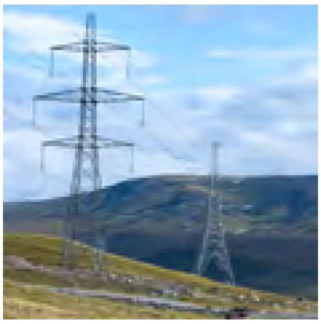















Being transparent about tax

Talking Tax 2017

sse

About SSE

SSE is a UK-listed energy company focused on the energy markets in the UK and Ireland. Its core purpose is to provide the energy people need in a reliable and sustainable way. To deliver this, SSE is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy related services. For more information on SSE's activities, see SSE's Annual Report.

About this report

Improving the communication and transparency of its tax affairs is important to SSE. SSE fully discloses its tax affairs in its Annual Report according to accounting standards and the enhanced disclosure requirements of the Fair Tax Mark.

This report is an additional voluntary disclosure, providing detailed country by country reporting and greater transparency around SSE's approach to tax, including detailing SSE's tax strategy. While predominantly a company with UK interests, SSE also has trading operations in Ireland.

SSE is committed to supporting the UN Sustainable Development Goals (SDGs) and recognises that they are not only for governments to achieve, but for business and civil society to contribute to as well. It is apparent that countries' domestic revenues – including tax revenue – will play a key role in supporting the SDGs. Paying the right amount of tax, in the right country, at the right time is SSE's way of contributing to domestic revenue and quality public services for all. For more information on how SSE is contributing to the SDGs, see SSE's Sustainability Report 2017.

Fair Tax 2016–17

SUSTAINABLE DEVELOPMENT GOALS

Contents

Foreword

Responsible tax core to a strategy for sustainable growth

This is the second time SSE has published a stand-alone report disclosing its tax affairs. We do this because we believe building trust with our customers and stakeholders – particularly on issues relating to tax – is important to the long-term sustainability of our business.

However, we also believe that a responsible approach to tax by big business is important to the wider economy too. It's important for the countries SSE operates in - the UK and Ireland – and we know the principles of responsible taxation are of vital importance to the developing world too.

Earlier in 2017, SSE made a submission to the UK Government's consultation on its proposed industrial strategy. At SSE we recognise that the UK's exit from the European Union is a crucial moment to shape a competitive, productive and sustainable future for the UK economy. And I believe a modern industrial strategy can play a significant role in that future.

Business will benefit from a concerted effort by government to boost the UK economy through an industrial strategy. The quid pro quo for business is to play fair by the rules.

This particularly applies to corporate tax avoidance which is the principal public concern about business behaviour and an area in which companies must act within the spirit as well as the letter of tax law. Paying the right tax, in the right way at the right time is a business' duty to the society it operates in and depends upon.

That's why improving the communication and transparency of its tax affairs has been important to SSE. We've been awarded the Fair Tax Mark for four years in a row – an independent accreditation for tax transparency. In 2016 SSE was commended as "one of the most transparent companies in the UK when it comes to tax" by the Fair Tax Mark. We believe more businesses should take similar positive, voluntary steps, and that Government should consider how to encourage and reward tax transparency for all businesses, including country by country reporting of businesses' tax affairs. We will all be winners if the playing field is fair and responsible tax becomes core to a strategy for sustainable growth.

Gregor Alexander
Finance Director

Translating tax

This report aims to provide a transparent account of SSE's tax affairs for 2016/17. It is intended to be clear and understandable to non-tax specialists but more technical explanations are available on pages 130 to 132 of SSE's Annual Report 2017.

The information in this section details which taxes impact SSE and explains how SSE's total tax contribution is calculated. Throughout this report, it is sometimes necessary to use technical language and phrases. To help the reader understand these concepts, in addition to those provided below, explanations for the main terms used in this report are provided in Appendix A.

How SSE demonstrates its tax contribution

Total tax contribution

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.

Tax paid

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

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.

Tax collected + Tax paid =

Total tax contribution

SSE's tax paid and tax collected are made up of a number of different taxes. SSE has grouped these taxes into the following categories in order to demonstrate clearly where taxes are paid and collected:

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. For SSE, the most material environmental taxes are Climate Change Levy and Landfill Tax.

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, primarily income tax and National Insurance contributions.

Profit taxes (paid only)

Profit taxes are taxes 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 taxes (paid only)

Property taxes relate to owning or using properties and infrastructure. These include business rates, cumulo rates, 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, the tax authorities.

SSE's contribution to society 2016/17

SSE has a deeply interconnected relationship with the society it operates in and is part of. It relies on society to be able to serve its customers in a reliable and sustainable way, and in return it creates and shares value through supporting sustainable employment, investing in national energy infrastructure and paying its fair share of tax to fund public services.

£1.7bn
Investment and capital expenditure (adjusted)

108,440
Jobs supported across the UK and Ireland

£6.93m
Investment in communities across the UK and Ireland

£9.3bn
Contribution to UK GDP

€779m
Contribution to Irish GDP

£9.4m
Invested in career pipelines[1]

39.3TWh
Electricity distributed in GB

[1]The total cost of providing apprentice, graduate, technical skills and employability training programmes.

SSE's tax contribution

2016/17

UK

Taxes paid - £385m

Taxes collected - £467.8m

Total tax contribution - £852.8m

Ireland

Taxes paid - €16.5m

Taxes collected - €54.9m

Total tax contribution - €71.4m

10.2% | SSE's effective adjusted underlying current tax rate[2]

[2]See page 13 for more information.

Developments and trends

It is important to SSE to continually monitor and respond to emerging trends and developments in the external tax environment. These developments have the potential to impact the way in which SSE approaches and reports its tax affairs.

Finance Act 2016

The UK's Finance Act 2016 introduced a requirement that large companies publish their tax strategies. Large companies must now publicly state their attitude to tax planning, how they manage their relationship with HMRC, and how they manage their tax affairs.

SSE has published its tax strategy for the second year in a row, it can be found in Appendix B of this report.

Country by country reporting

In January 2017, the European Commission proposed a directive on public country by country reporting by multinational enterprises. While the OECD Base Erosion and Profit Shifting initiative requires such information to be provided to tax authorities, the European Commission proposals would require such information to be in the public domain. The purpose of such reporting is to present a fair reflection of a business's activities within particular countries, so that stakeholders can understand in a consistent way the context for taxes paid to different tax jurisdictions.

SSE's country by country report for 2016/17 can be found on page 12 of this report. SSE has published its country by country report for four years in a row now.

Review of tax disclosures

In October 2016, the Financial Reporting Council (FRC), which is responsible for promoting high quality corporate governance and reporting, published a corporate reporting thematic review of tax disclosures[1]. The report reviewed the tax disclosures of 33 FTSE 350 companies. The FRC found evidence of improvements in the transparency of tax disclosures included in strategic reports and effective tax rate reconciliations. The report also noted that companies could improve the way in which they articulate how they account for tax uncertainties.

To improve transparency, SSE has included details in it 2017 annual accounts as to how uncertain tax positions have been treated.

Public opinion on tax

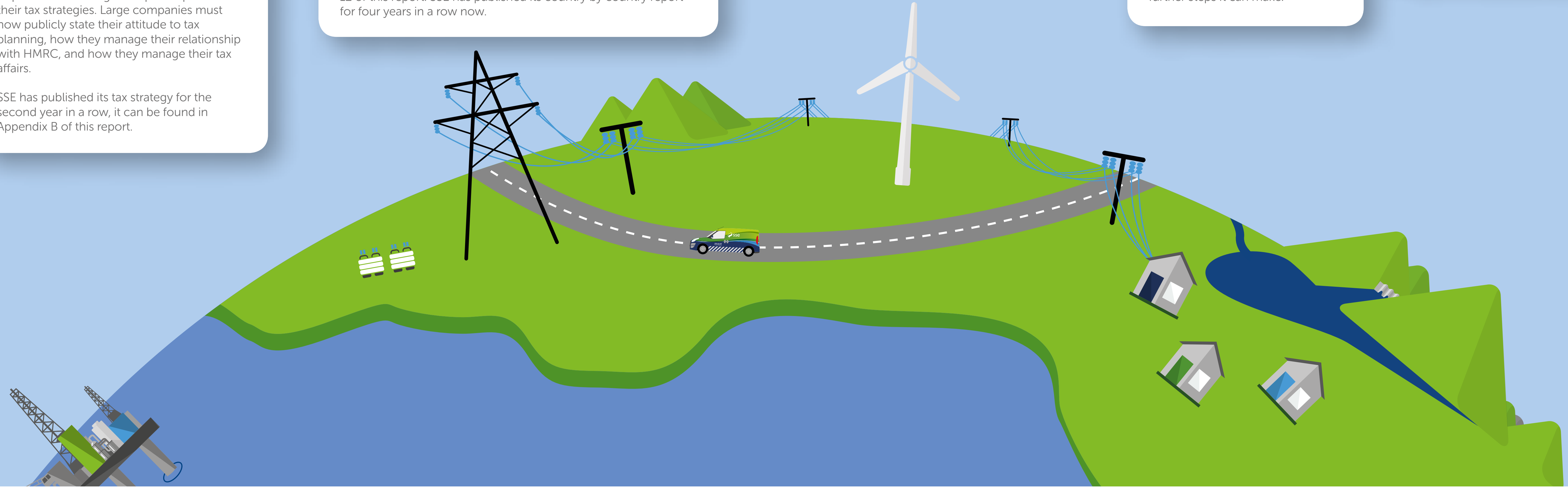
In December 2016, The Institute of Business Ethics' annual survey found, of all business practices, 43% of the British public are most concerned by corporate tax avoidance – a notable increase from 34% the previous year[2]. This is the highest level of concern around corporate tax avoidance recorded since the topic was introduced to the survey in 2012. These results demonstrate the increasing public scrutiny that the tax companies pay is under.

These results are an ongoing concern to SSE because this level of public concern impacts upon the trustworthiness of large corporations as a whole. This is the motivation behind SSE's efforts to improve the transparency of its tax affairs and it welcomes comment and feedback from stakeholders on further steps it can make.

Co-operative compliance

Irish Revenue launched a co-operative compliance framework in 2017. The aim of the framework is to develop a relationship between the taxpayer and the tax administration based on trust and co-operation in order to achieve the highest level of voluntary tax compliance and certainty around tax positions. The co-operative model is increasingly becoming a feature of the relationship between large business and tax administrators across the world and the operating framework adopted by Irish Revenue is similar to that in operation in the UK and other European countries.

SSE welcomed the reintroduction of co-operative compliance, as the maintenance and development of strong working relationships with tax administrations is central to our Tax Policy, and successfully applied to participate.



[1] Financial Reporting Council (2016) Corporate Reporting Thematic Review: Tax Disclosures. https://www.frc.org.uk/getattachment/d15d079f-bbd1-46ba-979c-cbc776f8042b/Corporate-Reporting-Thematic-Review-Tax-Disclosures-Oct-2016.pdf

[2] Institute of Business Ethics (2016) Attitudes of the British Public to Business Ethics 2016. https://www.ibe.org.uk/userassets/briefings/ibe_survey_attitudes_of_the_british_public_to_business_ethics_2016.pdf

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. SSE's shareholders also benefit from SSE's responsible 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 responsibility into account, SSE seeks to take a take a responsible approach to tax.

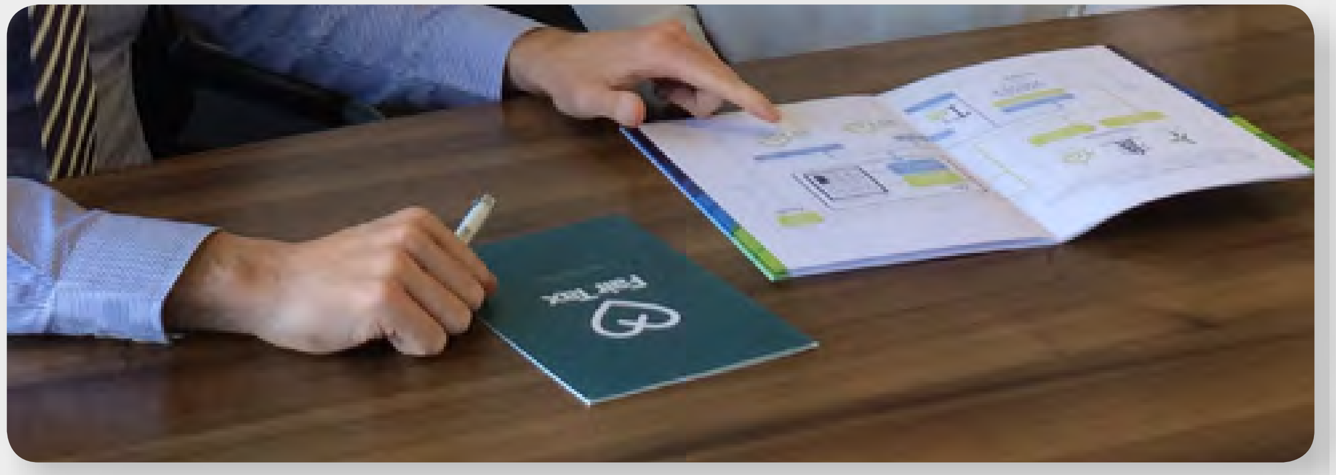
SSE's approach to tax is guided by its tax strategy. This strategy outlines the principles by which SSE approaches its tax affairs, detailing governance and accountability for tax within the business, as well as SSE's approach to ensuring compliance with tax laws and maintaining relationships with tax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

SSE does not use artificial tax avoidance schemes or tax havens. SSE's profits are taxed in the locations where it has substance. SSE considers paying tax in the locations where profits arise as the fair and right thing to do.

Gaining value from working with Fair Tax Mark

SSE has been Fair Tax Mark accredited since 2014. It remains the only FTSE 100 company to have gained the mark – an independent accreditation for businesses that proactively demonstrate they pay the right amount of tax, in the right place at the right time.

Since 2014, SSE has worked closely with the Fair Tax Mark to improve the quality and quantity of the information it discloses about its tax liabilities and policies. The publication of SSE's Talking Tax booklets is as a result of this work. In changing its tax reporting to comply with the Fair Tax Mark criteria, SSE is providing information that moves its disclosure well beyond the current requirements of UK company law.



Talking about tax in 2016/17

Tax continues to be a matter of concern for the public. The Institute of Business Ethics' annual survey found, of all business practices, 43% of the public are most concerned by corporate tax avoidance – up from 34% the previous year.

These findings add to the growing body of consumer research which shows that tax and transparency are at the heart of the credibility gap between customers and big business. With a heightened public focus in business conduct, particularly in the UK, it is more important than ever before for businesses to increase transparency around tax practices.

SSE continuously works to improve transparency around it tax affairs through its work with the Fair Tax Mark, publishing documents like this one and also through its advocacy for a fair playing field when it comes to tax.

SSE's advocacy for responsible tax practices

For a number of years, SSE has taken a leadership position by speaking publicy about responsible tax practices, including presenting to the European Parliament's Special Committee on Tax Rulings in Brussels, and it continues to be an advocate in this field.

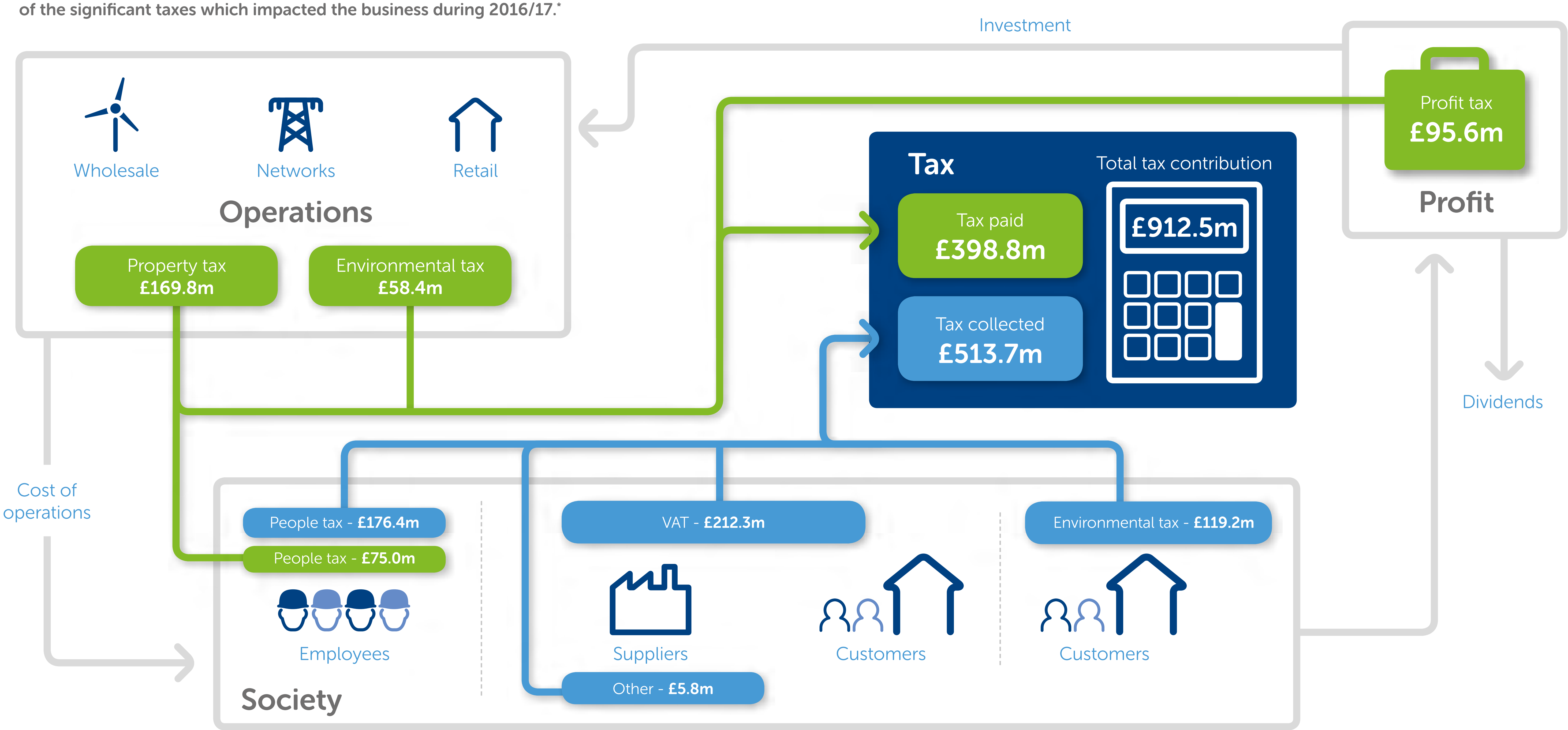
During 2016/17, SSE engaged with stakeholders about the importance of responsible tax practices. Engagement included:

- In December 2016, SSE's Head of Tax spoke at a summit held by the Public Accounts Committee, as it looked to promote tax transparency and dialogue around tax avoidance;
- In February 2017, SSE's Head of Tax spoke at a multi-stakeholder dialogue in Dublin on 'Corporate Tax: Fairness, Responsibility and Leadership' organised by the Department of the Taoiseach; and
- In March 2017, SSE responded to the UK's industrial strategy consultation, making the case for responsible tax becoming a core component of a sustainable growth strategy in the UK.

SSE's tax value chain

2016/17

SSE pays taxes to, and collects taxes on behalf of, the UK and Irish Governments at various stages throughout its business activity. SSE's tax value chain below shows some of the significant taxes which impacted the business during 2016/17.*



*Figures presented are UK and Ireland combined. The Group yearly average exchange rate was used to convert Euro to Sterling (source: Bloomberg).

SSE's tax contribution

2016/17

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. SSE's 2016/17 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 2017*	Gross employee pay (£m)	Net assets (£m)
UK	385.0	28,291.3	1780.7	116.4	20,461	906.4	5,301.0
Ireland	13.8	746.6	-4.1	0	696	32.9	971.5
Total as per accounts	398.8	26,037.9	1,776.6	116.4	21,157	939.3	6,272.5

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 two dormant holding companies remaining in Germany and the Netherlands.

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. You can see SSE's full account notes on pages 130 to 132 of its Annual Report 2017.

Effective adjusted underlying current tax rate

The Financial Reporting Council's (FRC) review of companies' tax disclosure published in 2016, highlights the way in which companies report their effective tax rate as an area of importance. To improve transparency, SSE has included its effective adjusted underlying current tax rate in this report. A reconciliation of SSE's effective adjusted underlying rate of current tax to the standard UK rate of corporation tax is included in SSE's 2016/17 annual accounts.

In 2016/17 SSE's effective adjusted underlying current tax rate was 10.2%, representing a fall from 12.8% in 2015/16. This rate is based on all the profit taxes SSE paid in each particular year, once all adjustments for tax reliefs have been made, and including SSE's share of profit taxes paid by joint ventures. In 2016/17, this amount was £157.7m. The rate is calculated as a proportion of the adjusted profits made by the company and the joint ventures SSE has an interest in that year. That results in an 'effective tax rate' of 10.2%. This rate is lower than the headline corporation tax rate in both the UK and Ireland which in 2016/17 were 20% and 12.5% respectively.

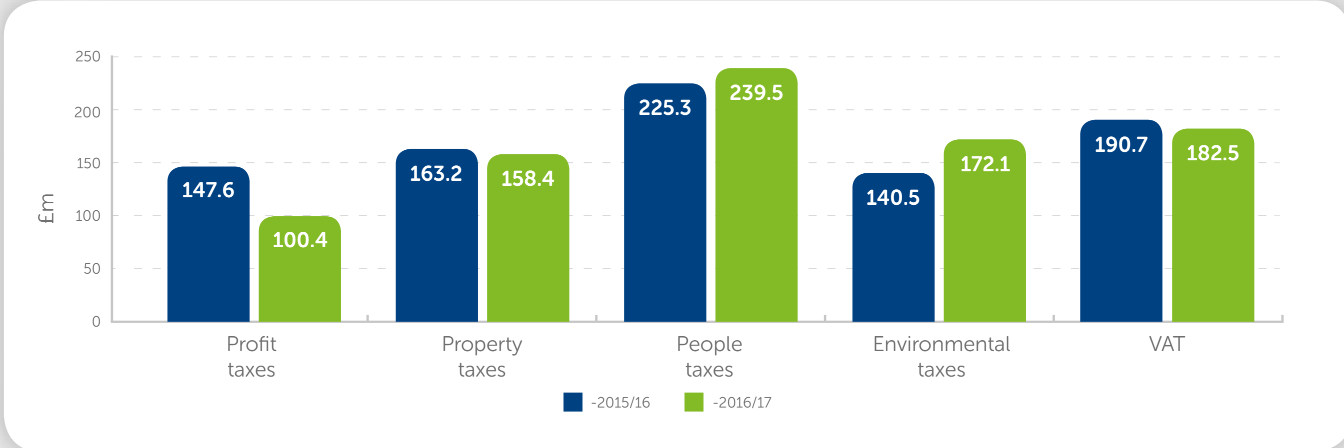
SSE's effective tax rate is lower than the headline corporation tax rates, largely because of the scale of its capital investment programme (£1.7bn in 2016/17), together with the impact of tax relief due on debt which is treated as equity for accounts purposes, and adjustments arising through truing up tax liabilities for earlier years. The UK Government encourages companies to invest in capital projects – because it is good for the economy and good for jobs. One way they do that is incentivising this business behaviour with tax relief by way of capital allowances. SSE borrows to fund such expenditure, through a number of ways.

SSE's total tax contribution in the UK and Ireland

SSE's total tax contribution is calculated by adding the value of its taxes paid to the value of its taxes collected. There are five types of taxes that make up the total tax contribution: profit, property, people, environmental and VAT. More information about these different taxes can be found on page 3 of this report.

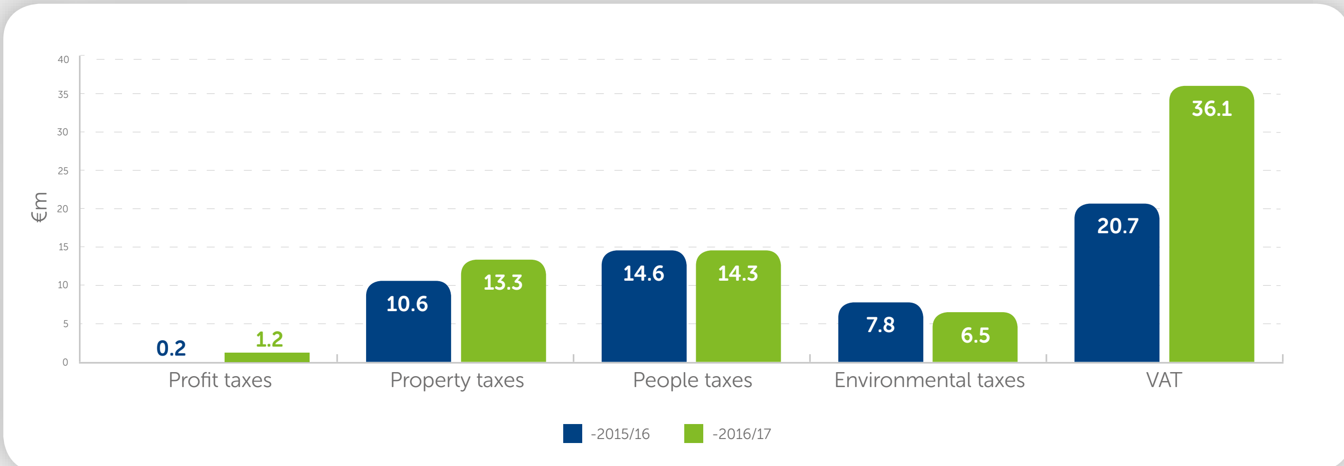
UK

SSE is a considerable UK tax payer, ranking 14th in PwC's 2016 Total Tax Contribution survey for the 100 Group in terms of taxes paid. SSE's total tax contribution in the UK for the year ended 31 March 2017 was £852.8m, compared to £867.3m the previous year.



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 2017 was €71.4m (£59.7m), compared to €53.8m (£39.4m) the previous year.



*Headcount of full-time and part-time employees employed by the SSE Group at the 31 March 2017, with a breakdown by country.

Taxes paid and collected in the UK

Taxes paid

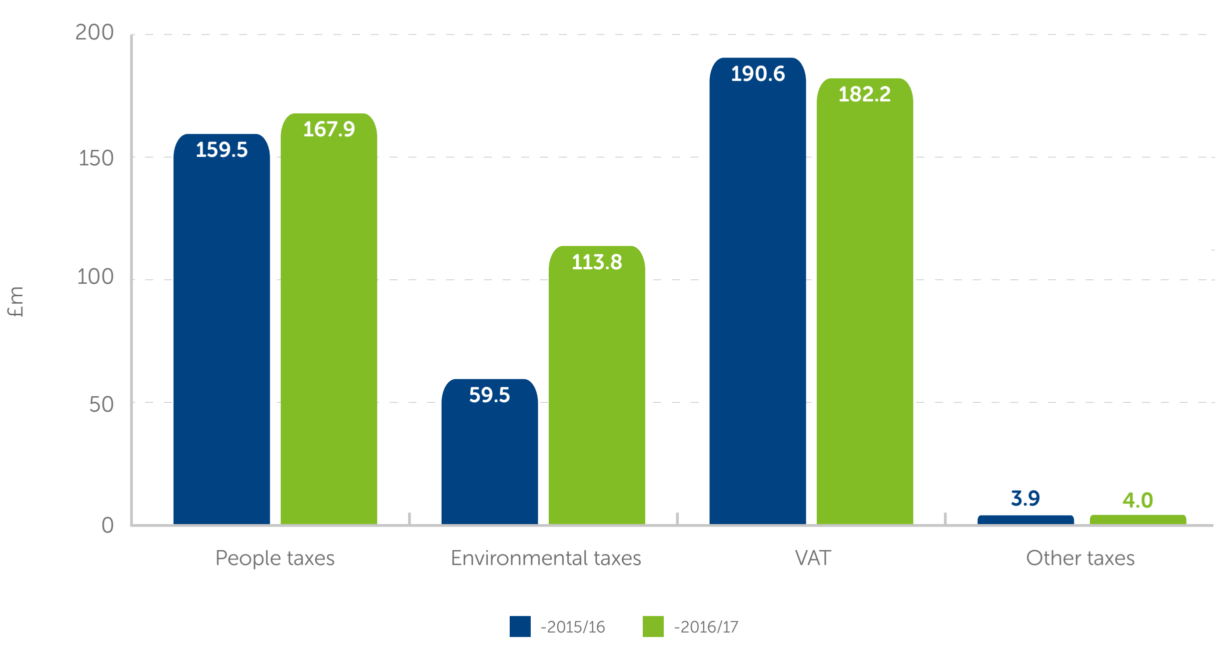
The taxes SSE pays to the UK Government include property tax, taxes on profit, environmental tax and taxes related to employing people. In the year to 31 March 2017, SSE paid £385.0m of tax to the UK Government, compared with £453.9m in the previous year. Property taxes were the highest value of tax SSE paid in the UK in 2016/17. There was a considerable reduction in profit taxes paid in 2016/17 compared to the previous year, due to the reduction in Petroleum Revenue Tax, as well as a reduction in environmental taxes paid.

Environmental taxes paid
Environmental taxes paid in 2016/17 were lower than the previous year as a result of a reduction in Climate Change Levies (CCL) due to the decline in the use of coal to generate electricity (SSE's coal-fired generation fell from 6,141GWh to 901GWh between 2015/16 and 2016/17).

Profit taxes
SSE pays taxes on profits earned across all of its activities, however certain profits are treated differently. From 1 January 2016 the rate of Petroleum Revenue Tax reduced from 50% to 0%, which has contributed to the reduction in profit taxes paid. There were also reduced taxable profits from Gas Production as a result of lower gas prices and capital allowances from the Greater Laggan acquisition in 2015/16.

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 2017, SSE collected £467.8m in taxes on behalf of the UK Government, compared to £413.4m the previous year. This was primarily due to an increase in environmental taxes collected. VAT was the highest value of tax SSE collected in the UK in 2016/17. The majority of 'other taxes' collected are made up by the Construction Industry Scheme (CIS) tax (see Appendix A for more information).

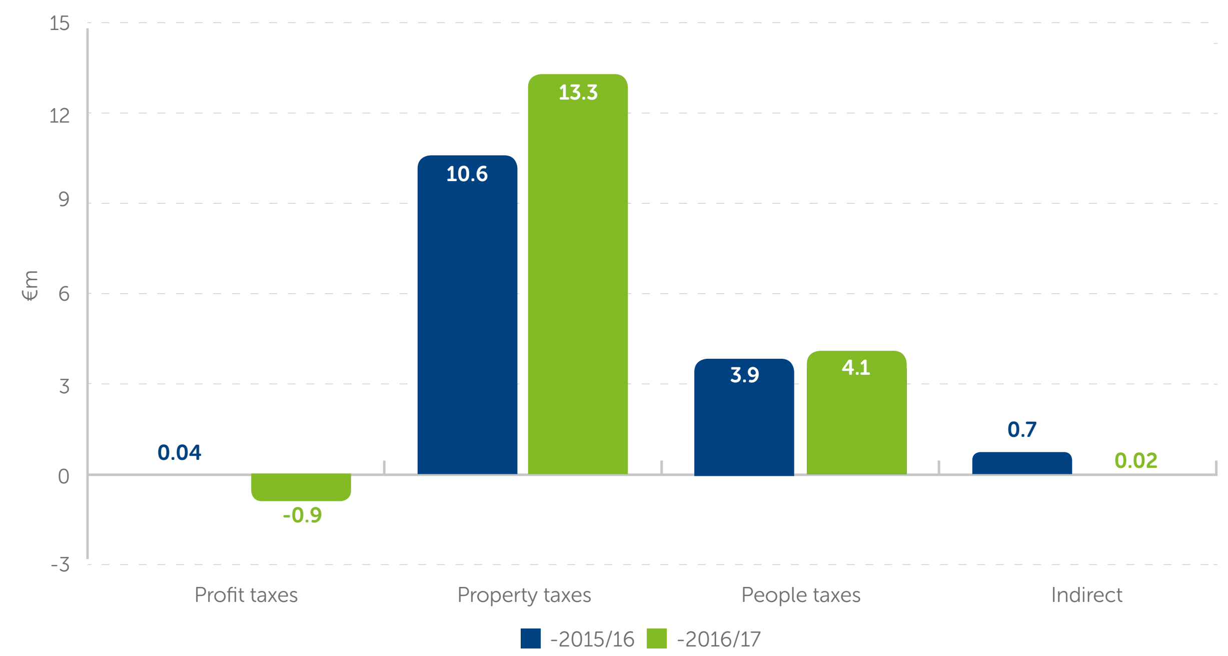


Environmental taxes collected
This increase is primarily due to the withdrawal of the exemption for Renewable Source Electricity (RSE) and good quality combined heat and power (GQCHP) electricity. The withdrawal of the exemption means that Climate Change Levy (CCL) was then chargeable on electricity from those sources. SSE ceased selling RSE and GQCHP in the first quarter of 2016, resulting in a significant increase in main rate CCL. There has also been an increase in CCL rates and increased customer consumption resulting in increased CCL collected.

Taxes paid and collected in Ireland

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 2017 totalled €16.5m (£13.8m), compared to €15.2m (£11.1m) the previous year. Property taxes were the highest value of tax SSE paid in Ireland in 2016/17.

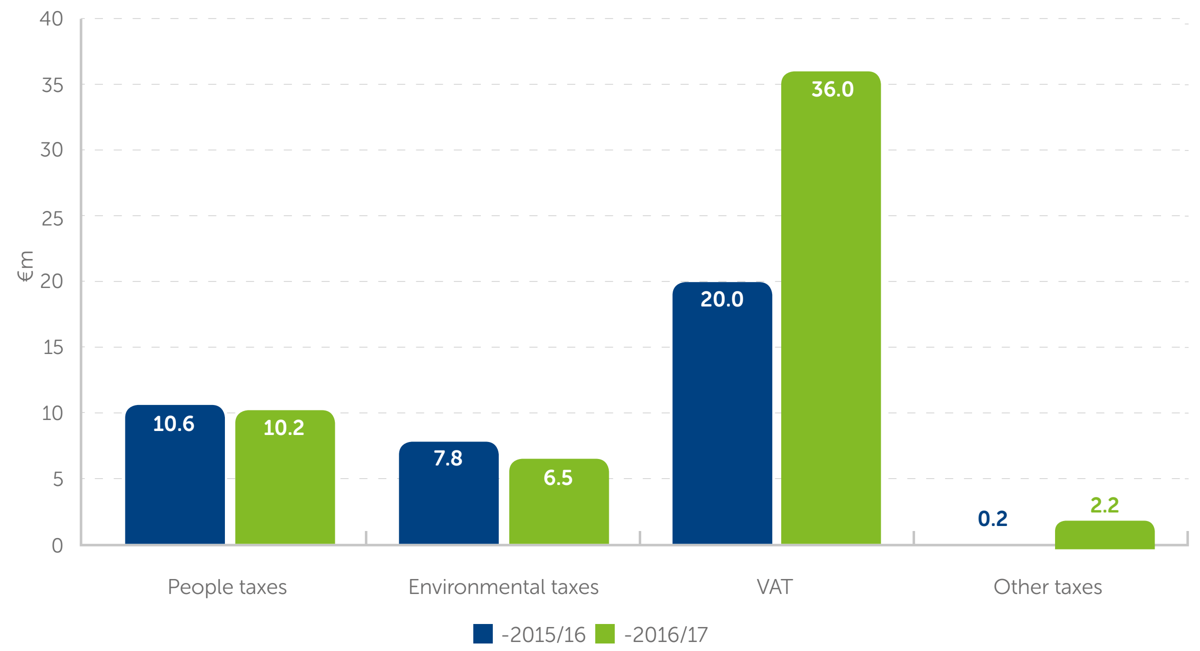


Profit taxes
In 2016/17, SSE received a net corporation tax refund of €0.9m. A preliminary tax payment of €0.1m was made in relation to 2016/17 due to capital allowances available on the Great Island Combined Cycle Gas Turbine (CCGT) plant constructed in County Wexford, Ireland. A refund of €1m was received in relation to 2013/14 as preliminary corporation tax was overpaid for that period.

Property taxes
Property taxes increased due to: Limerick County Council completing a revaluation of commercial rates per MW which resulted in a significant increase in rates payable by wind farms in the county; increased business rates being applied to the new Great Island CCGT plant following the retirement of the heavy fuel oil unit at the same site; and €1m of business rates have been prepaid for 2017/18.

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 €54.9m (£45.9m) in taxes in the year to 31 March 2017, compared to €38.6m (£28.2m) the previous year. VAT was the highest value of tax SSE collected in Ireland in 2016/17.



VAT
From 1 January 2016, a domestic reverse charge applies to wholesale energy supplies in Ireland, following the same process as the VAT domestic reverse charge in the UK. SSE is no longer charged VAT by suppliers of wholesale energy, instead it accounts for the VAT that would have been paid to the supplier by way of a reverse charge and reclaim in its VAT returns. This has resulted in an increase in VAT collected by SSE on behalf of the Irish Government.

Appendix A: 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 20% 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.

Tax evasion
Tax evasion is against the law. This is usually when a company (or person) misrepresents the true state of their financial affairs to tax authorities, for example dishonest tax reporting.

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.

VAT domestic reverse charge
The VAT domestic reverse charge is a change in the UK VAT legislation which means companies no longer pay VAT to suppliers of wholesale energy. Instead, in their VAT returns, the VAT that would have been paid to suppliers is added to the total amount of VAT the companies pay to HMRC but also to the amount of VAT that they reclaim.

Appendix B: SSE's tax strategy

In September 2016 the UK Government published the Finance Bill 2016 which 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 has a well understood approach to tax planning, risk management and governance, which is published below, in line with the Finance Bill 2016 requirements. SSE does not expect its tax strategy to change significantly from year to year. It is a long-term business with a long-term approach to financial management. SSE's tax strategy has not changed in any way between 2015/16 and 2016/17. SSE commits to republishing its tax strategy each year and highlighting changes, if any, that arise.

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 it's 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.

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