

TALKING TAX 2018

BEING TRANSPARENT
ABOUT TAX

ABOUT SSE

SSE plc is one of the UK and Ireland's leading energy companies, involved in the generation, transportation and supply of electricity and in the extraction, storage, transportation and supply of gas. Its purpose is to responsibly provide the energy and related services needed now and in the future. Its vision is to be a leading provider of energy and related services in a low-carbon world. Its strategy is to create value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way.

ABOUT THIS REPORT

Improving the transparency of SSE's tax affairs is important to the Group and something that SSE has increasingly focused on in recent years. SSE fully discloses its tax affairs in its Annual Report according to accounting standards and the enhanced disclosure requirements of the Fair Tax Mark.

The purpose of this report is to provide a transparent – and accessible – account of SSE's tax affairs for 2017/18. Recent public debates about the tax affairs of multi-national companies suggest that SSE's customers and stakeholders want to know more about its approach to paying tax. This short report has therefore been written in a way that is clear and understandable to non-tax specialists.

Throughout this report, 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.



TALKING TAX 2018

BEING TRANSPARENT ABOUT TAX

CONTENTS

Foreword	03
SSE's social contract	04
Trends in tax 2017/18	05
Five years with the Fair Tax Mark	06
SSEN in focus	08
SSE's Approach to Tax	10
SSE's Significant Taxes	11
SSE's Tax Value Chain	12
SSE'S TOTAL TAX CONTRIBUTION	
Country by country reporting	14
Adjusted current tax charge and effective tax rate	15
Total tax contribution	16
UK Tax Contribution	18
Ireland Tax Contribution	20
Appendix A: SSE's Tax Strategy	22
Appendix B: Other useful tax terms	25

TAX AND THE PUBLIC INTEREST

Welcome to the 2017/18 edition of SSE's Talking Tax booklet. This is our third effort to disclose in one place, our tax strategy and tax contribution made in the previous financial year. Our objective is twofold: to be transparent about our tax affairs; and, to do that in an accessible way.

SSE has long made the case that tax is the fundamental way in which businesses contribute to the societies that enabled their business success. Without it, we believe the public legitimacy of companies is diminished.

This year SSE achieves its 5th consecutive Fair Tax Mark accreditation. We are the first – and only – FTSE100 company to have achieved the Fair Tax Mark.

While I am proud that SSE stands out on tax, I would be delighted if more big businesses took the first steps towards Fair Tax Mark accreditation. With 47 accredited organisations the Fair Tax Mark is growing in respect, giving evidence and advice to the EU and Westminster Parliaments and considered the 'gold standard' for tax transparency.

SSE believes so strongly that trust in big businesses is linked to tax conduct, we have promoted the principles of Fair Tax to the energy regulator Ofgem.

Customers want to know that the right amount of tax is paid at the right time and in the right place and – we believe - it is vital that the stewards of electricity network companies are open about their tax affairs.

That's why we want to work with Ofgem and our energy networks peers to introduce into the regulator's price control framework standards of transparency like the Fair Tax Mark criteria.

There are, of course, some bigger global trends at work too. The restructuring of the global economy to a digital one poses challenges for policy makers and tax authorities. The tax burden is at risk of falling disproportionately on the shoulders of businesses that are offline. In some ways, it is understandable that public policy has not kept pace with the speed of change. There is, however, a fundamental principle to guide those policy makers for the future: businesses that make profit from communities, should support health and education services, keep people safe and get goods to market by road or rail through the fair payment of tax. Because in the long run, it is in all our interests that they do.



GREGOR ALEXANDER, FINANCE DIRECTOR, SSE

SSE'S SOCIAL CONTRACT

SSE firmly believes that tax is part of the 'social contract' between business and society. Taxes pay for public services and businesses depend on public services to function and thrive.

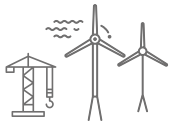
For example, SSE relies on emergency services, public infrastructure, and health and education services for its employees in order to fulfil its business objectives. In return, SSE seeks to give back to society by building, operating and maintaining critical energy infrastructure; providing well-paid, highly-skilled jobs; supporting further employment in the economy through its supply chain and procurement; and supporting public services by paying its fair share of tax.

SSE was the first FTSE 100 company to be accredited with the Fair Tax Mark in 2014. It took the decision to seek independent verification that it pays the right tax, at the right time and in the right way as a response to the growing public mistrust in corporate behaviour. The values espoused through Fair Tax Mark accreditation give a signal of the sort of economy and society SSE believes in.

SSE is also mindful of the role its position on tax plays in contributing to wider societal goals. It is apparent that countries' domestic revenues – especially tax revenue – will play a key role in supporting the UN Sustainable Development Goals (SDGs). The SDGs are 17 global goals aimed at ending poverty, extreme inequality, and climate change by 2030. SSE is committed to supporting the SDGs and recognises that they are not only for governments to achieve, but for business and civil society to contribute to as well. For more information on how SSE is contributing to the SDGs, see SSE's Sustainability Report 2018.



2017/18 CONTRIBUTION



£1.5BN

Investment and capital expenditure (adjusted)



£8.6BN

Contribution to UK GDP



€806M

Contribution to Irish GDP



100,000+

Jobs supported in the UK and Ireland

TRENDS IN TAX 2017/18

TAX CONTINUES TO BE NUMBER 1 PUBLIC CONCERN

When it comes to corporate conduct, 38% of the British public are most concerned by corporate tax avoidance out of all business practices¹.

INCREASED COORDINATION BETWEEN TAX AUTHORITIES

The Organisation for Economic Cooperation and Development (OECD) has been acting to tackle the extent to which multinational businesses can avoid tax, through its Base Erosion and Profit Shifting (BEPS) initiative. This led to the introduction of the UK Corporate Interest Restriction rules from 1 April 2017 and rules to counter the tax benefits obtained through "hybrid instruments". In simple terms, when companies calculate how much UK corporation tax is due, these rules can limit the amount of tax relief available on interest and other financing costs.

TRANSPARENCY GOES DEEPER

Another key action from the OECD BEPS initiative was the requirement for country-by-country reporting by large businesses. As a result, the UK introduced a requirement that large businesses provide such a report to HMRC annually. This information is not required to be made public, however the EU are pushing for such a measure.

'BRICKS AND MORTAR' VERSUS DIGITAL

There is a growing question about the contribution of online businesses compared to 'bricks and mortar' businesses. The OECD is currently addressing how the digital economy should be taxed². Whilst the EU has proposed a Digital Services Tax³ and the UK's Treasury has initiated consultation on how the tax system can evolve to reflect business practices⁴.

A TAX DIRECTOR'S PERSPECTIVE

At SSE, we pay close attention to the national and international trends in taxation. We think it is important to understand, not just the initiatives that governments take forward, but the underlying stakeholder concerns being raised and challenges that need to be met. If you believe – as we do – that the payment of tax by business is the fundamental way in which profitable businesses contribute to the communities and society that enabled their business success, then understanding stakeholder perspectives is very important.

A more coordinated approach by tax authorities in developing consistent standards is welcome because it helps support a level playing field in business markets. International leadership on tax transparency is also very welcome – we all exist within a global competitive environment so universal standards are key to ensuring that high standards of transparency are not undermined.

Finally, we are a company that is very much about 'bricks and mortar' – or to put it another way – we are about pipes, pylons, wires and turbines. We believe a healthy economy is a balanced one. The basis on which successful economies are built has been transformed with online commerce. This is an exciting time, but it is important that the burden of paying for essential public services is fairly-shared. So, I await the outcome of the debates on 'digital tax' with interest.

Martin McEwen
Head of Tax, SSE

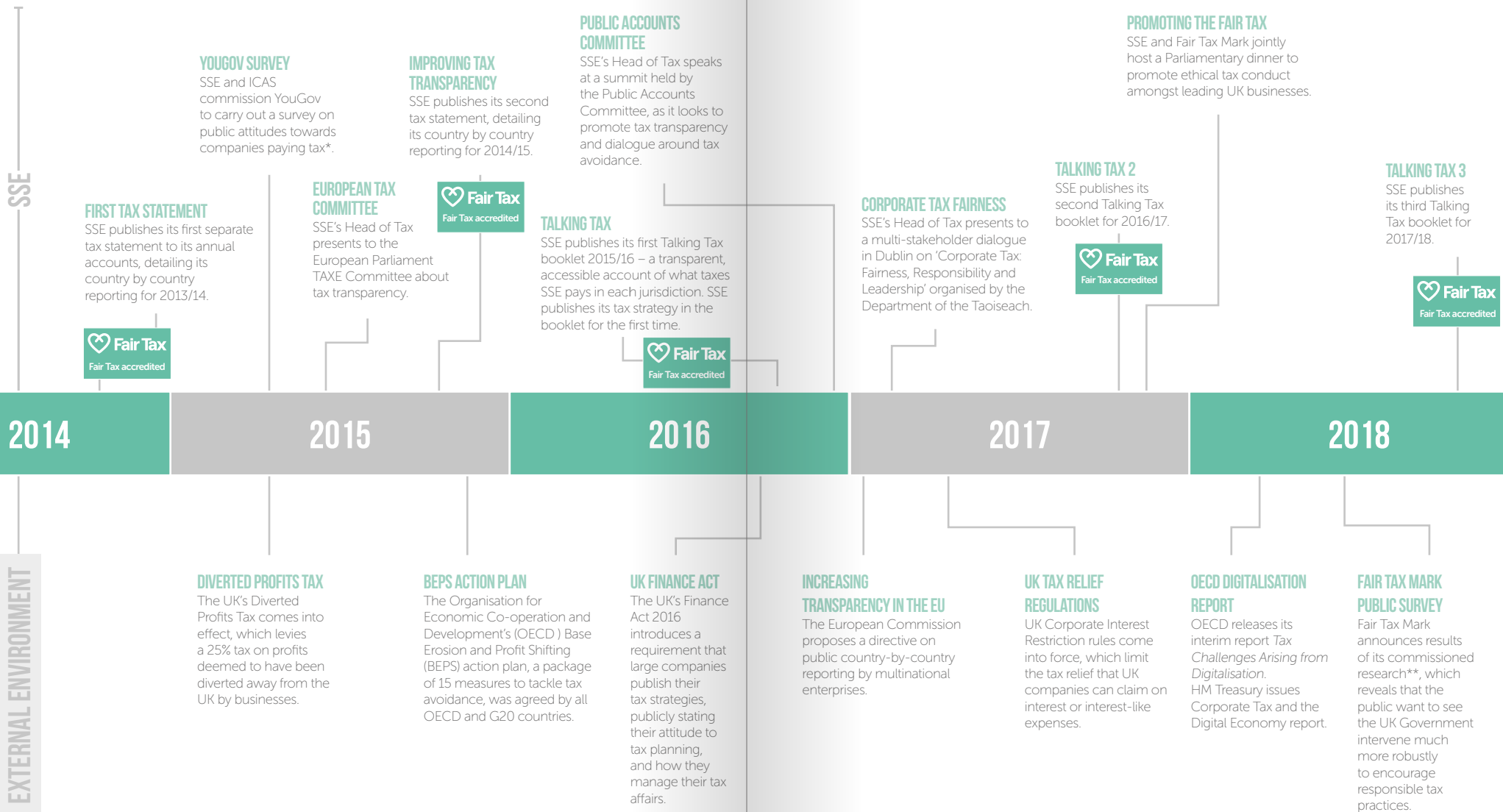
¹ Institute of Business Ethics (2017) Attitudes of the British Public to Business Ethics 2017. https://www.ibe.org.uk/userassets/briefings/ibe_survey_attitudes_of_the_british_public_to_business_ethics_2017.pdf

² OECD (2018) Tax Challenges Arising from Digitalisation – Interim Report 2018. <http://www.oecd.org/ctp/tax-challenges-arising-from-digitalisation-interim-report-9789264293083-en.htm>

³ European Commission (2018) Digital Taxation: Commission proposes new measures to ensure that all companies pay fair tax in the EU. http://europa.eu/rapid/press-release_IP-18-2041_en.htm

⁴ HM Treasury (2017) Corporate tax and the digital economy: position paper. <https://www.gov.uk/government/consultations/corporate-tax-and-the-digital-economy-position-paper>

FIVE YEARS WITH THE FAIR TAX MARK



* All figures, unless otherwise stated, are from YouGov plc. Total sample size was 1,938 adults. Fieldwork was undertaken between 8 and 9 April 2015. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

** Research undertaken by ICM and commissioned by the Fair Tax Mark. The ICM Omnibus is a nationally representative omnibus survey of 2,020 adults across GB. Polling occurred between 18 and 21 May 2018. The figures have been weighted and are representative of all GB adults (aged 18).

SSEN IN FOCUS

SSE owns and operates an electricity transmission network in the north Scotland and two electricity distribution networks, in the north of Scotland and central southern England. Its electricity networks businesses are collectively known as Scottish and Southern Electricity Networks (SSEN). These networks supply over 3.7 million homes and businesses, and comprise 106,000 substations and 130,000 km of overhead lines and underground cables across one third of the UK.

PRIVATELY OWNED PUBLIC UTILITIES: WORKING IN THE PUBLIC INTEREST

SSEN's first priority is to provide a safe and reliable supply of electricity to the communities it serves in Scotland and England.

These networks play a pivotal role in the transition to a low-carbon economy, providing the infrastructure required to support the ongoing shift to a decarbonised electricity system and help to deliver lower carbon transport and heat through their electrification. Electricity networks companies are economically regulated by energy regulator Ofgem.

Delivering in the public interest means – firstly – delivering a safe and reliable supply of electricity. And, secondly, it means having high standards of business ethics and conduct, and for SSEN one important component of that is, when profits are earned through high performance a fair share of tax should be paid on those profits too.

MAKING THE CASE FOR FAIR TAX IN ENERGY REGULATION

The returns that companies can make from investing in electricity networks are determined by Ofgem's Price Controls and SSEN is engaging

on the next price control called RIIO-2. This process provides a great opportunity to make suggestions that can reform the way electricity networks are run for the benefit of consumers.

Because SSE and SSEN believe that tax, and the contribution that makes to public services – is so important to everyone, we are proposing to Ofgem that there should be greater transparency – and therefore the opportunity for greater scrutiny – of the corporation tax that regulated networks pay on profits.

SSEN'S PROPOSALS FOR REFORM

In March 2018, SSEN responded to Ofgem's consultation on the next price control and proposed that the criteria of the Fair Tax Mark provide a powerful signal to consumers that networks companies are conducting themselves fairly and legitimately with regards to the tax they pay.

These standards include clear tax policies that would rule out the use of so-called tax havens or the artificial use of financial structures designed deliberately to avoid paying profit tax. There is also a clear expectation of transparency about the scale of the economic activity within the UK alongside the taxes paid. This combination of tax ethics in company policy and detailed disclosure of tax affairs is designed to give consumers the confidence that the right amount of tax is paid in the right place at the same time.

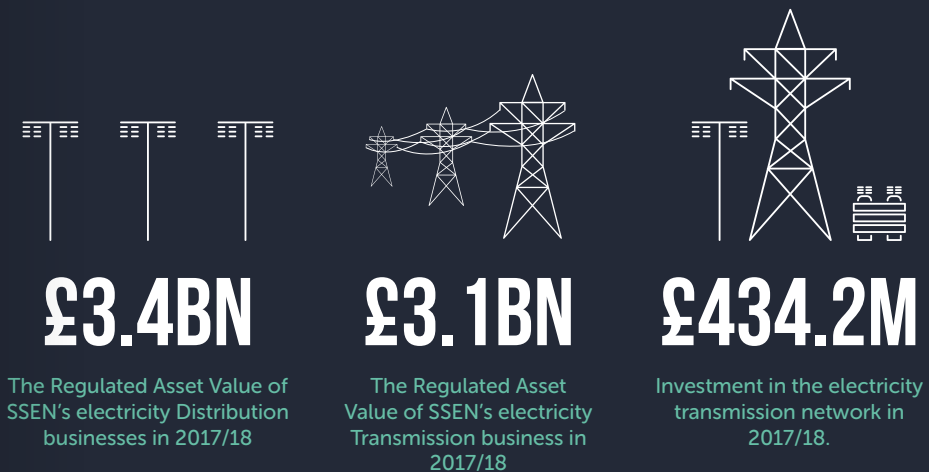
To implement these principles of fair tax into the electricity network regulation frameworks requires more work so SSEN will continue to engage with Ofgem, stakeholders and peers across the industry in the months ahead. The objective is clear: to help shape the next price control in the best interests of consumers and it is hoped that SSEN's commitment to the principles of fair tax is something that Ofgem and the industry will support.

THE FINANCIAL PERFORMANCE OF SSEN IN 2017/18

	PROFIT BEFORE TAX (£M)	TOTAL TAX CHARGE (£M)	TOTAL EFFECTIVE TAX RATE (%)	BUSINESS RATES (£M)
Electricity Distribution	268	44	16.5	64
Electricity Transmission	157	26	16.7	35
SSEN total	425	70	16.6	99

SSEN's GB electricity distribution and electricity businesses paid £99m in business rates in 2017/18. Business Rates are taxes paid on most non-domestic properties, and SSEN pays Business Rates on its electricity networks infrastructure. The extent of SSEN's assets accounts for the high value Business Rates that it pays.

Another influencing factor on the value of taxes paid is revenue made. As SSEN is an economically regulated business, Ofgem determines an 'Allowed Revenue' value for the Transmission and Distribution businesses each year. This is simply the amount of money that the businesses can earn. Part of the calculation of this value is influenced by the Regulatory Asset Value, or RAV – the value of the capital employed in the electricity networks businesses. If the RAV increases, so does the potential for revenues earned. In 2017/18, the RAV of Distribution businesses increased to £3.4bn from £3.2bn the previous year, and the RAV of the Transmission business increased to £3.1bn from £2.7bn the previous year.



SSE'S APPROACH TO TAX

SSE has a range of stakeholders who have an interest in its business and the energy sector as a whole. SSE recognises that its approach to tax ultimately impacts on all of these stakeholders. For example, SSE's customers and society benefit if SSE pays its fair share of tax which can be used to support public services. Equally, if SSE fails to pay a fair share of tax, particularly on profits earned, or if it fails to make profit, then the resources available to support public services will be diminished. SSE's shareholders are impacted by SSE's approach to tax, as the business won't be unexpectedly impacted by the tightening of global or national tax rules to tackle tax avoidance. Taking this into account, SSE seeks to take a responsible approach to tax.

TAKING A RESPONSIBLE APPROACH TO TAX

SSE's aim is to achieve enhanced social, economic and environmental impact throughout its core business activities. This objective is particularly important in determining SSE's approach to tax.

SSE does not – and will not – use artificial tax avoidance schemes or tax havens. SSE's profits are taxed in the locations where it has business substance. In other words, tax should be commensurate to the scale and success of the business activities undertaken in the places where SSE operates. SSE considers paying tax in the locations where profits arise as the fair and right thing to do.

SSE's approach to tax is guided by its Tax Strategy. This strategy outlines the principles by which SSE approaches its tax affairs, detailing governance and accountability for tax within the business, as well as SSE's approach to ensuring compliance with tax laws and maintaining relationships with tax authorities. You can read SSE's tax strategy in Appendix A.

HOW SSE DEMONSTRATES ITS TAX CONTRIBUTION

TAX PAID - £50 1M

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.



TAX COLLECTED - £499M

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



TOTAL TAX CONTRIBUTION - £1BN

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.

SIGNIFICANT TAXES THAT IMPACT SSE



Environmental taxes (paid and collected)

Environmental taxes 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. An example of an environmental tax SSE pays is the Climate Change Levy.



People taxes (paid and collected)

People taxes are taxes companies pay on wages earned by their employees and collect from employee wages on behalf of governments, for example income tax and National Insurance contributions.



Profit taxes (paid only)

Profit taxes are taxes on profits a company may make. Corporation tax is just one way that governments can tax companies. In the UK, SSE's profits are also subject to a supplementary charge which is paid on upstream oil and gas extraction profits.



Property taxes (paid only)

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.

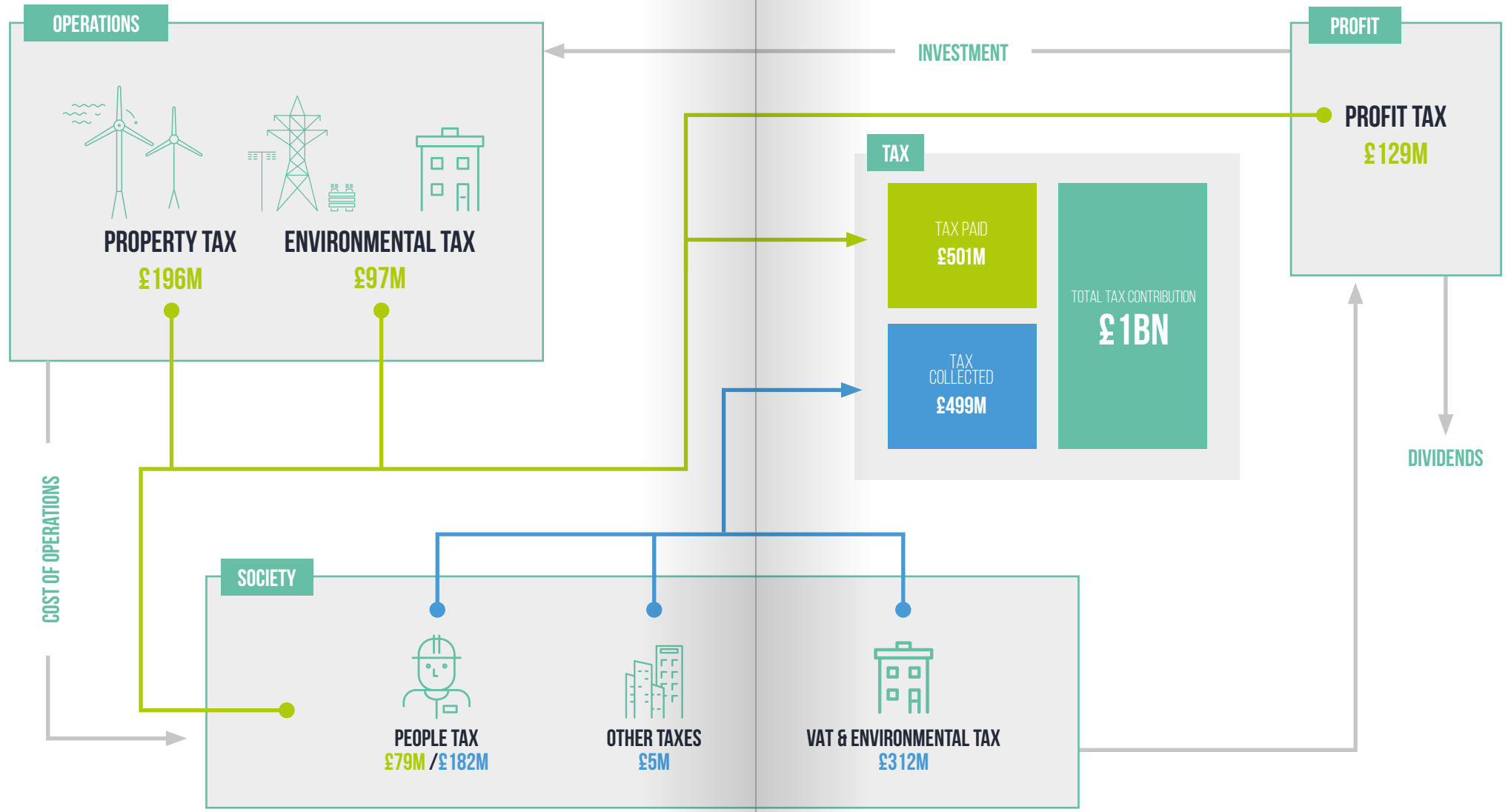


Value Added Tax (VAT) (paid and collected)

VAT is 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, national tax authorities.

TAX VALUE CHAIN

SSE's tax value chain below shows some of the significant taxes which impacted the business across the UK and Ireland during 2017/18.



SSE'S TAX CONTRIBUTION 2017/18

COUNTRY BY COUNTRY REPORTING

A core requirement of the criteria set by the Fair Tax Mark is to demonstrate the scale of commercial activity in each of the countries a company operates in. This means stakeholders can clearly see the taxes paid and the context for those payments. SSE's 2017/18 country by country report is outlined below:

COUNTRY	TAX PAID (£M)	REVENUE (£M)	REPORTED PROFIT BEFORE TAX (£M)	REPORTED CURRENT TAX (£M)	NUMBER OF EMPLOYEES AT 31 MARCH 2018*	GROSS EMPLOYEE PAY (£M)	NET ASSETS (£M)
UK	484	30,407	1,058	-45	20,065	945	3,970
Ireland	17	819	28	3	721	36	1,260
Total as per accounts	501	31,226	1,086	-42	20,786	981	5,230

SSE is primarily a UK energy company. As part of an expansion into the Irish energy sector, SSE acquired Airtricity, a renewable energy developer registered in Ireland, in 2008. At that time Airtricity had a relatively small pipeline of early stage wind farm development projects in Portugal, the Netherlands, Germany, Sweden and Italy. SSE's strategy is focused on the core energy markets in the UK and Ireland, therefore it undertook a programme of disposals to exit from all other European markets. Therefore, all such projects have now been sold, with only one dormant holding company remaining in Germany.

SSE also has a captive insurance company which is registered in the Isle of Man. That company is treated as a "controlled foreign company" for UK tax purposes as it is wholly owned by SSE, which is a UK entity; therefore, UK corporation tax is paid on its profits by SSE.

*Headcount of full-time and part-time employees employed by the SSE Group at the 31 March 2018, broken down by country.

ADJUSTED CURRENT TAX CHARGE AND EFFECTIVE TAX RATE

The Group financial statements apply the use of adjusted accounting measures to enable the presentation of the Group's underlying performance to the users of the statements in a consistent and meaningful manner. This adjusted basis focuses on underlying business performance.

SSE's adjusted underlying current tax charge is 9% for the year to 31 March 2018 which is less than the standard UK corporation tax rate of 19% for the same period. A reconciliation explaining the difference between these two rates is outlined below:

	2018 £M	2018 %
Adjusted profit before tax	1,453.2	
Tax on profit on ordinary activities at standard UK corporation tax rate	276.1	19.0
Tax effect of:		
Capital allowances in excess of depreciation	(29.6)	(2.0)
Non taxable gain on sale of shares	(4.7)	(0.3)
Pension movements	(7.4)	(0.5)
Equity coupon payments	(18.7)	(1.3)
Expenses not deduct able for tax purposes	6.5	0.4
Relief for brought forward losses	(24.7)	(1.7)
Losses carried back to earlier years	(24.0)	(1.7)
Adjustments to tax charge in respect of previous years	(42.0)	(2.8)
Other	(0.8)	(0.1)
Adjusted current tax charge and effective rate	130.7	9.0

The majority of the Group's profits are earned in the UK however profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25% depending upon the nature of the income. Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. In the UK, the rates are determined by Parliament annually and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements.

Short term temporary differences arise on items such as provisions for restructuring costs and onerous contracts, and retirement benefit obligations, because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the year following that in which they arise. Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

For more information, see the tax section of SSE's account notes on pages 170 to 172 of its Annual Report 2018



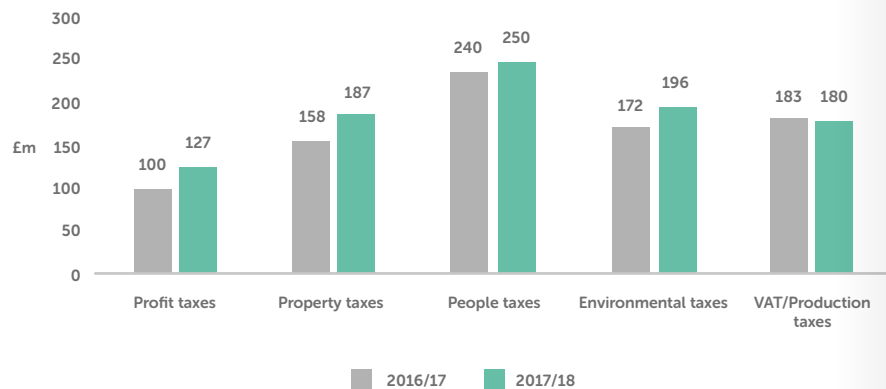
SSE'S TAX CONTRIBUTION 2017/18

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 2018 was £1bn compared to the previous financial year at £913m.

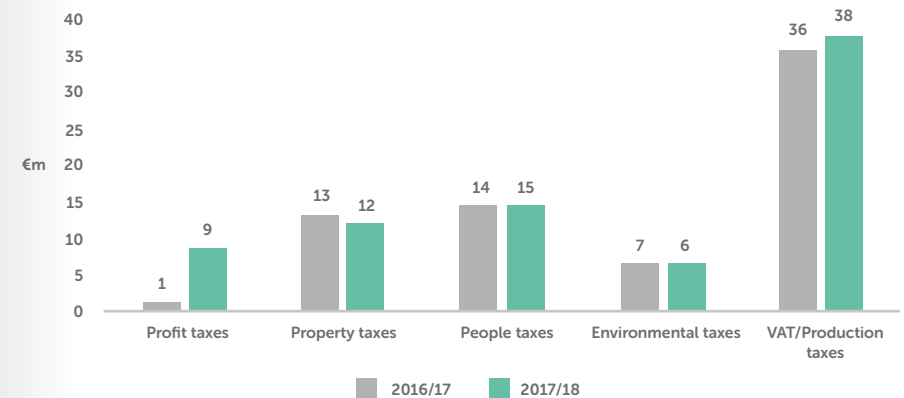
UK

SSE's total tax contribution in the UK for the year ended 31 March 2018 was £940m, compared to £853m the previous year. The graph below shows SSE's tax contribution to the UK for the past two financial years.



IRELAND

Ireland is the only country outside of the UK in which SSE has any trading operations. SSE's total tax contribution in Ireland for the year ended 31 March 2018 was €80m (£60m), compared to €71m (£60m) the previous year. The breakdown of this tax contribution is shown in below.

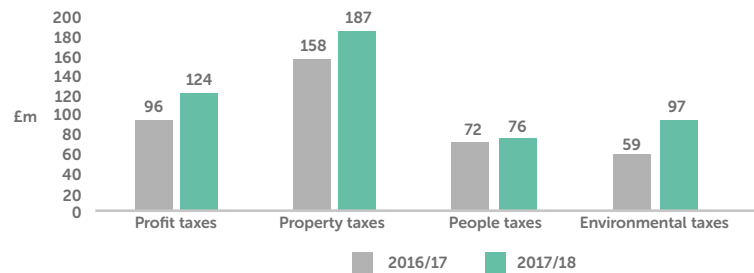


SSE'S TAX CONTRIBUTION 2017/18

UK TAXES

TAXES PAID

In the year to 31 March 2018, SSE paid £484m of taxes to the UK Government, compared with £385m in the previous year. A full breakdown of SSE's taxes paid to the UK Government is shown below.



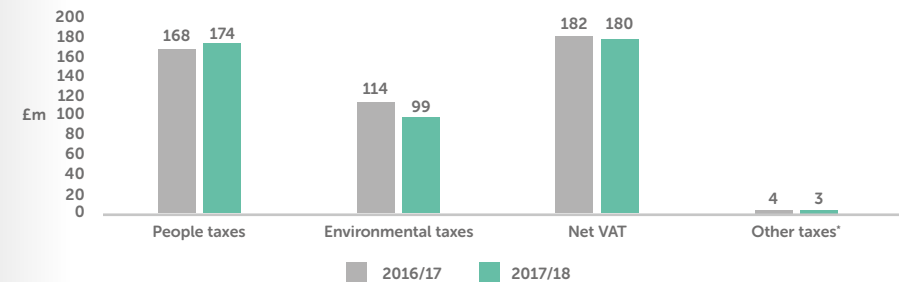
In general, large companies pay four quarterly instalments of corporation tax, two of which are due before the end of the accounting period and two after the end of the accounting period. The apparent jump in profit taxes paid was a result of lower payments of corporation tax paid in the year ended 31 March 2017. This was partly due to a high value of exceptional asset impairments relating to the accounting period ended 31 March 2016. As a result of the timing of quarterly tax payments these impairments reduced the corporation tax instalments paid in the year ended 31 March 2017. An asset impairment is the reduction in value of an asset (one that has a market value less than that listed on a company's balance sheet) that in some cases reduces taxable profits. Reductions in the rates of tax payable on oil and gas profits also contributed to the lower profit taxes paid in 2016/17. Corporation tax payments returned to normal levels in the year ended 31 March 2018.

Property taxes have risen, primarily due to increased amounts of business rates payable on Network assets. This is due to a combination of the continued expansion of the electricity transmission and distribution networks and increased property tax rates levels.

Environmental taxes fluctuate depending upon the output from different elements of SSE's electricity generation portfolio. Climate Change Levy paid in 2018 was significantly higher than for 2017 due to the increased volume of gas used across SSE's fleet of electricity generating assets in 2018.

TAXES COLLECTED

SSE collects a number of different taxes on behalf of the UK Government, but they do not represent an actual cost to the company. For example, as a large employer in the UK, SSE collects a significant amount of tax on employee wages, such as income tax. In the year to 31 March 2018, SSE collected £456m in taxes on behalf of the UK Government, compared to £468m the previous year.



The reduction in environmental taxes collected can be attributed to changes in the composition of SSE's non-domestic customer base. The Climate Change Levy is an environmental tax charged on energy used by non-domestic customers in the UK. It is applied to conventional energy tariffs whereas it is not applied to green energy tariffs.

The increase in people taxes collected has been partly driven by an increase in the car benefit charge payable by employees who have private use of a company car. The rate of tax payable is partly dependent on the CO₂ emission levels of the vehicle and is designed to encourage people to make more environmentally friendly choices.

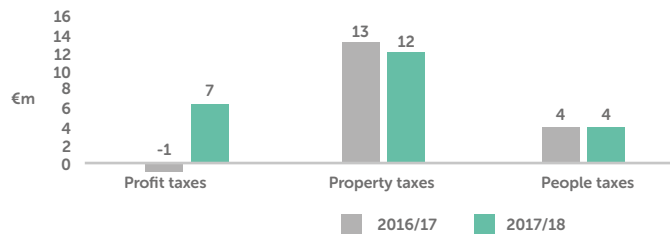


SSE'S TAX CONTRIBUTION 2017/18

IRELAND TAXES

TAXES PAID

The taxes SSE pays to the Irish Government include property tax, taxes on profit and taxes related to employing people. Taxes paid to the Irish Government in the year to 31 March 2018 totalled €23m (£17m), compared to €16m (£14m) the previous year.

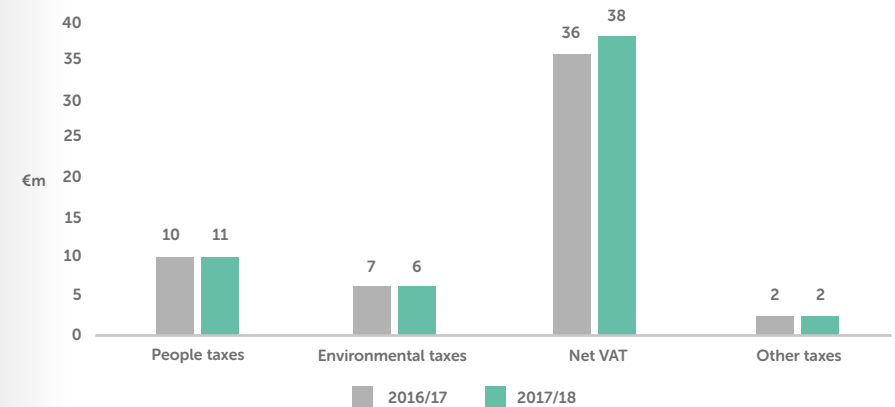


In 2016/17, SSE's Irish business made an overall loss, so no corporation tax was due, however SSE made a preliminary tax payment of €0.1m in this period due to capital allowances available on the Great Island Combined Cycle Gas Turbine (CCGT) plant constructed in County Wexford, Ireland. In addition to this, it received a €1m refund in relation to 2013/14, as preliminary corporation tax was overpaid for that period, meaning in total, SSE received a net corporation tax refund of €1m in 2016/17. In 2017/18, the Irish business returned to profitability, resulting in the higher value of profit taxes paid.

The reduction in property taxes paid is simply due to the timings of when business rates payments were made. In 2016/17, SSE made a pre-payment for business rates due in 2017/18 which makes it appear that the property taxes paid in 2016/17 were higher than the following year.

TAXES COLLECTED

SSE collects a number of different taxes on behalf of the Irish Government, but they do not represent an actual cost to the company. SSE collected €57m (£43m) in taxes in the year to 31 March 2018, compared to €55m (£46m) the previous year. VAT was the highest value of tax SSE collected in Ireland in 2017/18.



APPENDIX A: SSE'S TAX STRATEGY

The 2016 Finance Act includes requirements for large businesses to publish their tax strategy. Under the requirement companies, partnerships, groups or sub-groups will need to publish a UK tax strategy.

SSE's tax strategy does not change significantly from year to year. There is a well understood approach to tax planning, risk management and governance, which is published below. We regard its publication as complying with our duty under paragraph 16(2) of Schedule 19 of Finance Act 2016, for the year ended 31 March 2018.

1. Tax policy

SSE's Group Tax Policy specifies the principles by which SSE approaches its tax affairs. This policy is supported by a Tax Code of Conduct that outlines the responsibilities and conduct expected of SSE employees and associates when dealing with all tax matters for the Group. These principles are approved by the SSE Board. They apply across the Group and enforce SSE's approach to tax transparency, with the objective of being a low risk and responsible tax payer.

SSE Group Tax Policy

SSE is proud to pay its fair share of tax, 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. 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.

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 does not use artificial tax avoidance schemes or tax havens to reduce the Group's tax liabilities.

Central to its Tax Policy is the maintenance and

development of a strong working relationship with HMRC and other treasuries based on trust and cooperation. As a consequence SSE strives to be regarded as a low risk and responsible taxpayer.

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.

All tax planning undertaken by SSE must have a sound and genuine commercial rationale, and all business planning must take tax considerations into account. All tax planning must fully comply 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 understanding of the position;
- Finally, when SSE's corporation tax computations are filed, a summary of areas HMRC may want to focus their review on is sent to HMRC, to facilitate proactive engagement between SSE and HMRC. SSE also contacts HMRC to advise them of the reason for any material changes in tax payments compared with the historic trend.

5. Concessions and reliefs

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. The risks on which SSE is assessed are either 'Inherent', which SSE has minimal ability to change, and 'Behavioural', which SSE can influence through its actions and policies. SSE makes every effort to keep the Behavioural

Risks as low as possible.

SSE approaches 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. HMRC 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 HMRC 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 HMRC either in advance or after the tax returns have been filed. SSE engages proactively with HMRC on such matters with a view to resolving them as quickly as possible.

Where SSE considers there to be a risk that HMRC 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 with HMRC. 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.

APPENDIX B: OTHER USEFUL TAX TERMS

BUSINESS RATES

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

CAPITAL ALLOWANCES

Capital allowances are tax reliefs. When a company purchases or builds an item of plant or machinery that is kept for use in the business, it is allowed to deduct some or all of the value of the item from its taxable profits over a number of years, to reflect the fall in value of the asset resulting from its use.

CLIMATE CHANGE LEVY (CCL)

CCL is an 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.

CONSTRUCTION INDUSTRY SCHEME (CIS) TAX

In the UK, the CIS tax applies to payments made to subcontractors who carry out construction work for contractors. Under this scheme, contractors deduct money from payments made to subcontractors and pass this on to the UK Government. The deductions represent advance payments towards the subcontractor's tax and National Insurance liabilities.

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%.

EFFECTIVE TAX RATE

The different types of taxes SSE pays are set at different rates and can vary depending on specific circumstances. To calculate its effective tax rate, SSE takes its total taxes paid across all of these taxes 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.

REGULATED ASSET VALUE (RAV)

This is a term used in the context of economically regulated utilities. It is a widely understood term that captures the financial value of an asset. In SSE's case, the 'RAV' of its electricity network determines the revenue it can earn. By investing in the electricity network, it can increase its Regulated Asset Value.

TAX PLANNING

Tax planning is a responsible way of organising tax affairs, understanding that modern tax regimes are highly 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.

BASE EROSION AND PROFIT SHIFTING (BEPS)

BEPS refers to tax avoidance strategies of multinational companies that involves moving profits made in one country to a different country with lower-tax liabilities.

CORPORATE INTEREST RESTRICTION RULES (UK)

UK Corporate Interest Restriction rules limit the tax relief that UK companies can claim on interest or interest-like expenses.

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.



SSE plc
Registered Office and trading address:
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
UK

Tel: +44 (0)1738 456000
Email: info@sse.com

Registered in Scotland No. 117119