intensive industries to countries with weaker environmental regulations. It would also have the benefit of generating revenue that can be used to support climate initiatives domestically.

The EU has been a prominent advocate for the introduction of such a mechanism in the form of the Carbon Border Adjustment Mechanism (CBAM), which is planned to be in full implementation in 2026. The UK is currently exploring an equivalent CBAM, which will be important to maintain simplicity and transparency for businesses operating across both regions.

To increase success of implementing a carbon tax policymakers should consider an approach that includes setting an ambitious and predictable carbon tax rate and applying broad coverage across multiple sectors. A balance must be struck between addressing emissions and incentivising decarbonisation. Success will require transparency and advocating for international consensus and collaboration.

Making progress on a global minimum tax rate

An important part of fair tax is ensuring the right tax is paid, in the right place, at the right time. However, lots of companies are still using tax avoidance mechanisms. What role does a global tax rate have in addressing this?
Fair tax creates a level playing field for businesses, curbing tax avoidance, and preventing harmful tax competition among countries. The OECD has an important initiative called BEPS (Base Erosion and Profit Shifting) which seeks to improve international tax rules and create a coordinated approach to tackle international tax avoidance. In July 2023, 138 countries and jurisdictions agreed a package of historic, major reforms of the international tax system.

There are two important elements to the new reforms, both aimed at multinational companies:

- taxing profits in the markets in which they arise
- ensuring a global minimum effective rate of 15%.

These measures seek to ensure fair taxation in an increasingly global and digital business environment, and aim to modernise the international tax framework to prevent profit shifting to low-tax jurisdictions.

Whilst a minimum global tax rate is to be welcomed, it does add a new layer of complexity. The interaction between global tax initiatives with domestic tax initiatives needs to be considered, as domestic tax incentives may reduce the effective tax rate of claimant companies to below the 15% threshold. Continued global buy-in will also be vital to maintain a level playing field.

We continue to monitor the progress around BEPS and have taken steps to strengthen our commitment to international fair tax by becoming the first company to transition from the Fair Tax Foundation's UK headquartered company standard to its Global Multinational Business Standard accreditation. It's great to see that Ørsted and Vattenfall have also gained Fair Tax Mark Global Multinational Business Standard accreditation. As others hopefully follow suit, this supports the creation of a global tax environment that emphasises fairness, transparency, and equitable tax practices within multinational corporations.

SSE's 2022/23 tax contribution breakdown

Country-by-country reporting

SSE was established as a UK energy company. As part of an expansion into the Irish energy sector, SSE acquired Airtricity in 2008, a renewable energy developer registered in Ireland. Until recently the UK and Ireland were the only territories in which SSE had trading activities. In 2021, SSE expanded into Japan with the acquisition of an 80% interest in an offshore wind development platform. In September 2022, the group acquired the Southern Europe wind and solar platform in Spain, France, Greece and Italy from Siemens Gamesa Renewable Energy (SGRE). SSE is exploring potential opportunities in a number of other overseas territories and we expect to significantly expand SSE's international presence over the coming years.

Country	Corporate Tax Paid £m	Revenue £m	Reported Profit Before Tax £m	Reported Current Tax £m	Reported Deferred Tax	Number of employees at 31 March 2023	Gross Employee Pay	Net Assets
France	0	0	(1)	0	0	8	0.3	22
Germany	0	0	0	0	0	0	0.0	6
Greece	0	0	(1)	0	0	7	0.2	75
Hong Kong	0	0	0	0	0	0	0.0	0
Ireland	28	1,591	97	10	20	893	57.0	838
Isle of Man	0	0	(1)	0	0	0	0.0	12
Italy	0	0	(1)	0	0	5	0.2	25
Japan	0	0	(10)	0	0	39	3.0	17
Netherlands	0	0	(2)	0	0	0	0.0	-3
Poland	0	0	0	0	0	0	0.0	0
Spain	0	0	2	0	0	41	1.2	-123
Switzerland	0	0	0	0	0	0	0.0	0
United Kingdom	227	10,900 0	(289)	245	-384	11,187	709.9	10,246
United States	0	0	0	0	0	0	0.0	0
Total	255	12,491	(206)	255	-364	12,180	771.8	11,115

SSE's UK and Irish businesses differ since SSE exited the GB domestic energy market in 2020. SSE's remaining GB businesses are capital-intensive, with higher profit margins and significant levels of capital allowances each year on capital expenditure. In Ireland SSE operates the Airtricity domestic supply business which has a high turnover but low margins, and little capital expenditure or capital allowances. This results in the business in Ireland having a higher amount of turnover-per-employee than the UK business and the UK's profit before taxes as a percentage of turnover being higher than Ireland's, with a current tax rate that is lower.

Tax matters for net zero

SSE's subsidiaries outside of the UK and Ireland

SSE has subsidiaries outside of Ireland and the UK. These subsidiaries have been established for commercial reasons and SSE's Tax Policy prevents SSE from using tax havens to reduce tax costs.

France
Following the acquisition of SGRE's onshore development platform in Southern Europe, SSE now owns twenty-one wholly owned French subsidiaries. SSE seeks to develop the acquired portfolio of early development stage onshore projects with additional future prospects.

Germany
In December 2019, SSE Renewables entered an agreement to acquire the development rights for a small portfolio of onshore wind projects in Germany, however the acquisition did not proceed. There is no development activity currently ongoing in Germany. SSE considers this German company, therefore, to be a UK tax resident company as its place of effective management is the UK.

Greece
Following the acquisition of SGRE's onshore development platform in Southern Europe, SSE now owns seven wholly owned Greek subsidiaries. SSE seeks to develop the acquired portfolio of early development stage onshore projects with additional future prospects.

Hong Kong
During 2020/21, SSE incorporated a wholly owned subsidiary, Beithe (HK) Limited, in Hong Kong. Beithe (HK) Limited was established to potentially act as a holding company but was dormant throughout its incorporation and was dissolved in June 2023.

Isle of Man
SSE Group operates a captive insurance company, SSE Insurance Limited, which is incorporated in the Isle of Man. Its primary purpose is to provide greater control over SSE's management of specific risks, with annual premium payments being made. SSE Insurance Limited is treated as a "controlled foreign company" for UK tax purposes as it is wholly owned by SSE, therefore UK corporation tax is paid on its profits by SSE.

Italy
Following the acquisition of SGRE's onshore development platform in Southern Europe, SSE now owns four wholly owned Italian subsidiaries. SSE seeks to develop the acquired portfolio of early development stage onshore projects with additional future prospects.

Japan
In 2021, SSE completed the acquisition of an 80% equity interest in an offshore wind development platform from Pacifico Energy and its affiliates. The new joint ownership group, SSE Pacifico, seeks to develop the acquired 10GW gross portfolio of early development stage offshore wind projects in Japan.

Netherlands
SSE has established nine wholly owned subsidiaries which are incorporated in the Netherlands. SSE Renewables remains focused on offshore wind in Northern Europe despite missing out on the Dutch tender process and is now focused on the upcoming Ijmuiden Ver zone tenders (2 x 2GW), with bids now expected in Q1 2024 following finalisation of the sites and tender process by the Dutch authorities later this year. SSE Renewables has partnered with APG, acting on behalf of Dutch pension fund ABP (the Netherlands' largest pension fund), for the tenders.

Poland
In June 2021, SSE established a wholly owned subsidiary, SSE Renewables Poland sp z.o.o, which is incorporated in Poland. SSE Renewables remains focused on offshore wind in Northern Europe despite missing out on the Polish tender process. The business continues to look at offshore partnering opportunities.

Spain
Following the acquisition of SGRE's onshore development platform in Southern Europe, SSE now owns twenty-three wholly owned Spanish subsidiaries. SSE seeks to develop the acquired portfolio of early development stage onshore projects with additional future prospects.

Switzerland
In 2019, SSE set up a wholly owned subsidiary, Beithe AG, which is incorporated in Switzerland. Beithe AG temporarily acted as a holding company for SSE's wholly owned UK electricity transmission and distribution networks and its investment in Scotia Gas Networks Limited. SSE's investment in Scotia Gas Networks Limited was transferred back to direct UK ownership in December 2020 and has since been sold, with the Group's UK electricity transmission and distribution investments being transferred back to direct UK ownership in April 2022. While Beithe AG may be Swiss incorporated, it is UK tax resident through its place of effective management being the UK, with UK taxes being payable on any profits or gains made by the company. Other than the network company investments the company did not hold any other material assets and a process for winding up the company has begun.

United States
SSE has established three wholly owned subsidiaries, which are incorporated in the United States. These entities were set up for the purposes of submitting a bid for an offshore wind energy auction. SSE's bid was unsuccessful in the auction and these entities are currently dormant. SSE Renewables continues to actively explore US market entry opportunities across onshore and offshore wind and adjacent technologies.

Effective tax rates

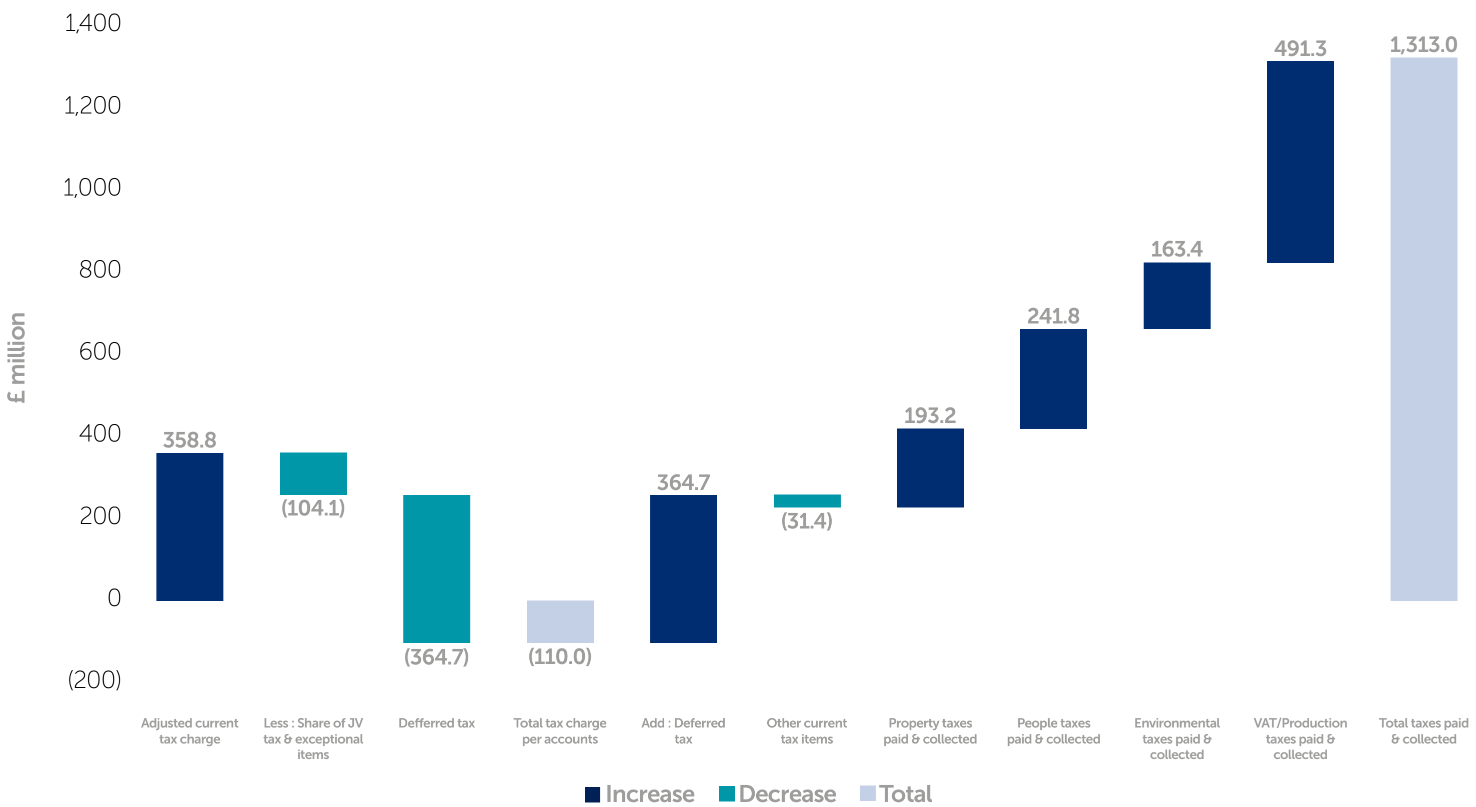
In simple terms, SSE's effective tax rate (ETR) is the average percentage it pays in taxes on its taxable income. For many reasons, SSE's ETR may differ from the corporation tax rates of the countries in which its business activities are undertaken, currently primarily the UK and Ireland. In the year ended 31 March 2023 the corporation tax rate in the UK was 19% and in Ireland it was 12.5%. SSE fully discloses its tax affairs in its Annual Report (pages 237 to 239) according to accounting standards and the enhanced disclosure requirements of the Fair Tax Mark.

As with other key financial indicators, SSE's focus is on adjusted profit before tax and, in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate in 2022/23, based on adjusted profit before tax, was 16.4%, compared with 9.2% in 2021/22 on the same basis. Due to significant annual investment by SSE in its businesses, its adjusted current tax rate is reduced by the impact of tax allowances on that investment and tax relief on funds borrowed to finance the expenditure. This meant that SSE's ETR for the year to 31 March 2023, at 16.4%, was lower than the standard corporation tax rate in the UK.

SSE's adjusted current tax rate is only one measure of ETR. SSE invests heavily in capital assets and has elected to disregard fair value movements on financial instruments and commodities to reduce the associated volatility in the group's tax charges. These items result in timing differences between when they are taken into account for accounting purposes and tax purposes. Deferred tax must be booked on these timing differences to arrive at the total tax charge per the accounts for each year. SSE's total reported tax rate for the year to 31 March 2023, once deferred tax is taken into account, was 12.7%. In order to then arrive at SSE's total tax contribution for the year, non-cash taxes such as deferred tax must be removed and amounts paid or collected in relation to property taxes, people taxes and employment taxes must be added. The below diagram reconciles SSE adjusted current tax charge to total tax charge and then total tax contribution.

SSE's adjusted current tax rate	Total Reported Tax Rate	Total Tax Contribution
16.4%	**12.7%**	**£1.3bn**
(2021/22: 9.2%)	(2021/22: 26.2%)	(2021/22: £944m)

Analysis of 2022/23 taxes



Total tax contribution

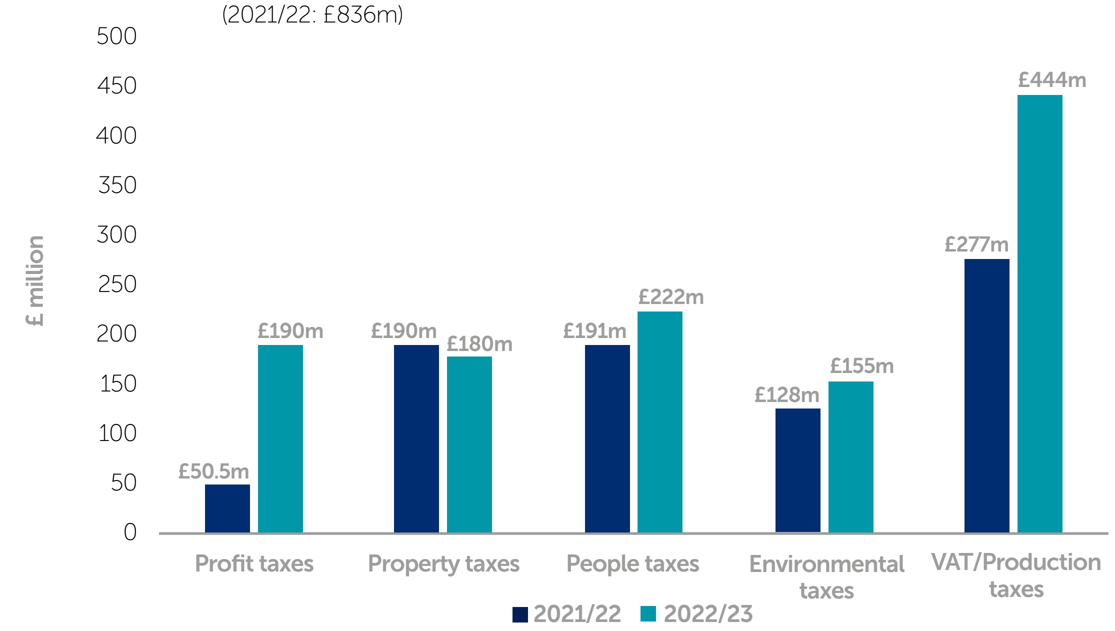
Total tax contribution is calculated by adding the value of taxes paid to the value of taxes collected. SSE's total tax contribution across all jurisdiction in which it has trading activities for the year ended 31 March 2023 was £1.3bn, compared to £944m in 2021/22. As SSE's main trading activity takes place in the UK and Ireland, the tax contributions SSE has made to the UK and Irish exchequers are shown in this section along with breakdowns of these taxes, with explanations provided for significant changes between 2021/22 and 2022/23. SSE has activities in five other countries: France, Spain, Italy, Greece, and Japan, however total tax contribution in these countries is immaterial so breakdowns have not been included in this section.

UK taxes

Total tax contribution 2022/23

£1.2bn

(2021/22: £836m)

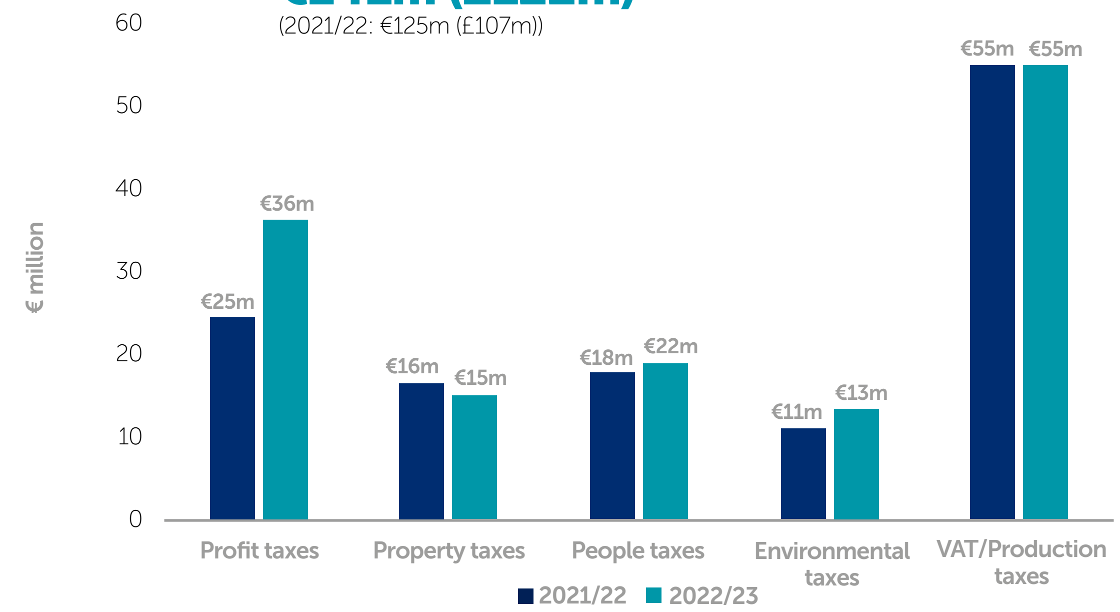


Ireland taxes

Total tax contribution 2022/23

€141m (£122m)

(2021/22: €125m (£107m))



UK tax breakdown

Taxes paid 2022/23

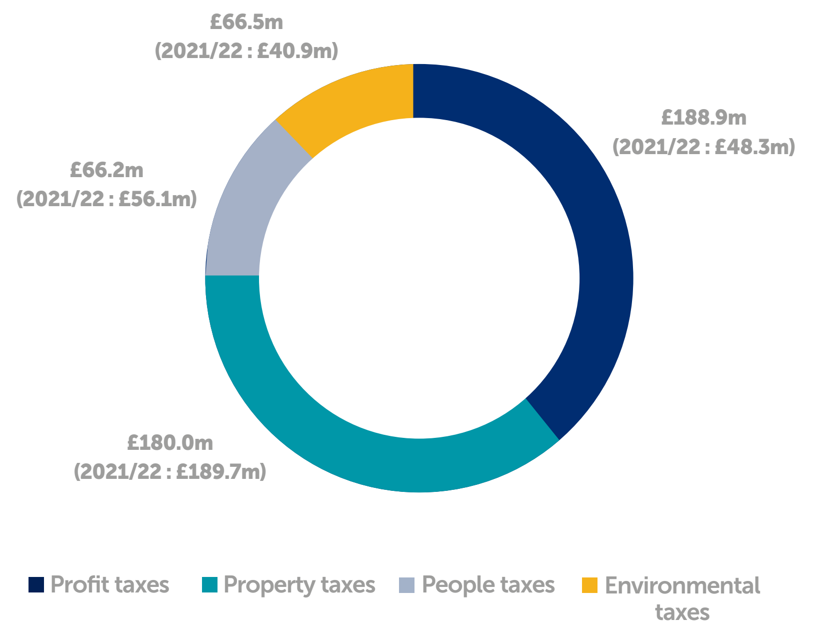
Total tax contribution 2022/23

£502m

(2021/22: £335m)

Why did SSE pay higher profit taxes?
SSE paid more corporation tax during 2022/23 compared to the previous year as a result of the business making increased profits.

Why did SSE pay higher environmental taxes?
SSE paid more Climate Change Levy in 2022/23 as a result of fewer outages at SSE's gas-fired power stations compared with the previous year.



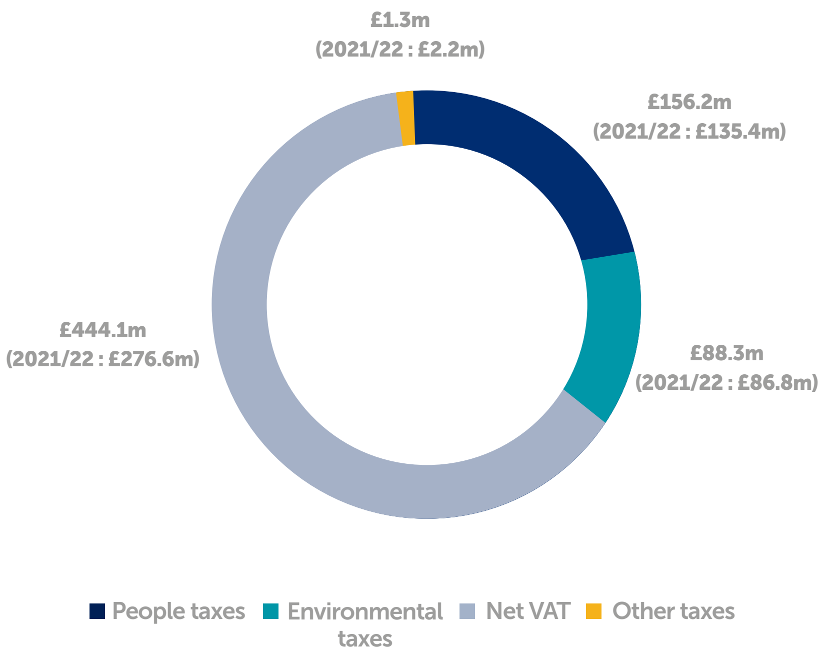
Taxes collected 2022/23

£690m

(2021/22: £501m)

Why did SSE collect more people taxes?
The value of people taxes collected by SSE was higher due to an increase in the number of employees. At 31 March 2023 there were 11,187 people employed in the UK compared to 9,897 at 31 March 2022.

Why did SSE collect more VAT?
SSE collects VAT on sales to its business customers on behalf of government. In 2022/23 the value of sales to business customers were higher when compared to the previous year, therefore VAT collected increased.



Ireland tax breakdown

Taxes paid 2022/23

€54m (£46m)

(2021/22: €46m (£40m))

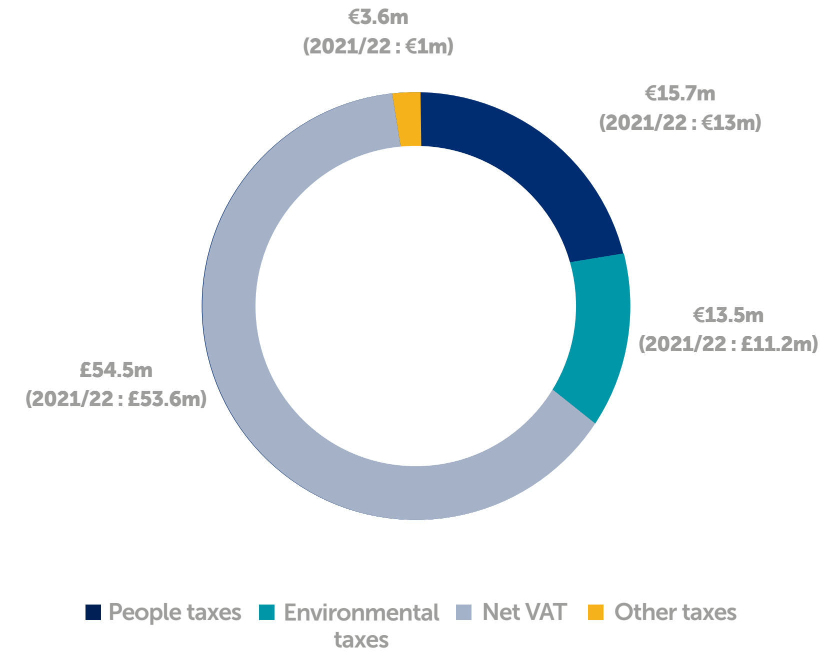
Why doesn't SSE pay environmental taxes in Ireland?
Ireland doesn't have the equivalent of the UK's Climate Change Levy, so SSE incurs no environmental taxes in Ireland

Taxes collected 2022/23

€87m (£75m)

(2021/22: €79m (£68m))

Why did SSE collect more environmental taxes?
Environmental taxes collected in 2022/23 were higher compared to the previous year due to an increase to the Natural Gas Carbon Tax (NGCT) Rate, which is a tax applied to all natural gas supplied to consumers.



SSE's Tax Strategy

The UK's 2016 Finance Act includes requirements for large businesses to publish their tax strategy. SSE's tax strategy does not change significantly from year to year and there is a well understood, and mature, approach to tax planning, risk management and governance.

This publication of SSE's Tax Strategy below, means it complies in full the duty under paragraph 16(2) of Schedule 19 of Finance Act 2016, for the year ended 31 March 2023.

1. Tax policy

SSE's Group Tax Policy underpins the pride the group takes in paying its fair share of tax. The policy is published on **sse.com/sustainability** and is subject to annual review by the SSE Board.

The group's primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect SSE's fiscal obligation to government whilst, at the same time, recognising all legislative concessions and reliefs.

The policy is owned by the Head of Tax and is one of a suite of group-level policies that promote a healthy business culture, guide decision making as expected by the company's stakeholders, and make SSE a responsible company that people want to invest in, buy from, work for and partner with.

SSE strives to minimise its total tax liability within the framework of legislative reliefs but does not take an aggressive stance in its interpretation of tax legislation. SSE is proud to pay its fair share of tax. In addition, SSE does not help our customers, suppliers, or anyone else we work with, to fraudulently underpay, or not pay, tax. The group develops and maintains a strong working relationship with HM Revenue & Customs and other Treasury departments based on trust and cooperation.

The Tax Policy explicitly outlines the process for whistleblowing, if any employee becomes aware of anything that falls short of SSE's expected high standards of ethical conduct and compliance in relation to Tax, they can raise it formally or informally, directly with their line manager or anonymously through an independent Safecall channel.

2. Governance and accountability

SSE has a Group Risk Management and Internal Control Policy which is set by the Board. The policy consists of a clear set of principles and sets out roles and responsibilities which guide the risk management culture within SSE. That policy, and the associated principles and culture, are embedded in the approach SSE takes to managing risk in relation to the Group's tax affairs. The Board performs a review of the effectiveness of the system of internal control annually. This review is supported by a report from the Director of Group Risk, Audit and Insurance detailing the activity and operation of the system during the year. Internal Audit and Assurance reviews are undertaken across the business, including perceived areas of risk concerning SSE's tax affairs, the findings of which are included in the Director of Group Risk, Audit and Insurance's report.

Gregor Alexander, SSE's Finance Director and Senior Accounting Officer, has ultimate responsibility for tax within SSE and for ensuring compliance with Group Tax Policy. Gregor Alexander has previously held the position of Tax Manager within SSE. SSE's Head of Tax, supported by a team of in-house specialists, has responsibility for managing all tax matters for the group and fulfilling compliance requirements.

A Tax and Treasury Steering Committee meets on a monthly basis to discuss key tax issues in order to manage tax risk. The tax implications of significant business transactions are evaluated, and areas where tax-related decisions are required to be taken are considered. A tax manual is maintained which outlines the Tax Department roles and structure, and the tax control environment and procedures. Regular risk reviews are undertaken to identify key tax risks and recommendations are made to allow improvements in processes and controls to be made.

A tax risk register is maintained which documents key risks, details the potential impact on the business and identifies existing/proposed controls which can extinguish or minimise the tax risks. From that, a work plan is prepared annually, timetabling in the compliance review activity to be undertaken. In particular, tax specialists in SSE are expected to:

- Apply diligent professional care and judgement when considering tax risks in line with the Group Risk Management and Internal Control Policy, and thoroughly assess tax risks in a consistent way;

- Ensure identified tax risks are supported with strong technical positions which are well documented and clearly explain the conclusion and position reached;
- Seek, where appropriate, advisory and technical support from external tax, accounting and legal advisors to resolve uncertainty or obtain assurance that a conclusion reached is reasonable;
- Maintain constructive relationships with stakeholders and ensure that tax decisions do not negatively impact on SSE's relationship with its customers, investors, regulators, or other key stakeholders; and
- Ensure that non-tax specialist colleagues, who process transactions, etc., have adequate training and guidance on tax matters relevant to their role.

3. Consistency and attitude to tax planning

SSE has an obligation to keep energy prices for customers as low as possible, and to maximise shareholder returns, which includes efficiently managing the Group's total tax liability. Those considerations are consistent with SSE's duty to wider society to be a responsible corporate citizen.

All tax decisions taken by SSE consider relevant laws, regulations and the commercial substance of any transaction. SSE collaborates with business units to provide appropriate input into all significant business transactions. The Tax Department provides an understanding of the tax consequences of key transactions from planning through to implementation to enable informed decisions. Where there are a number of options as to how a transaction may be undertaken, while still delivering the same commercial outcome, the most tax efficient approach will typically be considered, whilst having regard to all relevant laws, regulations, and the commercial substance of any transaction, and ensuring that it is consistent with SSE's Group Tax Policy.

4. Compliance

SSE's primary objective in relation to tax is that the Group operates in accordance with all relevant laws, rules and regulations in all jurisdictions in which SSE operates, at all times:

- Central to that is being open, honest and transparent in all correspondence with tax authorities and other regulatory bodies, ensuring full disclosure is provided;
- Internal compliance procedures are followed to produce accurate and complete tax returns which are submitted on time, and also to ensure that SSE meets its Senior Accounting Officer obligations;
- The Tax Department works with the wider business finance teams to obtain the necessary financial information and background to significant transactions to ensure tax conclusions and returns are based on full, relevant information;
- The filing position taken on any significant or contentious items is supported by adequate documentation, together with reasoned conclusions based on the legislation in force at the time of filing. Advice is sought from SSE's external tax advisers, where it is considered necessary. Explanatory notes are added to SSE's tax computations to assist HMRC's, or the relevant overseas tax authority's, understanding of the position;
- Finally, when SSE's corporation tax computations are filed, a summary of areas HMRC or the relevant overseas tax authority may want to focus their review on is sent to them, to facilitate proactive engagement between SSE and the tax authorities. SSE also contacts them to advise them of the reason for any material movements in tax payments compared with what they may have been expecting.

5. Concessions and relief

Tax incentives will be utilised where appropriate to minimise SSE's tax liability in accordance with all applicable laws, rules and regulations. Where there is any element of judgement in applying available incentives, professional judgement is applied, but an aggressive interpretation of the legislation is not adopted. This is in line with SSE's Group Tax Policy, that the Group complies with both the letter and spirit of the law.

6. Tax authority and regulator relations

The maintenance and development of a strong working relationship with HMRC and other tax authorities should be based on trust and cooperation. SSE is subject to an annual risk assessment by HMRC and strives to achieve as low a risk rating as can be achieved by a group of SSE's size and complexity. SSE has Low Risk Rating and seeks to maintain that by proactively engaging with HMRC and other tax authorities, to explain key business transactions, to minimise tax risk and provide understanding of the approach taken. SSE encourages open and collaborative relations with tax authorities through regular meetings, update calls, and the provision of full information in a timely manner.

7. Tax authority enquiries and uncertain tax positions

As would be expected for a group of its size, SSE has a small number of tax enquiries ongoing with the tax authorities at any one time. In addition, under Corporate Tax Self-Assessment, SSE adopts a filing position on matters in its tax returns that may be large or complex, with the position then being discussed with the tax authorities either in advance or after the tax returns have been filed. SSE engages proactively with the tax authorities on such matters with a view to resolving them as quickly as possible. Where SSE considers there to be a risk that the tax authorities may disagree with its view, and that additional tax may become payable as a result, a provision is made in SSE's accounts for the potential tax liability, which is then released once the matter has been agreed. SSE considers this to be in line with the overall prudent approach to its tax responsibilities.

8. People development

Finally, it is vital to SSE's compliance with all relevant tax legislation, that the Tax Department monitor updates and changes to tax legislation to assess the impact on the Group. All necessary technical reading and training is undertaken to ensure all laws and regulations are applied correctly within both the letter and spirit of the law. In addition, training and guidance is provided to non-tax specialist colleagues on tax matters relevant to their roles.

Glossary of terms

Business rates
Business rates are property taxes paid directly to local councils on most non-domestic properties. These taxes contribute towards the cost of services provided to businesses by local authorities.

Capital allowances
Capital allowances are the tax relief given to businesses for investing in capital expenditure. The rate of capital allowances given differ depending upon the type of asset involved but range from 3% for structures and buildings to 18% for plant and machinery.

Capital expenditure
Capital expenditure is money spent by a business in acquiring or constructing enduring assets such as wind farms or electricity networks that will generate profits. The expenditure is capitalised on the company's balance sheet rather than being expensed.

Climate change levy (CCL)
Climate Change Levy is a UK environmental tax which is charged on energy used by non-domestic customers in the UK. Its aim is to provide an incentive to increase energy efficiency and reduce carbon emissions.

Controlled foreign company (CFC)
In the UK, a CFC is a foreign company which is not resident in the UK but which is controlled from the UK. The CFC tax rules aim to prevent UK profits being diverted to low tax jurisdictions. Consequently, if profits are earned through a CFC and do not meet any of the exemptions, those profits are apportioned and charged to a UK company which means the profits are subject to UK corporation tax.

Corporation tax
Corporation tax is the main tax a company pays on its profits. In the UK, the 'headline' rate is currently 19% and in Ireland it is 12.5%.

Deferred tax rate
Income tax that is payable in the future. Deferred tax arises because there is a difference between taxable profits and accounting profits.

Effective tax rate (ETR)
The different types of taxes SSE pays on profits are set at different rates and can vary depending on specific circumstances. To calculate its effective tax rate, SSE takes its total profit taxes paid and divides this by the value of its profits before tax. SSE's effective tax rate will vary from year to year, depending on profits made and other elements.

Environmental tax
Taxes that encourage businesses to operate in a more environmentally friendly manner. There are a number of different environmental taxes and schemes for different types and sizes of business. For SSE, the most material environmental taxes paid are Climate Change Levy and Landfill Tax.

Just transition
A just transition seeks to reach net zero in the fairest way possible for working people, consumers, and their communities, ensuring that the benefits of climate action are shared widely whilst preventing unfair burden of the costs on those with the least.

Natural Gas Carbon Tax (NGCT) Rate
The Natural Gas Carbon Tax (NGCT) rate is a levy imposed on the carbon emissions associated with the use of natural gas. It aims to incentivize reduced carbon emissions by increasing the cost of natural gas consumption, encouraging cleaner energy alternatives. It was introduced in Ireland on 1 May 2010 and applied to all natural gas supplied to consumers.

Net assets
A company's balance sheet is comprised of assets and liabilities, of a short-term (such as cash or amounts payable to suppliers) and long-term (such as buildings or bank loans) nature. The company's net assets represent the total of all assets less all liabilities.

Net zero
A target to completely eliminating greenhouse gas emissions produced by human activity, to be achieved by dramatically reducing emissions and implementing methods of absorbing carbon dioxide from the atmosphere to neutralise any residual emissions. Both the UK and Irish Governments have legislated for net zero greenhouse gas emissions by 2050.

People tax
Taxes companies pay on wages earned by their employees and collect from employee wages on behalf of governments, primarily income tax and National Insurance contributions.

Profit tax
Taxes paid on the profit a company makes. All successful businesses must pay tax on the profits they earn. Corporation tax is just one way that governments can tax profits. In the UK, SSE's profits are also subject to a Petroleum Revenue Tax which is paid on upstream oil and gas extraction activities.

Property tax
Taxes paid that relate to owning or using properties and infrastructure. These include business rates, nondomestic rates on electricity network assets, and taxes on transactions when properties are bought and sold.

UN Sustainable Development Goals (SDGS)
The Sustainable Development Goals or Global Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

Tax avoidance
The legal usage of the tax regime in a single territory to one's own advantage to reduce the amount of tax that is payable by means that are within the law. A tax shelter is one type of tax avoidance, and tax havens are jurisdictions that facilitate reduced taxes. Tax avoidance is different from tax evasion (which is illegal).

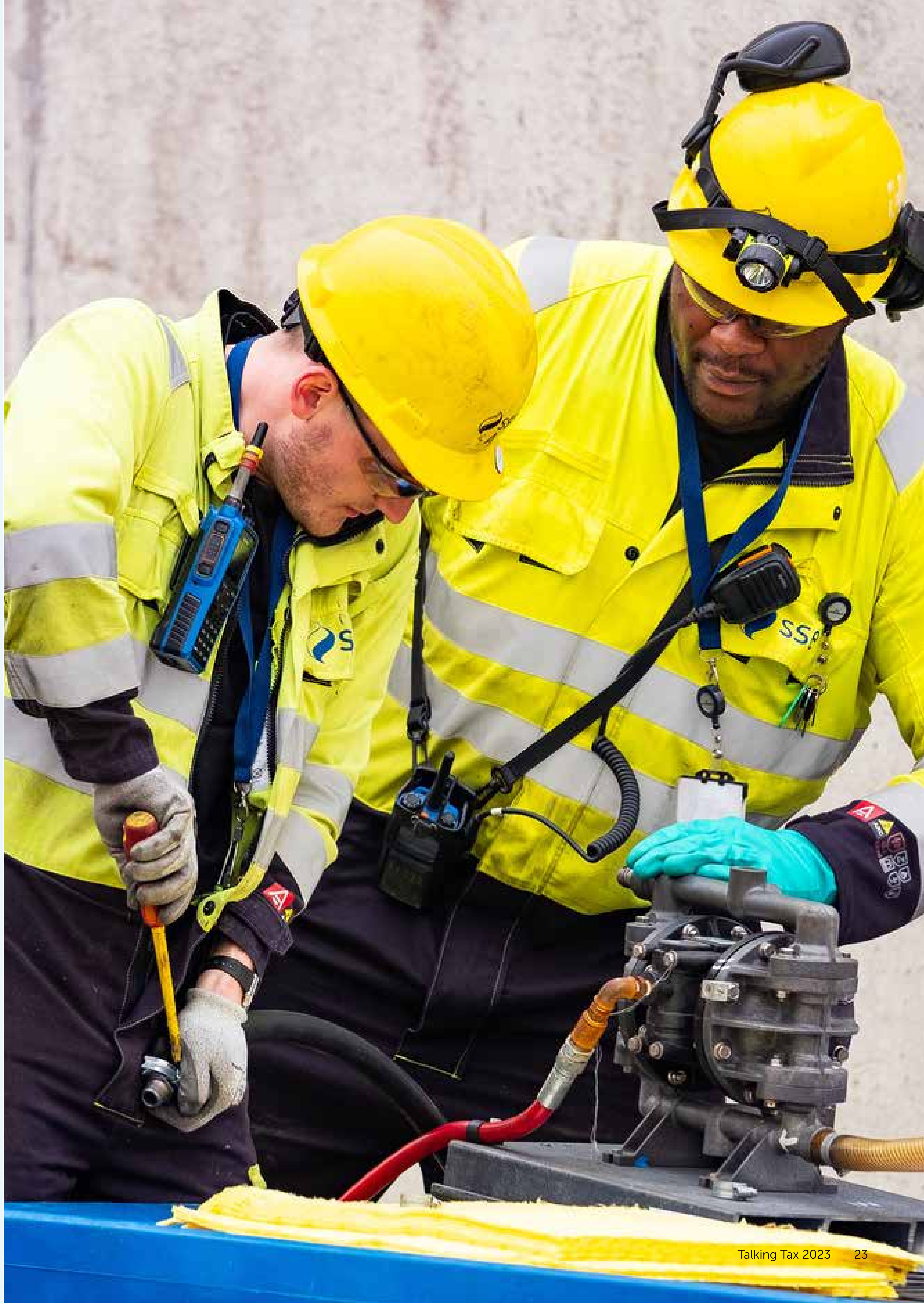
Tax haven
A country or independent area where taxes are levied at a low rate. Some companies and individuals deliberately structure their financial affairs to benefit from the low tax rates being offered.

Tax planning
Tax planning is a responsible way of organising tax affairs to ensure that tax is not overpaid, understanding that modern tax regimes are complex and give the taxpayer options as to how to organise their business which in turn impacts on the duty to pay tax.

Tax relief
Tax reliefs are used by governments to encourage certain behaviours from companies, particularly to encourage them to do things that have a wider benefit to the economy. For example, there are tax reliefs for research and development and for capital investment.

UK finance act
As part of the annual UK Budget, changes to tax and duty are outlined. Each year, these changes are passed as law through the Finance Act.

VAT (Value added tax)
A tax charged on goods and services, which are either bought from suppliers, or sold to customers. VAT is both collected on behalf of, and paid to, the tax authorities.



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