Fair tax in a time of change

Talking Tax 2022

Contents

Aligning business and social objectives

SSE has set four core 2030 business goals directly linked to four the 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 2022 and on page 08 of this report.

8 DECENT WORK AND ECONOMIC GROWTH

Alternative Performance Measures

SSE assesses the performance of the Group using a variety of performance measures. Some of these measures are not defined under international financial reporting standards (IFRS) and are termed 'non-GAAP' measures. To ensure complete transparency, SSE undertakes a reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented and described on pages 204 to 212 of the Annual Report 2022. The alternative performance measures SSE uses might not be directly comparable with similarly titled measures used by other companies, however, SSE believes they represent the best measurement of performance of SSE's unique circumstances.

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 is a leading generator of renewable electricity, with its thermal assets complementing a transition to a low carbon future, and is one of the largest electricity network companies in the UK, consisting of SSEN Transmission and SSEN Distribution.

SSE's strategy is to create value for shareholders and society in a sustainable way by providing energy needed today while building a better world of energy for tomorrow. To do this, it develops, builds, operates and invests in low-carbon infrastructure in support of the transition to net zero, including onshore and offshore wind, hydro power, flexible thermal plant, electricity transmission and distribution networks, localised energy systems 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 East Asia, mainland Europe and North America. For more detail about SSE's strategy and its business activities, find out more at sse.com.

About this report

SSE is committed to improving transparency around tax and recognises heightened interest by stakeholders into the tax affairs of businesses. 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 is also mindful of the important role tax can play in a just transition to net zero.

SSE fully discloses its tax affairs in its Annual Report 2022 (pages 248-258) 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 an accessible account of SSE's tax affairs for the financial year 1st April 2021 to 31st March 2022, 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.

Fair tax in a time of change

Profits for a purpose

Investing to replace volatile and unreliable gas

The purpose of this report remains precisely the same as in previous years: delivering the utmost transparency of SSE's tax affairs.

Playing fair by tax is at the heart of what we, at SSE, stand for. We provide energy, which is a lifeline and essential product and service. We depend upon the people and communities we serve to build our assets and consume the energy we produce. When we are successful in doing that reliably and efficiently, we make a profit. Paying a fair share of tax on those profits is simply the most appropriate way to support public services and contribute to the societies that enabled us to be successful in the first place.

After we've paid our taxes, those profits go in two directions:

- We remunerate shareholders, often supporting existing and future pensioners in the long term, and
- We directly invest into new infrastructure, with profitability underpinning even greater investment too.

In fact, SSE's current rate of investment, means we are investing, annually, more than we are making in profit.

In 2022, those profits have never had a more important job to do than investing in the low carbon energy infrastructure that is so needed to replace volatile and unreliable sources of gas.

The cost-of-living crisis being faced by people at home and abroad is a direct result of the Russian invasion of Ukraine. Currently, there is more demand for energy (particularly in the form of gas), than there is supply. That results in price hikes for energy consumers in the UK, Europe and beyond. While I firmly welcome the efforts by government to provide respite to families and businesses in the short term, the correct long-term response must be to double-down on our climate commitments, wean ourselves off Russian gas and invest more in indigenous low carbon energy sources and the infrastructure required to transport and store that energy. All of that must be done simultaneously with public and private investment into energy efficiency measures.

"Paying a fair share of tax on profits is simply the most appropriate way to support public services and contribute to the societies that enabled us to be successful"

We must deliver with pace and precision our £12.5bn Net Zero Acceleration Programme. And in doing so, we will help provide consumers with affordable, clean energy and – hopefully – SSE will make responsible levels of profit in the years to come, where we can disclose, with pride, the right level of tax contributions that governments can invest in the public services we all depend upon.

Gregor Alexander
Finance Director

SSE Talking Tax 2022

SSE's 2021/22 tax contribution overview

SSE is responsible for several different taxes that arise from its direct operations, as well as upstream and downstream activities, which are outlined in its tax value chain. In the year to 31 March 2022, SSE paid £375m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £397m in the previous year. The reduction in total taxes paid in 2021/22 compared with the previous year was primarily due to:

- **The sale of SSE's Contracting businesses in June 2021, which resulted in less profit taxes and employment taxes being paid; and**
- **Shutdowns (or outages) at SSE's gas-fired power stations, which resulted in less Climate Change Levy being paid.**

In 2021/22 SSE also paid €46.4m of taxes in Ireland, compared to €20.4m the previous year. Ireland was the only country outside the UK in which it had material trading operations in the year, but that will change in the future as SSE expands internationally. A full breakdown of these taxes by jurisdiction, alongside detail of SSE's subsidiaries outside the UK, is provided on page 12.

Fair tax in a time of change

sse

Reinvestment **£2.1bn** £12.5bn to 2026

Profit **£1.5bn**

Shareholders

Dividends

Taxes paid £375m

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.

Property tax £204m

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.

Profit tax £70m

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

People tax £60m

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

Environmental tax £41m

SSE pays environmental taxes in relation to its direct operations, the main one being Climate Change Levy, tax on fossil fuels used to generate electricity.

Taxes collected £569m

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.

Value added tax (VAT) £323m

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.

People tax £147m

Taxes collected from employee wages on behalf of governments, for example income tax.

Environmental tax £96m

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

Other tax £3m

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

Total tax contribution £944m

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.

Creating and sharing value

SSE has a longstanding commitment to create and share value with society through its business activities. 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.

SSE's social contribution

SSE has a deeply interconnected relationship with the society in which it operates. To be a successful business, SSE relies on public services and needs long-term public support and legitimacy. In return, SSE creates and shares value through investing in the critical national energy infrastructure needed for the transition to net zero, and has a £12.5bn capital investment plan to 2026 (see page 4 of SSE's Annual Report 2022.) The way that SSE invests in the decarbonisation of energy systems contributes to society by: adding economic value; supporting long-term, meaningful jobs (both in its direct workforce and in its supply chain); ensuring value for energy consumers; and, contributing to the public purse through tax revenues.

SSE's investment across the UK and Ireland already supports thousands of jobs and contributes billions of pounds to these economies each year - significantly greater than the profit it makes. In the year to 31 March 2022, SSE has contributed £6.2bn (in 2022 prices) to the UK and Irish economies. See SSE's Sustainability Report 2022 page 72 for more details.

Why tax matters

Contributing to the public purse is one of the most important social contributions a company can make. 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.

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.

A responsible approach to tax

With public perception of big businesses and corporate tax avoidance persistently poor, SSE is committed to transparency around its tax affairs and in embedding a responsible approach to tax throughout its business.

SSE is one of the UK's biggest taxpayers, being ranked 24th out of the 100 Group of Companies in terms of taxes paid in PwC's survey published in November 2021. 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 pages 18 to 20. SSE will remain true to this approach as it expands globally.

Transitioning to a global Fair Tax Mark

One of SSE's core 2030 Goals is championing a fair and just energy transition, of which paying fair tax and a real Living Wage is a considerable part. Throughout 2021/22 SSE continued to deliver against this goal and champion the principles of the Fair Tax Mark.

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. 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.

In 2014, SSE was the first FTSE 100 company to be Fair Tax Mark accredited. In 2022, SSE is the first Fair Tax Mark accredited business to transition over to the new multinational Fair Tax Mark accreditation and has done so by increasing transparency of disclosure across the company's global operations.

Over the course of 12 months, SSE worked with the Fair Tax Foundation to help develop their accreditation process for non-UK headquartered businesses, which will enable them to reach more multinational businesses. The new standard was launched in November 2021, more information can be found at fairtaxmark.net. In addition, SSE's Head of Tax presented at the Fair Tax Mark Conference in June 2022 on the benefits to business of obtaining Fair Tax Mark accreditation.

Speaking up against wrongdoing

SSE is focused on maintaining a culture that empowers people to speak up against wrongdoing, which is an essential element of SSE's approach to good business ethics and doing the right thing. This includes speaking up against any potential wrongdoings in relation to SSE's tax affairs.

Safecall is an independent whistleblowing channel which any SSE employee, or someone working on behalf of SSE, can use to report instances of wrongdoing. SSE also has internal channels where issues can be raised. See SSE's Annual Report 2022 page 62 for a breakdown of reports of wrongdoing over 2021/22.

Throughout 2021/22, there was complete compliance with SSE's Group Tax Policy. In addition, SSE never abuses jurisdictions to gain financial secrecy benefits.

Principles for fair tax

SSE follows three 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 will also be 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. More detail 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.

Country-by-country reporting – pages 12 to 13
SSE meets the Fair Tax Mark's standards for disclosures that go well beyond the current requirements of UK company law, and provides a breakdown of its tax and economic activity in each jurisdiction as well as information on its international subsidiaries.

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. 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.

Tax governance and accountability – page 18
SSE's Finance Director is ultimately responsible for tax within SSE and there are well established processes to ensure the effective governance throughout the organisation. This is outlined in detail in its Tax Strategy.

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.

Working constructively with tax authorities – page 20
SSE proactively engages with HMRC and other relevant tax authorities to maintain and develop strong working relationships based on trust and cooperation. Its approach to these relationships is outlined in its Tax Strategy.

Talking tax with SSE's Head of Tax

Martin McEwen
SSE's head of Tax

Maintaining Fair Tax principles while expanding overseas

SSE is developing renewable energy projects in Japan, southern Europe – and other places too. How can companies maintain fair tax principles as they expand?

The advantage of nine years of consecutive fair tax mark accreditation is that the team at SSE is well versed in what it means to be a fair taxpayer. While SSE's business interests have been reasonably simple, focusing only on the UK and Ireland, plans to develop renewable energy overseas bring additional tax compliance obligations but also present an opportunity to put our tax principles into action in new jurisdictions. A fundamental principle of fair tax is that a business should pay the appropriate amount of tax to the country in which economic activity occurs. This is why country-by-country reporting is so important – it means businesses can be accountable to their stakeholders on the appropriateness of their tax payments.

As SSE implements its growth plans overseas, our position is simple. We will start as we mean to go on. We will identify, quantify, and disclose the material economic activity we undertake in each tax jurisdiction; we will pay our fair share of profit taxes in those countries as profits are earned and – importantly – we won't create artificial financial structures with the purpose of avoiding tax.

That's also why, this year, we became the first company to transition from Fair Tax Foundation's UK HQ Multinational accreditation to the Global Multinational accreditation, showing how serious we are about upholding the principles of fair tax as we expand.

Sharing value in times of crisis

Countries around the world are facing a cost-of-living crisis which includes high energy prices, and energy companies have been under scrutiny for the profits they are making. How does SSE continue to be a responsible business and ensure it is sharing value with society?

The cost-of-living crisis is creating incredible pressures on society and the rise in the cost of energy has further compounded that. The profits of energy companies are rightly under scrutiny at the moment. SSE is committed to ensuring that it is sharing the profit it makes with the societies in which it operates. Our Supply business in Ireland, SSE Airtricity, has pledged a customer support fund of up to €25m and the SSE Group is investing £7m per day in constructing assets and infrastructure that will contribute to achieving Net Zero.

What has been apparent in all of this is the integral role that tax plays in many of the challenges facing the economy but for a sector as complex as the energy sector, there are no easy answers. SSE has been involved in constructive and cooperative engagement with HM Treasury and HMRC to outline how profits arise through the entire energy generation and supply process and to assist in determining how best to tackle the current crisis, including the extent to which windfall taxes may be relevant.

Fair Tax principles in a time of change

In recent months, the pace and scale of change in the UK political landscape has been unprecedented, and there has been uncertainty around changes to the tax system. How can businesses remain resilient in the face of this level of change?

Many of us in the UK have not lived through such political turmoil as we are seeing at the moment, and certainly not in the accelerated timescale in which we are seeing it happen. Political instability can have a detrimental impact on economies and can result in important societal issues moving down the agenda.

While we can advocate for certain things as a company, we can't fully control the environment in which we operate so we must be adaptable and resilient to unexpected change. This also goes for tax, and our guiding principles of fair tax have never been more important.

When we made the case for gaining the Fair Tax Mark back in 2014, we argued that paying fair tax made business sense; it would protect us against being unexpectedly impacted by the tightening of global or national tax rules. Over the past few years, it has done just that – and I have no doubt that our approach to fair tax has helped us weather political storms now and in the future.

Simply paying a lot of tax is not enough. By embedding fair tax into the heart of our approach as a company, we are treating it like any other sustainability or ESG issue – looking beyond purely numbers and focusing on the values and impacts that it has for our stakeholders. These approaches transcend political regimes and form the foundation of the values by which we operate as a company and the relationship that we have with society in the long term.

Public perception of corporation tax

Public concern around corporate tax avoidance has reached an all-time high, according to some studies. What can be done to build back trust with the public around tax practices of big business?

SSE has been acutely aware of the degradation in trust in big business over the last decade and a long term commitment to fair tax was our way of seeking to address some of this mistrust. In the Institute of Business Ethics' (IBE) most recent assessment of the British public's opinion on business behaviour[1], corporate tax avoidance is once again, by far, the issue of most concern and has been for the last 10 consecutive years. It has also reached an all-time high. It's fair to say that public opinion is coming across loud and clear.

Times of economic struggle, such as we have seen with the Covid 19 pandemic and the current cost-of-living crisis, can result in greater scrutiny of big business – and businesses should rightly be judged for how they behave during times of economic challenge. When businesses don't behave in ethical ways during times of hardship and society feels we aren't all 'in it together', this only degrades trust further.

Rebuilding public trust in business will not be easy, but as a start, businesses need to significantly increase transparency around tax as a minimum – but not just the numbers, the principles and practices too. Being open and transparent is the bedrock of building trust. We have long sought to do this as a company with our Fair Tax Mark accreditation, and we've continued this approach as we expand into countries overseas by gaining the Fair Tax Foundation's Global Multinational accreditation.

[1] Institute of Business Ethics. Attitudes of the British Public to Business Ethics 2022

SSE's 2021/22 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. As part of SSE's expansion plans, however, the group recently acquired a wind farm development pipeline in Japan and is exploring potential opportunities in a number of other overseas territories. We expect to significantly expand SSE's international presence over the coming years.

Country	Corporate Income Tax Paid	Revenue	Reported Profit Before Tax	Reported Current Tax	Reported Deferred Tax	Number of employees at 31 March 2022	Gross Employee Pay	Net Assets
	£m	£m	£m	£m	£m		£m	£m
UK	70	7,300	3,895	79	798	9,897	644	8,556
Ireland	21	1,316	74	6	-1	857	45	595
Isle of Man	0	0	0	0	0	0	0	0
Switzerland	0	0	0	0	0	0	0	0
Germany	0	0	0	0	0	0	0	0
Poland	0	0	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0	0	0
Japan	0	0	-4	0	0	14	3	23
Hong Kong	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0
Total as per accounts	91	8,616	3,965	85	797	10,768	692	9,174

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.

SSE's subsidiaries outside of the UK and Ireland

SSE has subsidiaries in the Isle of Man, Switzerland, Hong Kong, Japan, Poland, Netherlands, Germany, and the United States. These subsidiaries have been established for commercial reasons and SSE's Tax Policy (see pages 18 to 20) prevents SSE from using tax havens to reduce tax costs.

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.

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 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.

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 is currently dormant and does not hold any investments. As a result, proceedings have commenced to liquidate the company. SSE considers it to be a UK tax resident company as its place of effective management is the UK.

Japan

On 29 October 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.

Poland

On 17 June 2021, SSE established a wholly owned subsidiary, SSE Renewables Poland sp z.o.o, which is incorporated in Poland. SSE Renewables has submitted an application to the Polish government for an Offshore Location License for the allocation of development rights for an offshore wind farm in the Baltic Sea, which would be developed in partnership with Acciona Energia. The auction process is expected to run until late 2022.

Netherlands

During the year, SSE established three wholly owned subsidiaries which are incorporated in the Netherlands. SSE has submitted bids in the 1.4GW Hollandse Kust (west) offshore wind tender for two separate sites of 750MW each. SSE Renewables has formed a 50/50 strategic partnership with Brookfield for the bidand has also recently opened an office in Rotterdam.

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.

United States

During the year, SSE established two 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.

Effective tax rates

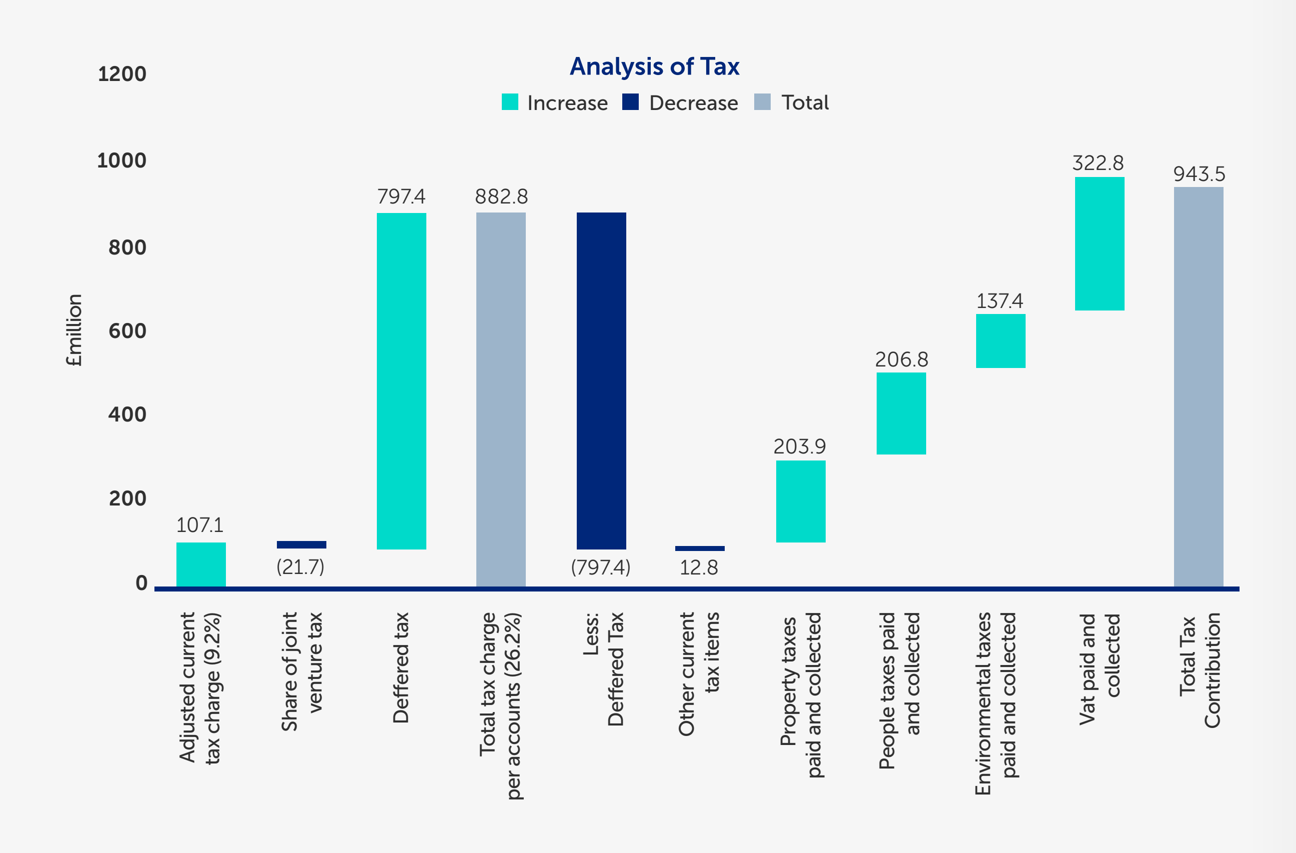
In simple terms, SSE's effective tax rate (ETR) is the average percentage it pays in taxes on its taxable income. For many reasons, SSE's ETR may differ from the corporation tax rates of the countries in which its business activities are undertaken, currently primarily the UK and Ireland, which have corporation tax rates of 19% and 12.5% respectively. SSE fully discloses its tax affairs in its Annual Report (pages 248 - 258) 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, based on adjusted profit before tax, was 9.2%, compared with 10.1% in 2020/21 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 2022, at 9.2%, was lower than the standard corporation tax rate in the UK. SSE's adjusted current tax rate is only, however, 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 2022, once deferred tax is taken into account, was 26.2%.

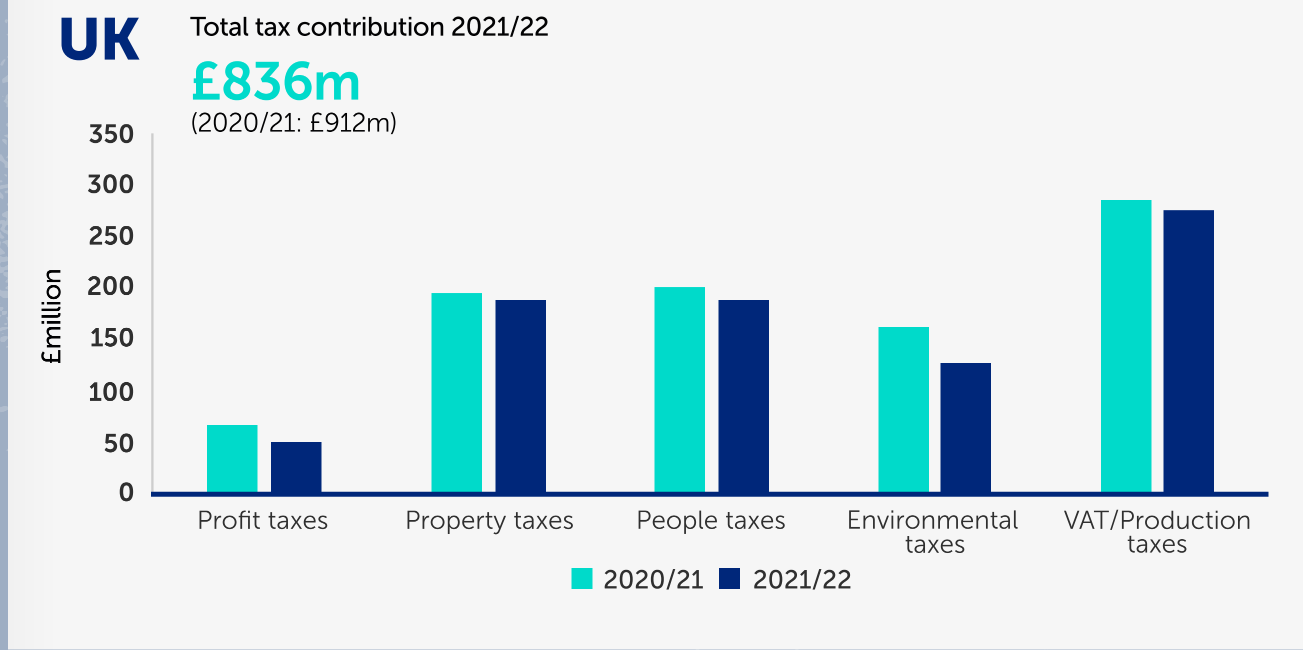
In order to then arrive at SSE's total tax contribution for the year, non-cash taxes such as deferred tax must be removed and amounts paid or collected in relation to property taxes, people taxes and employment taxes must be added. The following diagram reconciles from SSE's adjusted current tax rate to total tax rate and then total tax contribution.

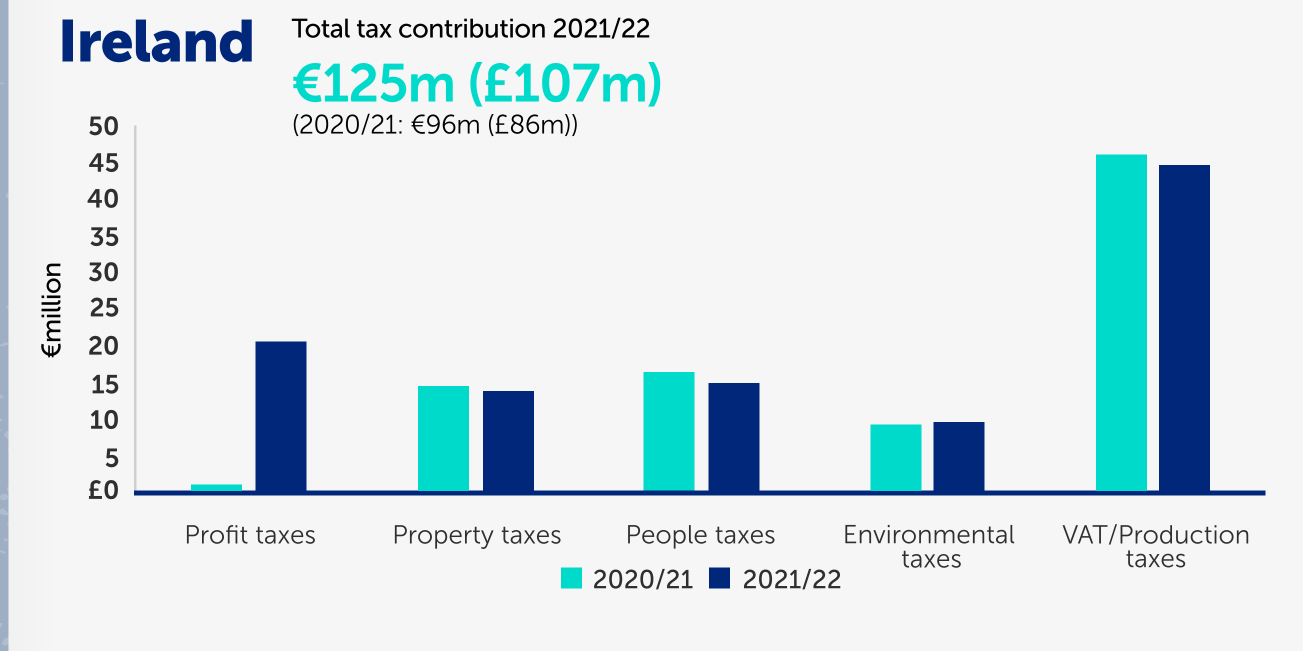
SSE's adjusted current tax rate	Total Reported Tax Rate	Total Tax Contribution
9.2%	26.2%	£944m
(2020/21: 10.1%)	(2020/21: 9.4%)	(2020/21: £998m)



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 the UK and Ireland for the year ended 31 March 2022 was £944m (2019/20: £998m). 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 in 2021/22 compared to 2020/21.





UK Taxes

Taxes paid 2021/22

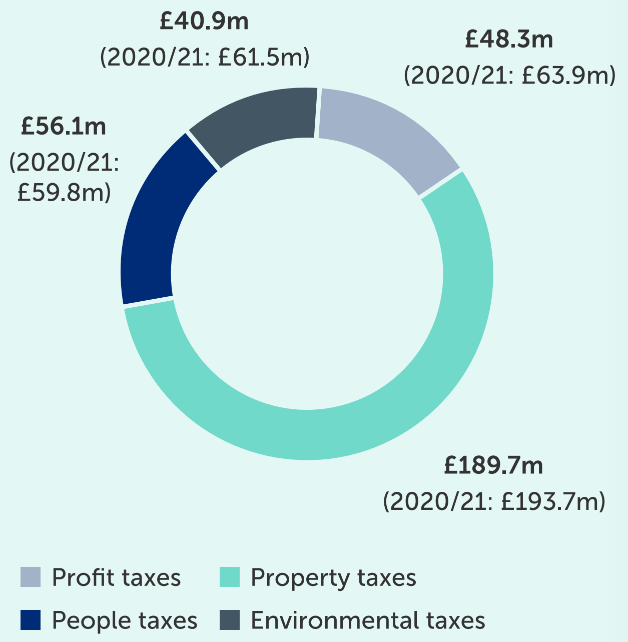
£335m (2020/21: £379m)

Why did SSE pay lower profit taxes?

SSE sold its contracting business in June 2021, therefore only three months of profit taxes, property taxes and employment taxes for that business are included in the totals for 2021/22 (as compared with a full year in 2020/21). This has resulted in a reduced level of taxes paid by the group year-on-year.

Why did SSE pay lower environmental taxes?

SSE paid less Climate Change Levy in 2021/22 than in the previous year due to outages at the group's gas-fired power stations.



Taxes collected 2021/22

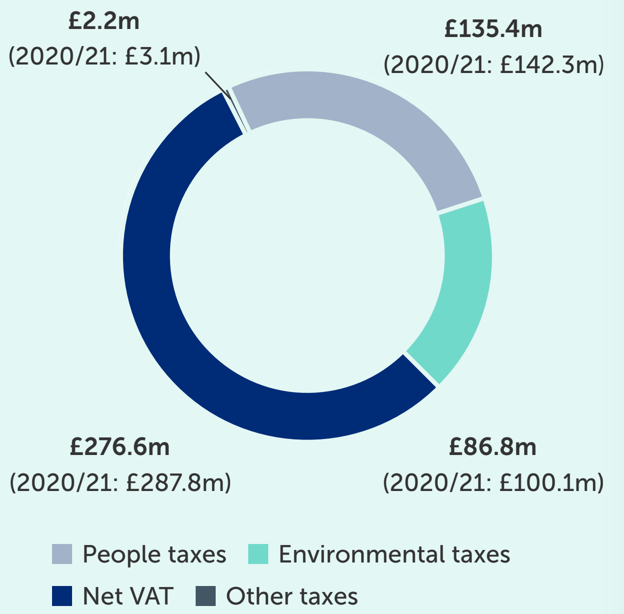
£501m (2020/21: £533m)

Why did SSE collect less people taxes?

The sale of SSE's contracting business in June 2021 resulted in less employment taxes and VAT being collected by the group in 2021/22 than in the previous year.

Why did SSE collect less environmental taxes and VAT?

The amount of environmental taxes collected by SSE is driven by energy usage by business customers. SSE sold less electricity and gas to business customers in 2021/22 than in the previous year, therefore, it collected less environmental taxes from its customers too.



Fair tax in a time of change

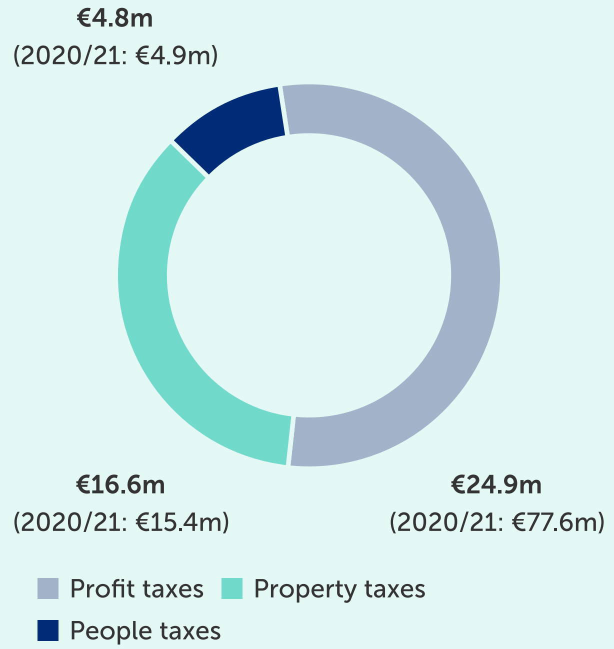
Ireland Taxes

Taxes paid 2021/22

€46m (£40m) (2020/21: €20m (£18m))

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.

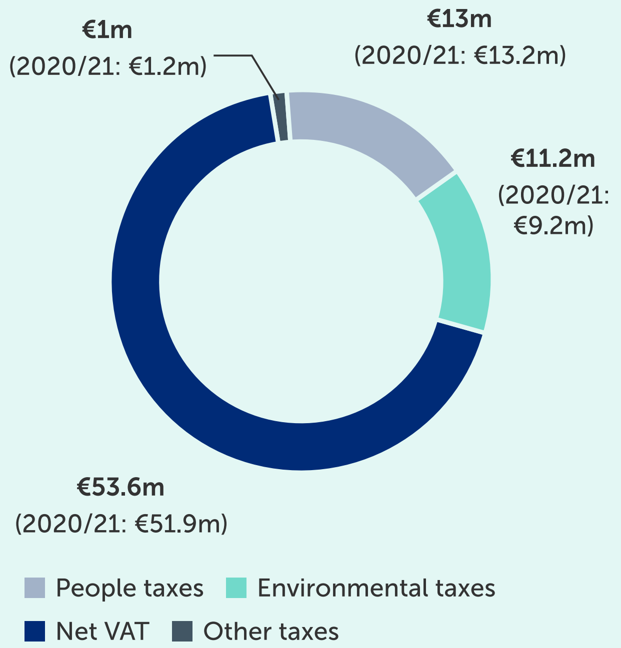


Taxes collected 2021/22

€79m (£68m) (2020/21: €76m (£67m))

Why did SSE collect more environmental taxes?

Environmental taxes collected in 2021/22 were higher due to an increase in the rate of Carbon Tax levied on fossil fuel usage of €7.50 per tonne compared with the rate for the previous year.



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 2022.

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 its web site (sse.com/sustainability/policiesandassurances) 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 un unfair burden of the costs on those with the least.

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, non-domestic 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

Appendix

Taxes paid over the last 5 years

	2018	2019	2020	2021	2022
Profit taxes	£129,078,852	£31,827,359	£78,411,093	£63,971,413	£69,651,007
Property taxes	£195,994,224	£204,867,748	£205,302,413	£207,420,926	£203,859,671
People taxes	£78,660,463	£82,566,828	£80,614,113	£64,237,692	£60,214,891
Environmental taxes	£97,220,962	£97,194,239	£72,884,049	£61,499,402	£40,948,419
Indirect	£158,072	£162,569	£183,632	£136,098	£322,105
Total	**£501,112,573**	**£416,618,743**	**£437,395,300**	**£397,265,531**	**£374,996,093**

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