

# Tax Strategy

National Energy System Operator

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Policy Document

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## 1. Introduction

An Introduction from Charlie Pate, Chief Financial Officer

As a company with turnover greater than £200m, National Energy Systems Operator (NESO) has a requirement to publish a tax strategy in relation to its financial year ending 31 March 2026.

The remainder of this document outlines NESO's Tax Strategy and documents the approach NESO takes in meeting its tax obligations. In summary, we take a conservative approach to tax risk.

This document satisfies the requirements of Schedule 19, Finance Act 2016, paragraph 22(2).

## 2. Our Approach to tax

As a regulated public-owned but operationally independent entity, we manage our tax affairs responsibly by ensuring effective internal process and governance is in place which seeks to comply with relevant legislation and effectively manage our tax risk.

NESO has a strong governance framework that extends to how our tax affairs are managed. Our internal control and risk management framework helps us manage risks, including tax risk, appropriately.

We aim to comply with all relevant tax laws, regulations and tax reporting requirements. We do not enter into artificial arrangements that lack commercial purpose or where the sole purpose is to achieve tax savings.

Furthermore, we will not enter into arrangements that could have a negative effect on the company's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM.

We take a conservative approach to tax risk. However, there is no prescriptive or pre-defined limit to the amount of acceptable tax risk.

We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real-time basis. We prefer to seek clarity through timely discussion and prompt disclosure of all relevant information, so we can reach an accurate assessment of the tax implications of our activities. We engage proactively in developments of

external tax policy and engage with relevant bodies where appropriate.

### 3. Total Tax Contribution

We contribute taxes in two ways, collectively referred to as total tax contribution:

- Taxes borne are a cost to the Company, while NESO is not profit making, there are instances when regulatory timing for the collection of network charges might result in an annual profit, triggering tax obligations.
- Taxes collected are generated by the operations of the Company and which companies are obliged to administer on behalf of the Government (e.g. income tax under PAYE, employees' national insurance contributions).

Within the total, we include other taxes paid such as property taxes, taxes on employment, together with employee taxes and other indirect taxes.

You can read more about this in our Annual Report and Accounts. This includes the split of our tax contribution by type of tax, and also the reason why the tax charge disclosed in our accounts is generally different to the amount of cash payments made to HMRC.

### 4. Government and management of tax risk

#### **Governance, roles and responsibilities**

Responsibility and oversight of our taxation strategy and governance rests with the Audit & Risk Committee, which is a sub-committee of NESO's Board. Executive management is delegated to the Chief Financial Officer. He provides regular updates to the Audit & Risk Committee on tax matters affecting NESO such as tax risk, and the Audit & Risk Committee is responsible for authorising any material tax transactions.

Day-to-day tax activities are carried out by appropriately qualified and experienced tax professionals supported by appropriately qualified Managed Service Providers. Where tax related activities are carried out outside these tax professionals (e.g. HR), staff are appropriately qualified and experienced.

We have a confidential internal helpline, and an external 'Speak-Up' helpline available at all times. We publicise the contact information to our colleagues and on our external website so concerns (including concerns around our tax affairs) can be reported anonymously. Our policies make it clear that we will support and protect whistle-blowers and any form of retaliation will not be tolerated.

Decisions relating to tax matters are made at the appropriate level based on the value and

potential impact on the business. They follow the company's delegation of authority procedures and are supported by appropriate documentation and, where necessary, external advice from appropriate professional service providers.

### **Tax risks**

We are exposed to and need to manage a variety of tax risks, across categories such as the following:

- compliance and reporting risk – ensuring we meet all our compliance and reporting obligations, including paying the right amount of tax, at the right time, in the right place;
- operational risk – ensuring we have effective internal processes and controls and appropriately qualified/experienced personnel;
- transactional risk – ensuring transactions are undertaken with appropriate consideration of tax consequences;
- reputational risk – ensuring actions or decisions do not have an adverse impact on the perception of NESO from the perspective of our stakeholders including DESNZ, HMRC, OFGEM, our customers and the general public;
- technical judgement risk – ensuring tax analyses use the appropriate interpretation of relevant tax law and regulations; and
- changes in tax landscape – ensuring that we monitor and keep up to date with changes in tax law and/or accounting standards so we can assess the impact to the company. Additionally, we ensure that we have appropriate processes and systems in place to interpret the changes correctly and comply with them.

Our internal control and risk management framework helps us manage these risks appropriately.

### **Internal control and risk management framework**

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, NESO employs a risk management process aiming to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives, including in our tax affairs.

Within the risk management process the following three lines of defence model is adopted for tax:

- Tax and Business functions – individual control owners are responsible for the operation of specific controls to manage particular risks that have been identified. For Tax the controls these can be specifically embedded within the business or owned by the tax manager for controls over the production of tax returns for example;

- Central risk management team – a central team who implements and design the overarching control framework supported by the relevant finance and tax experts in the business, they independently challenge principal risk assessments and actions taken to manage /mitigate risk;
- Internal audit – independent assessment of the effectiveness of our risk management and internal control systems.

Specifically, in respect of tax risk, we carry out continuous review and monitoring, and make recommendations/updates for improvements to a control or process or to take account of changes in the tax landscape. Where a new tax risk is identified, we document and implement proposed action and/or control to mitigate the risk.

We also work with the business to ensure that they understand our approach to tax risk management. By adopting this business partnering approach and proactively engaging with internal stakeholders, we ensure we have comprehensive knowledge of their activities and that tax is always considered when undertaking business decisions. This process therefore allows us to capture any legislative or operational driven changes or transactions and consider the tax impact.

Risks are assessed by considering the financial and reputational impacts, and how likely the risk is to materialise. Consideration is given to the impact on the external environment and the effect on our stakeholders. Where we identify a risk, we take actions to manage and monitor the risk in accordance with our risk appetite, assess the adequacy of existing risk processes and controls and remediate deficiencies.

## 5. Attitude to tax planning

Our reputation, corporate social responsibilities and brand are crucial considerations when dealing with tax matters. We will not enter into arrangements that could have a negative effect on the company's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM.

We acknowledge that there are circumstances where tax matters may be complex or unclear and we will seek advice from our managed service providers or other reputable professional advisers to provide clarity around the interpretation, particularly where the matter is material to the Company.

We do not have operations in tax havens or low tax jurisdictions.

We will claim valid tax reliefs and incentives where these are applicable to our business operations, but only where they are widely accepted through the relevant tax legislation such as those established by government to promote investment, employment and economic

growth.

## 6. Level of Acceptable tax risk

We assess the level of acceptable tax risk on a case-by-case basis within our governance framework and risk appetite, as set by the Board.

When assessing tax risk, we consider the following equally important considerations:

- scale;
- complexity;
- our reputational risk;
- our corporate responsibility obligations; and
- impact on our stakeholders.

If we believe a tax position is uncertain, we apply appropriate risk assessment procedures so that we follow appropriate governance. We may seek the opinion of reputable professional advisers, and where necessary, seek clearance from HMRC.

We take a conservative approach to tax risk. However, there is no prescriptive level or pre-defined limit to the amount of acceptable tax risk.

## 7. Approach to dealing with tax authorities

We seek to work with tax authorities on a real-time basis and aim to disclose facts or issues that could result in additional tax liabilities as soon as possible. We may also seek advance clearance from the relevant tax authority on significant or relevant tax matters so we can reduce the risk of incorrect treatment for tax purposes.

We aim to respond promptly to any enquiries or requests for further information from tax authorities to facilitate a prompt resolution of tax matters. For example, this may include facilitating meetings or on-site business visits to assist the tax authority's understanding of our business or area of uncertainty. Where any inadvertent errors in submitted tax filings are identified, we will make full and timely disclosure to the relevant tax authority to resolve the matter.

### **Development of tax policy**

We are committed to the continued development of a coherent and transparent tax policy, so we are continuously monitoring and contributing to the changing tax landscape.

Supported by our external service providers we monitor changes in tax legislation so NESO remains compliant with the new tax legislation. As part of this process, we will review the tax impact of new proposals and the evolving tax landscape for NESO, so we can mitigate any risks

the business faces from the changes and to ensure compliance with any changes. As part of that, we continue to look into other areas of tax digitisation and tax technology as enablers for process improvements and risk management as we recognise tax authorities are embracing digitisation and look to place greater emphasis on the integrity of company data.

We aim to maintain a collaborative and open relationship with all relevant tax authorities including HMRC. This includes regular meetings, communications and updates on developments in our business.

## 8. Relevant Legislation

This policy is designed to secure compliance with the following legislation:

Schedule 19, Finance Act 2016, paragraph 22 (2).

## 9. Contact information

National Energy System Operator's Chief Financial Officer is accountable for the policy and the Audit and Risk Committee is responsible for monitoring its effectiveness and will review the implementation of it on an annual basis.

## 10. Version Details

<b>Version number</b>	2.0
<b>Policy owner</b>	Charlie Pate - Chief Financial Officer
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<b>Team</b>	Financial Control
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