sse | For a better world of energy

TAX AS A DRIVER **FOR CHANGE**

Talking Tax 2021

ABOUT SSE

SSE has the largest renewable electricity portfolio in the UK and Ireland, providing energy needed today while building a better world of energy for tomorrow. 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, electricity transmission and distribution networks, alongside providing energy products and services to customers. UK-listed and headquartered in Perth, SSE is a major contributor to the economies in the UK and Ireland. It employs more than 10,000 people and is real Living Wage and Fair Tax Mark accredited.

ABOUT THIS REPORT

SSE is committed to improving transparency around tax and recognises the increased interest by stakeholders regarding this issue. It is also mindful of the important role that tax has to play in times of increased public spending, as the UK and Ireland invest in a green resilient recovery from coronavirus and a just transition to net zero. SSE fully discloses its tax affairs in its Annual Report 2021 (pages 212 - 215) according to 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 provides an accessible account of SSE's tax affairs for 2020/21, 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 17.

Champion Fair Tax and a real Living Wage

Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

SUSTAINABLE DEVELOPMENT GOALS

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 2021 and on page 7 of this report.

Alternative Performance Measures

SSE assesses the performance of the Group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed 'non-GAAP' measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented and described on pages 172 to 177 of the Annual Report 2021. The alternative performance measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

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Foreword

CLIMATE CHANGE, TAX, AND THE **IMPORTANCE OF COLLABORATION**

"While global commonality in corporation tax across the world is very welcome, there is always a role for ethics when it comes to tax."

There's a case to be made that, through the 2020s, international co-operation has never been so important. The twin challenges of the ongoing coronavirus pandemic and the battle to prevent global warming exceeding 1.5°C compared to preindustrial levels are – clearly – threats to humankind in every corner of the world.

With the 2021 Conference of Parties being hosted in Glasgow, the machinery of international co-operation has been brought close to home. SSE was both a principal partner of the UK Government's COP26 presidency and an enthusiastic proponent of the policy actions needed – at home and abroad – of keeping alive the possibility of limiting global warming to 1.5°C. While it's not yet enough, the actions agreed, multilaterally, edge us away from the most dangerous climate change. Something, I suspect, would be impossible without the hard work of international consensus building.

Broadly speaking, the same case for collaboration can be made for tax. It is in the interests of few to battle out national competitiveness based on ever reducing tax revenue. That's why the efforts of the OECD with leadership from President Biden, has been so welcome. Few thought that a global minimum rate of corporation tax would ever be possible – yet – in 2021 and the result of constructive collaboration, a deal has been reached. And this UK headquartered energy company couldn't be more encouraged. A global minimum rate of corporation tax supports a level playing field for us all. With aspirations to take our expertise in renewable energy overseas, SSE believes that not only is a global minimum rate of corporation tax good for strong public services everywhere, we also believe it is good for business too.

While global commonality in corporation tax across the world is very welcome, there is always a role for ethics when it comes to tax. Public trust in corporations to play fair remains low. It is therefore incumbent on responsible businesses to actively promote the values that govern their tax planning and to publish the detail of their tax affairs in a way that is accessible to their stakeholders. The new Global Multinational Business Standard from the Fair Tax Foundation will provide multinational companies not based in the UK, with a framework to achieve that. We are pleased to see that Vattenfall became the first business headquartered outside the UK to be Fair Tax Mark accredited, a great step forward in encouraging fair tax globally within the energy sector and we look forward to seeing more businesses follow in their footsteps.

With that very big context, SSE's 2021 Talking Tax report, once again, outlines in detail and in an accessible way, SSE's contribution to the public purse. We remain firmly wedded to the very simple notion, that the principles of fair tax are the cornerstone of our relationship with consumers and communities across the countries we operate in. We undertake this enhanced tax reporting every year, to support the transparency standards that the Fair Tax Foundation require. 2021 is the eighth consecutive year of accreditation from the Fair Tax Foundation and it's fair to say our commitment remains as strong as ever.

Gregor Alexander,
Finance Director, SSE

SSE'S 2020/21 TAX CONTRIBUTION OVERVIEW

SSE is responsible for a number of 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 2021, SSE paid £379.0m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £421.6m in the previous year. The reduction in total taxes paid in 2020/21 compared with the previous year was primarily due to:

- Fewer corporation tax payments made in the current year, as the UK Government changed the phasing of quarterly tax payments in the previous year;
- Lower Climate Change Levy being paid as a result of lower levels of carbon emissions; and
- Lower employment tax being paid as a result of the sale of the Energy Services Group to OVO in January 2020, and corresponding reduction in headcount.

In 2020/21 SSE also paid €20.4m of taxes in Ireland, compared to €18.1m the previous year. Ireland is the only country outside the UK in which it has any trading operations.

A full breakdown of these taxes by jurisdiction, alongside detail of SSE's subsidiaries outside the UK, is provided on page 11. SSE's Group Tax Policy has been complied with during the entire financial year. In addition, SSE never abuses jurisdictions to gain financial secrecy benefits.

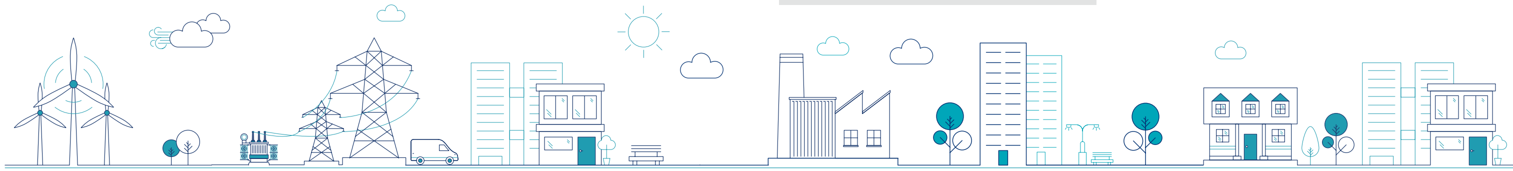
SSE'S TAX VALUE CHAIN

Profit tax
£64m
Taxes on profits that SSE makes. Corporation tax is one example of a tax paid on profit.

People tax
£64m
Taxes paid on wages earned by employees, for example an employer's share of National Insurance contributions.

Value added tax (VAT)
£334m
VAT is charged on goods and services, which are bought from suppliers or sold to customers. SSE collects VAT on behalf of national tax authorities.

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



SSE'S DIRECT OPERATIONS

Environmental tax
£62m
SSE pays environmental taxes in relation to its direct operations, the main one being the Climate Change Levy which is a tax it pays on fossil fuels used to generate electricity.

Property tax
£207m
Property taxes relate to owning or using properties and infrastructure. These include business rates paid to local councils, and taxes on transactions when properties are bought and sold.

SOCIETY

People tax
£154m
Taxes collected from employee wages on behalf of governments, for example income tax.

Environmental tax
£109m
SSE collects environmental taxes from its customers on behalf of governments, including the Climate Change Levy which is an environmental tax charged on the energy that businesses use.

Taxes Paid
£397m
These are the taxes that SSE pays directly to tax authorities. They are direct costs of running SSE's business and include profit taxes, business rates and employer National Insurance contributions.

+

Taxes Collected
£601m
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.

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Total Tax Contribution
£998m
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.

* Due to rounding, figures do not add up to SSE's total taxes paid, taxes collected and total tax contribution data

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 across the UK and Ireland, SSE adds economic value and contributes to the public purse. SSE considers being a responsible taxpayer a core element of its social contract with the societies in which it operates.

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. The way that SSE invests in the decarbonisation of the UK and Irish economies 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 supports thousands of jobs and contributes billions of pounds to these economies each year - significantly greater than the profit it makes. In the ten years to 31 March 2021, SSE has contributed £100bn (in current prices) to the UK and Irish economies[1].

1 SSE has commissioned professional services firm PwC to calculate the size of its economic contribution in the UK and Ireland each year since 2011/12. The PwC reports can be found at **sse.com/sustainability/reporting**.

SSE'S SOCIAL CONTRIBUTION 2020/21

UK and Irish economic contribution

IRELAND CONTRIBUTION TO GDP 2020/21

€439m

2019/20: €650m

IRELAND JOBS SUPPORTED 2020/21

2,160

2019/20: 3,740

IRELAND CONTRIBUTION TO GDP 2012-2021 TO END AFTER 2021

€8bn

UK CONTRIBUTION TO GDP 2020/21

£5.2bn

2019/20: £5.7bn

UK JOBS SUPPORTED 2020/21

41,400

2019/20: 56,810

UK CONTRIBUTION TO GDP 2012-2021 END AFTER 2021

£95bn

£12.5bn
Strategic capital investment plan to 2026

£15.8m
Investment in learning and development for employees

£12m
Spent on research and innovation projects

£10.2m
Invested through SSE's community investment funds

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 over the last 19 months, during times of increased public spending in response to coronavirus. 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 the right 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.

Financing the economic recovery from coronavirus

Throughout the pandemic, SSE has continued to invest in people and low-carbon infrastructure and, as a result, it has continued to be profitable and therefore, in a position, to pay corporation tax. The reliance on public services to keep people safe and support workers during the coronavirus pandemic demonstrates the importance of the social contract between companies and society to pay their fair share of tax.

A green recovery from coronavirus is essential and, as economies return to health, tax will need to play a role in funding a more resilient society. In 2019, the UK became the first major economy to legislate for a target of net zero emissions by 2050 and the Irish Government has taken steps to put achieving net zero emissions by 2050 into law, with the publication of the Climate Action and Low Carbon Development Bill in March 2021. These commitments will require significant capital spending each year to achieve. Tax will play an important role in providing these funds and there may be significant changes in coming years to facilitate this.

The Autumn 2021 budget has already seen the Chancellor raise tax as a share of the economy to the highest level in British history, which follows an announcement in September of a new health and social care levy that will come into force for workers in April 2023. In future years, a greater government focus on environment tax might be seen and taxes could change as a result of the shift to new technologies, for example, the transition to electric vehicles will lead to a decline in fuel tax (which currently accounts for 4% of total UK tax receipts (£28bn))[1], meaning this funding will need to be sought from elsewhere.

The coronavirus pandemic presents an opportunity to rebase the UK's business tax regime for the longer-term. Sustainable changes can be made, in conjunction with the OECD and other tax jurisdictions, to implement a tax regime that taxes all profits that are genuinely earned in the UK. A tax regime that appropriately taxes UK activity can be used to incentivise the companies who invest in assets and jobs the UK needs to 'build back better'.

ADVOCATING FOR A GREEN RESILIENT RECOVERY

In May 2020, SSE published *A greenprint for building a cleaner, more resilient economy* which outlines a set of practical proposals for the UK Government, aimed at helping the economy recover from the coronavirus crisis whilst taking climate action to achieve net zero. This document formed the basis for a year of constructive engagement with government, the regulator and industry bodies, and was closely followed by the publication of a similar document for Ireland.

In 2020/21, the UK Government published its Ten Point Plan and the Energy White Paper, and the Irish Government took steps to put achieving net zero emissions by 2050 into law, with the publication of the Climate Action and Low Carbon Development Bill in March 2021. These developments signal an accelerated shift towards net zero and the ambitions set out will require significant investment. Effective tax regimes can play an important role in incentivising the investment needed in this low-carbon infrastructure.

1 PWC 2020 Total Tax Contribution for the 100 Group, Dec 2020, PWC: https://www.pwc.co.uk/tax/assets/pdf/total-tax-contribution-100-group-2020.pdf

A RESPONSIBLE **APPROACH TO TAX**

With public perception of big businesses and corporate tax avoidance persistently low, 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 16th 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 page 15.

CHAMPIONING FAIR TAX IN 2020/21

One of SSE's core 2030 Goals is Championing Fair Tax and a real Living Wage. Throughout 2020/21 SSE continued to deliver against this goal and championing the principles of the Fair Tax Mark. In particular, over the course of 2020/21, 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 and navigate complex overseas tax rules to help identify tax avoidance. The new standard was launched in November 2021 and more information can be found at **fairtaxmark.net**.

THE FAIR TAX MARK

SSE was the first FTSE100 company to be awarded the Fair Tax Mark back in 2014 and remains the only one to have held the accreditation for eight years in a row.

The Fair Tax Mark is an independent third-party accreditation which recognises organisations that pay the right amount of corporation tax, at the right time and 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.

Fair Tax

SSE'S PRINCIPLES FOR FAIR TAX

SSE follows three principles that guide both its strategic approach to tax and its day-to-day activities. More detail about SSE's tax strategy can be found on page 15, due to SSE's consistent approach it does not significantly change year to year.

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.

Country-by-country reporting – page 11

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 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 15

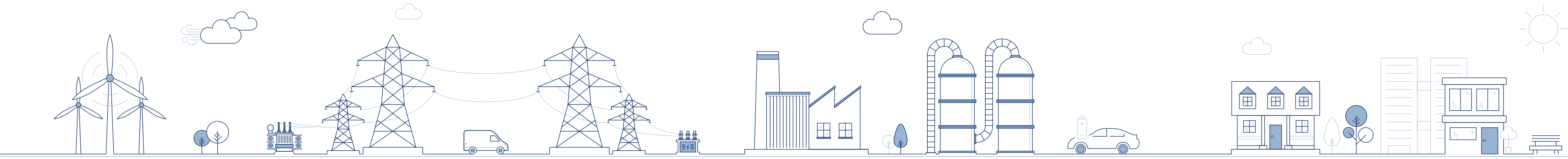
SSE Finance Director is ultimately responsible for tax within SSE and there are well established processes to ensure the effective governance throughout the organisation. This is outlined in detail in its Tax Strategy.

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 16

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**

With international collaboration on climate change dominating public debates in 2021, SSE's Head of Tax, Martin McEwen, reflects on the role of international collaboration on the tax large multinational businesses pay and makes the link between good climate policies and well-designed tax policies.

Martin McEwen,
SSE's Head of Tax

THE ROLE OF TAX IN RESPONDNG TO CRISES

At a time when our lives have been turned upside down by the coronavirus pandemic, and the reality of a changed climate is starting to bite, why is it important that we continue to talk about fair tax when trying to overcome these global problems?

The coronavirus pandemic and climate change are, clearly, two of the most pressing issues facing countries around the world right now – and they are rightly at the top of government agendas. While it might seem like an obvious point, we mustn't overlook the crucial role that tax can play in supporting societies in responding to these challenges. Simply put, tax revenue supports essential services that the public rely on. During the pandemic we have seen a reliance on all sorts of public services – from health care to social services safety nets. Hopefully, a dependence on some of these services is only temporary. Nevertheless, public services need to be funded and taxes provide the investment that supports a green and resilient economic recovery from coronavirus too. It's in that context that tax provides the foundation of the social contract between businesses and the societies they serve.

Finally, it is worth reinforcing one last important point. While a country's tax take is a combination of all sorts of different taxes, from employee, property, and consumption tax to taxes on business profits, we should remember that greater sustainable profitability directly leads to an increasing tax take. In other words, it is in all our interests that there is sustainable economic growth, not just because of the economic impact of successful business creating jobs and prosperity, but because it leads to more tax revenue for the country too.

INTERNATIONAL COOPERATION FOR TAX REFORM

We've seen important progress over the last few years in international efforts to tackle tax avoidance and this year, perhaps unexpectedly, a minimum global rate of corporation tax agreed by the G7 nations but is this enough?

The OECD's work on Base Erosion and Profit Shifting (BEPS) has played an important role in improving international tax rules and allowing countries around the world to take a coordinated approach to tackle tax avoidance. The recent progress over the last few months around a global minimum rate of corporation tax rate of 15% on big multinational businesses could also be a pivotal moment, as it removes the motivation for companies to restructure their affairs to avoid tax. Ireland is already planning to bring in the 15% tax rate in the next two years and other governments with rates below this minimum threshold are expected to follow suit.

This global cooperation is, of course, crucial but tax regimes are driven by domestic law and the way that these international initiatives are implemented by individual governments is arguably where the real impact will be made. While it's important to agree in principle a global minimum rate of corporation tax, it isn't enough alone – countries need to change their tax rules so that they are taxing the legitimate activity in their territories.

The last point to make is the role of businesses decision making in this international context. SSE has long argued that there is a role for subjective value-driven decision making when it comes to tax planning. Applying only the letter of the law can often miss the spirit of what is being asked for. That's why SSE fully supports the efforts from the Fair Tax Foundation to establish a Global Multinational Business Standard to work towards higher standards of transparency and fair tax principles. There will always be a role for good companies to do the right thing on behalf of their customers and wider stakeholders.

TAX AS A TOOL TO DELIVER NET ZERO

What role can the UK tax regime play in helping the energy sector accelerate the net zero transition?

The UK and Ireland's net zero ambitions require significant investment and, as was made clear at COP26, private investment will play a huge part in delivering net zero. Energy companies like SSE are being relied upon to build the physical infrastructure required at scale to decarbonise the energy system. SSE alone is planning to invest £12.5bn out to 2026 through its Net Zero Acceleration Programme. To continue to encourage the scale of investment needed, the energy sector needs appropriate tax incentives from governments. Tax can be a very useful tool for driving positive change when used effectively and mechanisms like capital allowances can support the sustainable investment needed for net zero.

We must also remain mindful of the wider environmental consequences of the net zero transition. Tax can play a role here too – if you take the same approach with environmental taxes and carbon prices, this could be hugely beneficial as environmental 'goods' can be incentivised, such as investing in low-carbon assets and jobs, and environmental 'bads' can be disincentivised, such as polluting or unsustainable activities. It will come as no surprise that global cooperation would also be important for success here too, working to prevent companies from shifting their polluting activity to other countries with less strict regimes.

INCENTIVISING CLIMATE-POSITIVE BEHAVIOURS

The UK has shown leadership around ambitious climate targets, however, sometimes, the policies that result can make businesses less competitive on a global stage. What can the Government do to address this?

SSE has long advocated for a strong carbon price – for putting an appropriate 'price' on carbon emissions to support investment in low-carbon activity. In the UK this is done through the UK Emission Trading Scheme (ETS). While this supports increased climate action nationally, it can risk making companies uncompetitive in the global context due to costs triggered by these strong climate policies.

In seeking to address this, the UK Government has proposed a carbon border tax that would be levied on goods imported from countries that are not taking as much action to tackle climate change. We are seeing similar moves from the European Union through their Carbon Border Adjustment Mechanisms (CBAMs) and it is also under consideration in the USA.

Taxes like this would act to protect domestic industry while encouraging those importing goods to take stronger climate action, at the same time as reducing the risk of carbon emissions being 'offshored' as high-carbon activities are relocated to other regions.

BUILDING PUBLIC TRUST

Will these new international coordinated efforts on tackling tax avoidance be enough to build back trust in big businesses paying their fair share of tax?

The public opinion on corporate tax remains at a critical low, with tax avoidance the number one issue of concern regarding business ethics for the eighth year running – it's fair to say that corporate tax avoidance won't be leaving the public's conscious anytime soon.

It's reasonably easy to tax energy companies because you can touch and see the assets that create economic value (think pipes, wires and power stations). However, the current way in which economic value is taxed globally was designed over a century ago, meaning that it does not reflect modern day businesses which have intangible assets such as intellectual property, brand collateral and software. This has resulted in a tax system where the tax burden is weighted disproportionally on tangible assets, creating an uneven playing field. Arguably, this imbalance is one element that has contributed to the breaking down of trust in big businesses as there is a general sense of unfairness in the way these companies pay tax.

International cooperation will be important in helping to solve these issues and get the balance right, and at a national level, countries must ensure their tax regimes are not only effective but are also flexible to adapt to the changing pace of business. And, as always, it's key that companies not only abide by the letter of the tax rules of the countries in which they operate, but the spirit of those rules too.

Companies can demonstrate their intent through increased transparency and disclosure of tax, helping to create accountability and rebuild public trust. And, of course, another important element in this is independent, third-party accreditation over these disclosures. That's why SSE has championed the work of the Fair Tax Foundation and has had the Fair Tax Mark for the past eight years. We've also supported the Fair Tax Foundation in the development of its new Global Multinational Business Standard, for non-UK headquartered businesses. This will enable them to reach more multinational business and navigate complex overseas tax rules to help identify tax avoidance.

SSE'S 2020/21 TAX CONTRIBUTION BREAKDOWN

COUNTRY-BY-COUNTRY REPORTING

SSE is primarily 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. The UK and Ireland are the only territories in which SSE currently has trading activities. As part of SSE's expansion plans, however, it is exploring potential opportunities in a number of overseas territories and expect to expand SSE's international presence over the coming years.

Country	Tax paid (£m)	Revenue (£m)	Reported Profit Before Tax (£m)	Reported Current Tax (£m)	Number of employees at 31 March 2020	Gross Employee Pay (£m)	Net Assets (£m)
UK	379	5,849	2,502	69	11,654	660	5,565
Ireland	18	992	45	10	859	41	1,116
Total as per accounts	397	6,841	2,547	79	12,513	701	6,681

SSE's UK and Irish businesses differ since SSE exited the UK domestic energy market in 2020. SSE's core UK 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

SSE has subsidiaries in the Isle of Man, Hong Kong, Germany, and Switzerland. These subsidiaries have been established for commercial reasons and SSE's Tax Policy (see page 15) 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 acts as a holding company for SSE plc Group's wholly-owned UK electricity transmission and distribution networks and its investment in Scotia Gas Networks Limited. While the company may be Swiss incorporated, it is UK tax resident with UK taxes being payable on any profits or gains made by the company. Other than the network company investments the company does not hold any other material assets.

Hong Kong

During 2020/21, SSE set up a wholly owned subsidiary, Beithe (HK) Limited, which is incorporated in Hong Kong. Beithe (HK) Limited was set up to potentially act as a holding company but is currently dormant and does not hold any investments. SSE considers it to be a UK tax resident company as its place of effective management is the UK.

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. This subsidiary is dormant and there is no development activity currently ongoing in Germany. SSE considers it to be a UK tax resident company as its place of effective management is the UK.

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, 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 212 - 215) according to accounting standards and the enhanced disclosure requirements of the Fair Tax Mark.

SSE's adjusted current tax rate

10.1%

(2020: 11.2%)

SSE's adjusted current tax rate, based on adjusted profit before tax, was 10.1%, compared with 11.2% in 2019/20 on the same basis. The reduction in adjusted current tax rate year-on-year was primarily as a result of an increase in the level of non-taxable developer profits made on the sale of shares.

Due to significant annual investment by SSE in its businesses, its ETR 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 2021, at 10.1%, was lower than the standard corporation tax rate in the UK.

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 2021 was £998m (2019/20: £1.1bn). The tax contributions that SSE has made to the UK and Ireland are shown in this section along with breakdowns of these taxes, with explanations provided for significant changes in 2020/21 compared to 2019/20.

UK

Total tax contribution 2020/21

£912m

(2019/20: £1bn)

Ireland

Total tax contribution 2020/21

€96m (£86m)

(2019/20: €93m (£81m))

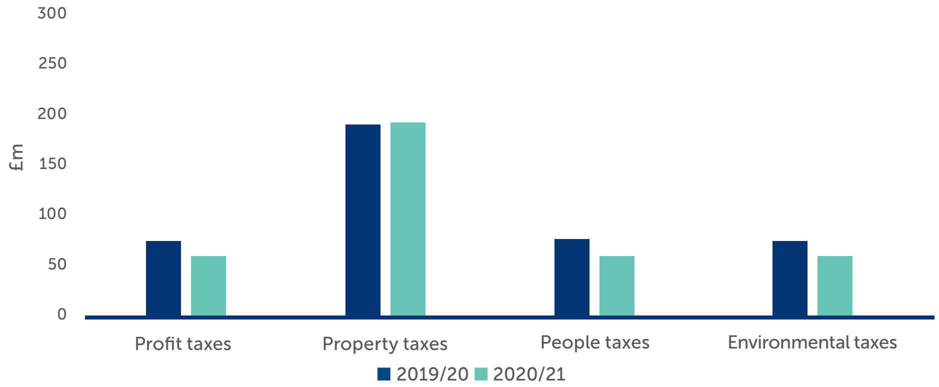
UK TAXES

Taxes paid

Total contribution 2020/21

£379m

(2019/20: £422m)

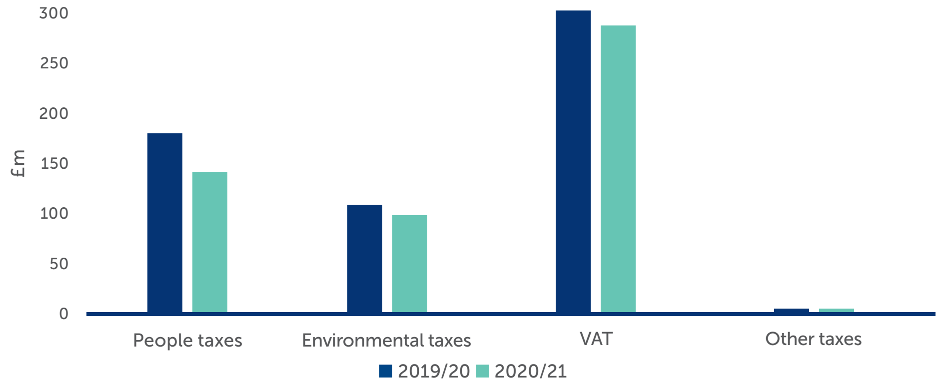


Taxes Collected

Total contribution 2020/21

£533m

(2019/20: £597m)



Why did SSE pay lower profit taxes?

SSE paid less corporation tax during 2020/21 than in the previous year as a result of the UK Government making a change to the rules regarding the phasing of quarterly tax payments during 2019/20. As a result, SSE was required to pay 6 quarterly corporation tax payments during 2019/20 but only 4 during 2020/21.

Why did SSE pay lower environmental taxes?

SSE paid less Climate Change Levy during 2020/21 than in the previous year as a result of lower levels of carbon emissions from the Group's generating fleet.

Why did SSE pay lower people taxes?

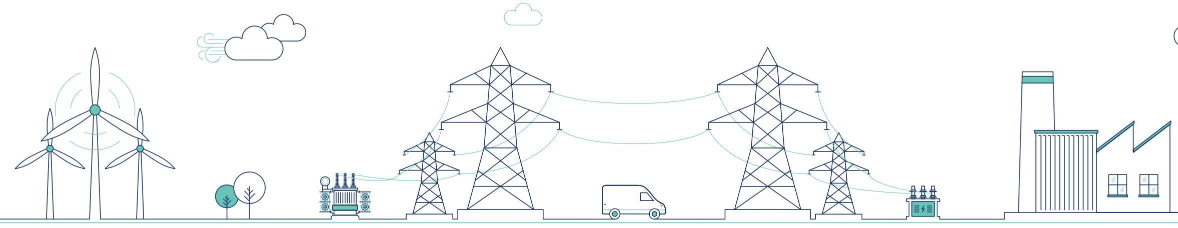
SSE paid less Employer's NIC during 2020/21 than in the previous year as a result of the sale of the Energy Services Group to OVO in January 2020, and corresponding reduction in headcount.

Why did SSE collect less people taxes?

SSE collected less PAYE and NIC from employee wages in 2020/21 than in the previous year as a result in the reduction in headcount in the Group after the sale of SSE Energy Services to OVO Energy Ltd in January 2020.

Why did SSE collect less environmental taxes and VAT?

SSE collected less Climate Change Levy and VAT in 2020/21 than in the previous year due to less energy being used by commercial customers.



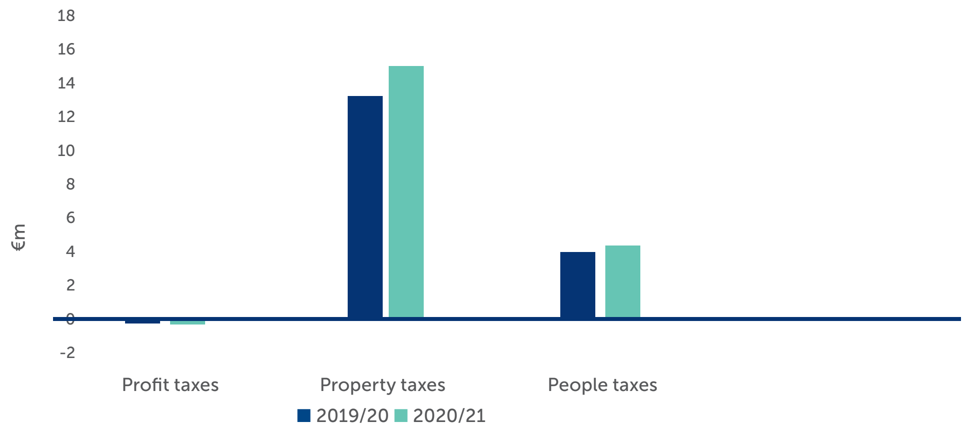
IRELAND TAXES

Taxes Paid

Total contribution 2020/21

€20m (£18m)

(2019/20: €18m (£16m))

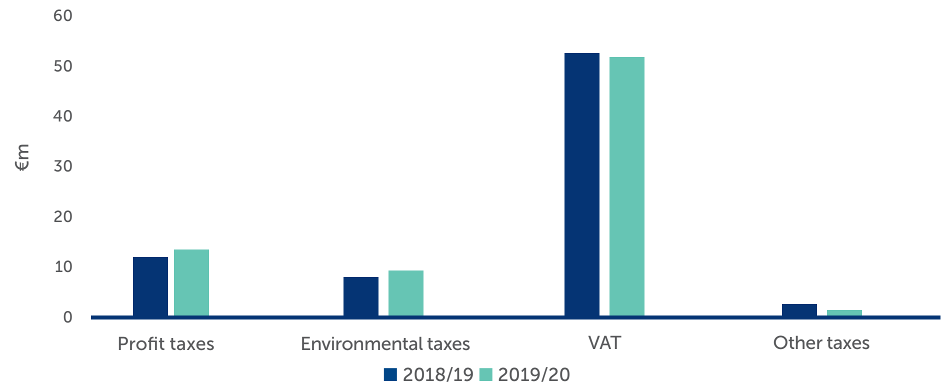


Taxes Collected

Total contribution 2020/21

€76m (£67m)

(2019/20: €75m (£65m))

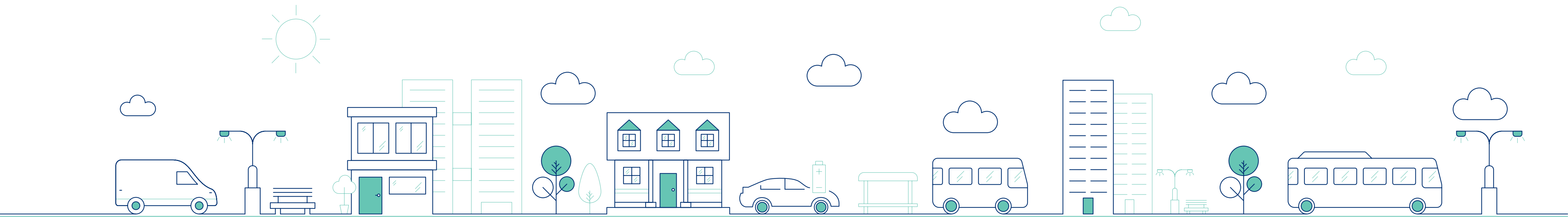


Why doesn't SSE pay environment taxes in Ireland?

Ireland doesn't have the equivalent of the UK Climate Change Levy, so SSE incurs no environmental taxes in this country.

Why did SSE collect more people taxes?

Higher people taxes were collected in 2020/21 compared to the previous year, due to an increased headcount in Ireland.



|| 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 2021.

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 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.

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 movements in tax payments compared with what HMRC 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. 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.

GLOSSARY OF 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 the tax relief given to businesses for expenditure on qualifying capital expenditure. The rate of capital allowances given differ depending upon the type of asset involved but range from 2% for structures and buildings to 25% for plant and machinery.

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

CLIMATE CHANGE LEVY (CCL)
is an environmental tax which is charged on energy used by nondomestic 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%.

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 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 of completely negating the amount of greenhouse gases produced by human activity, to be achieved by reducing emissions and implementing methods of absorbing carbon dioxide from the atmosphere.

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, cumulo rates, and taxes on transactions when properties are bought and sold.

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. Companies use these to reduce the taxes they pay.

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.

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

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

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