

CREATING VALUE
IN A SUSTAINABLE WAY

SSE plc Annual Report 2018

RENEWING



CREATING VALUE IN A SUSTAINABLE WAY

Important note: planned SSE Energy Services transaction

On 8 November 2017, the Board of Directors of SSE plc announced it had entered into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services) and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group – to be held by SSE shareholders (following the demerger) and (following the combination) with minority shareholding participation by innogy SE (approximately 65.6% and 34.4% respectively).

Following the combination, the new independent business will be separately listed on the London Stock Exchange. SSE shareholders will retain their existing SSE shares and will also hold one share in the newly-listed business for every existing SSE plc share they hold at the demerger record date.

In this Annual Report this demerger of SSE Energy Services, combination with npower and listing on the London Stock Exchange is described as 'the planned SSE Energy Services transaction'. Resolutions relating to the planned SSE Energy Services transaction will be proposed at a General Meeting at 2pm on 19 July 2018 at the Perth Concert Hall. A Shareholder Circular in relation to this is being issued on 27 June 2018 and details will also be available at sse.com.

The transaction is also subject to regulatory approval. On 8 May 2018, the Competition and Markets Authority referred the proposed combination of SSE Energy Services and npower for a so-called 'Phase 2' investigation, by a group of independent panel members. The deadline for the final report from that investigation is 22 October 2018.

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THROUGH RESPONSIBLE GOVERNANCE

SSE provides the energy and related services needed now and in the future, and it does so in a responsible way that benefits shareholders and society more widely. This Annual Report is a detailed summary of the value created by SSE for all of its stakeholders in 2017/18, and the steps it is taking – in the best long-term interests of energy customers – to adapt to a fast-changing sector.



Chairman
Richard Gillingwater CBE

HIGHLIGHTS OF 2017-18

SSE IS A PUBLIC LISTED COMPANY THAT SEEKS TO WORK IN THE PUBLIC INTEREST

It does this by being transparent in the way it does business, responsible in the way it works with stakeholders and sustainable in the way it makes decisions.

OUR PURPOSE

To responsibly provide the energy and related services needed now and in the future.

OUR VISION

To be a leading provider of energy and related services in a low-carbon world.


OUR STRATEGY

To create value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way. Delivery of this strategy is dependent on the shared talent, skills and values of people throughout SSE.

The financial objective of this strategy is to remunerate shareholders' investment through the payment of dividends. For 2017/18, the Board is recommending a final dividend of 66.3 pence per share. This will make a full-year dividend of 94.7 pence per share. SSE has also set out a plan for the dividend for the five years to 2023, described in the Financial Overview on page 44.



Read more on **page 14**.



#APM * Adjusted figures used in this report refer to measures used for internal performance management. As such, they are not defined or specified under International Financial Reporting Standards (IFRS) and are considered to be Alternative Performance Measures (APMs).

DIVIDEND

Recommended full-year dividend

94.7 pence

PROFIT BEFORE TAX

Adjusted* PBT

£1,453.2m

Reported PBT

£1,086.2m

ECONOMIC CONTRIBUTION

Contribution to UK GDP

£8.6bn

Contribution to Irish GDP

€806m

INVESTMENT

Adjusted* capital and investment expenditure

£1,503.0m

Reported capital and investment expenditure

£2,248.2m

EARNINGS PER SHARE

Adjusted* EPS

121.1p

Reported EPS

81.3p

TAX

Tax paid in the UK

£484.1m

Tax paid in Ireland

€22.6m

OUR STORY

PREPARING SSE FOR THE CHALLENGES OF THE FUTURE

SSE has a rich heritage to draw on as it plays its part in reshaping the energy sector for a low-carbon future. Over the course of a history spanning more than 70 years, change has been the one constant for SSE, and a proven ability to adapt stands it in good stead as it enters its next chapter.

RENEWING



OUR STORY CONTINUED

SSE HAS A PROUD PAST AND IS FOCUSED ON A STRONG FUTURE

A proud past

This year, 2018, marks the 75th anniversary of the Hydro Electric Development (Scotland) Act, which paved the way for the North of Scotland Hydro Electric Board to construct hydro electric schemes across the north of Scotland and to connect homes, crofts and farms to the electricity network for the first time. This Board later became Scottish Hydro Electric.

It also marks the 70th anniversary of the formation of the Southern Electricity Board, which combined almost 50 companies and local authority undertakings to create a regional electricity distribution and supply company, providing electricity (sometimes for the first time) to people across central southern England. This Board later became Southern Electric.

In addition, 2018 marks the 20th anniversary of Scottish Hydro Electric and Southern Electric coming together to create SSE (previously Scottish and Southern Energy), which became and remains one of the leading energy companies in the UK.

And it marks the 10th anniversary of Airtricity, the Irish electricity generator and supplier, becoming part of the SSE Group, since when SSE has operated throughout the UK and Ireland.

SSE is proud of what it has achieved over many years and has always sought to draw on experience to build a strong future. This means it has been, and remains committed to, taking the right decisions in each of its businesses to secure the right outcomes for energy customers and other stakeholders who have an interest in SSE and in the wider energy sector.

A strong future

Each of the anniversaries occurring in 2018 is the result of past decisions to embrace change and to adapt to the economic, social and technological requirements of energy customers and of society as a whole. The extent of change now taking place in the energy sector is unprecedented; and the needs of customers and society are evolving rapidly.

It was SSE's continuing commitment to embrace change and adapt to the needs of customers that led to its decision in November 2017 to enter into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services) and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group.

This transaction is subject to necessary shareholder and regulatory approvals, but it is designed to renew SSE in a way that will bring benefits to SSE and to energy customers, enabling SSE to draw on its past and build for the future.



This is what embracing change and adapting to the requirements of energy customers and society as a whole means.



SSE IS HELPING TO CREATE A NEW MARKET MODEL

The planned SSE Energy Services transaction will create an efficient new independent energy supply and services business and help create a new market model by combining the resources and experience of two established players with the focus and agility of an independent supplier.

A standalone retail business will be able to benefit from its own dedicated board of directors and specialist management team, supported by skilled employees. It will be focused entirely on strategic and operational developments in the GB retail sector, including the competitive and regulatory environments. It will also have the ability to access and allocate its own capital, allowing day-to-day decision-making to be more closely aligned with strategy, and thereby facilitating the delivery of greater benefits to all stakeholders, including customers and employees.

This is what embracing change and adapting to the requirements of energy customers and society as a whole means.

A Shareholder Circular in respect of the proposed demerger of SSE Energy Services and its combination with npower, plus Notice of General Meeting, will be published on 27 June 2018.

OUR STORY CONTINUED

SSE IS GOING TO FOCUS ON ENERGY AND RELATED INFRASTRUCTURE AND SERVICES

Following the planned SSE Energy Services transaction, SSE's strategy will focus on creating value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way.

Delivery of this strategy is dependent on the shared talent, skills and values of people throughout SSE.

For SSE this means being focused on earning returns for shareholders and making a positive economic and social contribution to the countries in which it operates; being efficient in developing, owning and operating infrastructure and related services and being agile in creating and securing value from them; maintaining a range of complementary business activities with a depth of insight into a core sector and doing things responsibly.



SSE IS CHANGING, BUT STAYING THE SAME

For 75 years, SSE and its predecessor companies and boards have kept at their core a fundamental belief that energy provision is an essential part of modern life, on which people, organisations and businesses depend.

This means that as a public listed company, SSE must act in the public interest. It has a social contract that it adheres to by being transparent in the way it does business, responsible in the way it works with stakeholders and sustainable in the way it makes decisions. SSE invests in modern infrastructure, supports and creates sustainable jobs and pays its fair share of tax. In return, SSE benefits from public services, is able to 'borrow' human capital and has the right to pay dividends to shareholders.

So as SSE changes over the next year, it will remain the same: focused on improving energy infrastructure for the future; committed to being a transparent, responsible company that makes good decisions for the long term; and guided by the SSE SET of values (Safety, Service, Efficiency, Sustainability, Excellence and Teamwork). It will also remain committed to remunerating shareholders' investment through the payment of dividends.

SSE invests in modern infrastructure, supports and creates sustainable jobs and pays its fair share of tax.

MARKET OVERVIEW

THE ENERGY SECTOR IS TRANSFORMING

SSE operates in a fast-changing industry. As it supports the drive towards decarbonisation of the economy, electrification of transport and modernisation of critical infrastructure, it does so with a commitment to maintaining and growing a range of complementary businesses that have energy and related services at their core.

Decarbonisation remains a driver of change

The need to meet carbon targets remains a fundamental driver of change across the energy sector in both GB and Ireland. The Climate Change Act celebrates its 10th birthday in 2018 and the UK Government's Clean Growth Strategy (published 2017) sets out plans for an 80% reduction in power sector emissions to 2032, so the pace of change remains fast.

Increasingly these carbon targets can be met at a lower cost to customers. Auctions for long-term offshore wind contracts (CfDs) are now well established and there has been very strong competition. These mechanisms work and SSE is well placed to play its part in this growth market, with first power from Beatrice wind farm expected in Summer 2018 and strong new project options in the UK (Dogger Bank, Seagreen) and beyond in Ireland (Arklow).

Onshore wind costs have fallen significantly since 2009 and it remains one of the lowest-cost forms of energy for customers. Eligibility for onshore wind to compete in the UK auctions remains on hold but the case for future build is strong and policies may follow. In Ireland, EU renewables targets continue to drive the need for new onshore wind and a new support scheme is expected to be announced this year. Onshore wind development and operation are core SSE strengths, so it is well placed to take advantage of this.

Electrification creates new opportunities

Electrification will also drive major change in the sector. The trend to electrification of vehicles is clearly illustrated by changes in the transport sector and the UK Government's moves to ban the sale of new diesel and petrol cars from 2040. By 2030 there may be nine million electric vehicles connecting into the distribution networks helping to reduce carbon emissions and improve air quality in urban areas. As an electricity generator, distributor and utilities services operator, SSE sees a major role for itself in this shift and is already positioning its businesses to optimise the likely opportunities.

At the same time, small-scale, distributed energy continues to decentralise the energy system. Distribution networks are critical in connecting and managing these new forms of demand and supply. This will create new opportunities and challenges for SSE's electricity distribution business, in particular in becoming a Distribution System Operator (DSO) with greater active management of its networks. In addition, SSE Enterprise is well positioned to prosper from these trends by providing bespoke decentralised energy services, including EV charging infrastructure.

Infrastructure investment is key to security of supply

The UK's Industrial Strategy is set on upgrading the critical infrastructure that drives the economy. Public infrastructure investment is expected to double over the decade to 2023. This presents opportunities for SSE and aligns with its commitment to playing its part in maintaining security of supply as the energy system is transformed.

SSE's diverse current and future portfolio has a large role in this. Its fleet of hydro ("nature's batteries"), thermal generation and gas storage provides crucial flexibility to the system, while its transmission and distribution networks ensure this flexibility connects and matches demand. Looking ahead, a range of options exist to help ensure electricity and gas customers across the UK and Ireland benefit from a secure and progressive system of energy provision.





AFFORDABILITY AND LEGITIMACY ISSUES PERSIST

While SSE meets the challenges of a transforming sector it also faces major political pressures. Political debate about affordability and the role of the state in energy provision means the need to show how private utilities operate clearly in the public interest is as great as ever. The next set of price controls for networks (RIIO2) are also being developed in this political context.

SSE is well set up for this environment with a clear conviction to act in the interests of all stakeholders, as explained elsewhere in this Annual Report.

The domestic energy market is not what it was

A market that once featured the so-called "Big 6" is now populated by closer to around 80 suppliers of varying scale competing to provide a range of new products and services to GB household energy customers. This is good for customers and it means the market is extremely fluid, with customer switching at historically high levels and further change expected with the roll-out of smart meters. This, combined with SSE's operating profit increasingly coming from economically regulated networks and from renewable energy, and the conviction that a new market model would be in the best interest of all, including customers, led to the proposal to combine the resources and experience of SSE's household energy supply and services business in GB with those of another established player in the market.

At the same time, the economy is becoming increasingly digitalised. Energy customers expect a seamless digital interaction with their provider and SSE has made gains in this area in recent years while investing heavily to meet the UK Government's smart meter targets.

Market trends have lowered financing costs

Energy is a capital-intensive sector and therefore a low cost of capital is critical to reducing costs for consumers. In recent years, the low interest rate environment has helped to lower the cost of financing energy infrastructure with particular benefits in reducing the cost of renewables. In addition, there has been an increased supply of capital and entry by infrastructure funds, institutional investors and private equity. This has implications for the valuations placed on assets and for the returns that can be earned from investment. At the same time, it has also created strong financial partnering opportunities for SSE.

Climate change and the policies to mitigate this are increasingly being factored into the financial value of firms. The Task Force on Climate-related Financial Disclosures will formalise this helping to ensure risks and opportunities are properly accounted for and enabling capital flows to the most sustainable investments. As a business positioned to thrive in the transition to a low-carbon future, SSE stands to benefit from this shift in financial markets.

A market that once featured the so-called "Big 6" is now populated by closer to around 80 suppliers.



OUR STRATEGY

CREATING VALUE IN ENERGY AND RELATED INFRASTRUCTURE AND SERVICES

SSE is clear about the core purpose of the business, about its overall scope and direction, about how it fulfils its purpose and achieves its goals, and about its primary financial objective.





CLIMBING



OUR STRATEGY CONTINUED

SSE's purpose is to responsibly provide the energy and related services needed now and in the future. It aims to be a leading provider of energy and related services in a low-carbon world. Its strategy is to **create value** for shareholders and society from **developing, owning and operating energy and related infrastructure and services** in a **sustainable way**. These are the four pillars of the SSE strategy. Delivery of this strategy is dependent on the shared talent, skills and values of people throughout SSE.

CREATING VALUE

Creating value means focusing on earning returns for shareholders, sustaining skilled jobs and making a positive economic and social contribution to the countries in which SSE operates. SSE believes there are significant opportunities to do this as a responsible provider of energy and related services.

SSE's focus is not on maximising short-term profits but on creating value for shareholders, customers and society, including earning returns for shareholders' investment through the payment of dividends.

SSE believes that dividend payments should be at a level that is sustainable, and that dividend targets should reflect the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook.

SSE also believes it should be a well-financed company that maintains a strong balance sheet, illustrated by its commitment to robust ratios for retained cash flow and funds from operations/debt. Such financial strength enables SSE to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term – all of which supports the dividend.

SSE seeks to deliver on this strategy through making the most of the opportunities presented by the transformation in the sector driven by electrification, decarbonisation and the upgrade of critical infrastructure.



Read more on **page 44**.

DEVELOPING, OWNING AND OPERATING

Developing, owning and operating means being efficient in the provision of infrastructure and services and being agile in creating and securing value from them.

Subject to the completion of the planned SSE Energy Services transaction, SSE will have an ownership interest in five economically regulated energy networks, four classes of renewable energy capacity, three types of thermal electricity generation, two B2B businesses and a telecoms network extending to 13,700km.

SSE seeks to be an efficient operator of assets, putting safety first and being a company that energy customers and users can rely on. It is also committed to disciplined investment in assets that complement its business and secure returns which are clearly greater than the cost of capital and enhance adjusted earnings per share.

In developing, owning and operating assets, SSE retains the option of realising value from those assets where it is in the interests of shareholders and other stakeholders, and where it presents opportunities to support future investment.

» Read more on **page 40**.

FOCUSING ON ENERGY AND RELATED INFRASTRUCTURE AND SERVICES

Focusing on energy and related infrastructure and services means maintaining a range of complementary business activities with a depth of insight into a core sector and related infrastructure.

The SSE Group of businesses is evolving, so there is a greater focus on infrastructure and related services that are more aligned to SSE's core competences. SSE's core businesses will be economically regulated energy networks and renewable sources of energy, complemented by other flexible power generation.

SSE will also have a range of other complementary businesses, which benefit from direct and indirect synergies and in so doing have options for the future. In a fast-changing energy and infrastructure sector, optionality will remain key and it is for this reason that SSE believes it makes sense to retain core and complementary businesses and in so doing maintain a view of other long-term considerations and options.

» Read more on **page 17**.

BEING SUSTAINABLE

SSE aims to create value for shareholders and society in a sustainable way. That means that to be successful over the long term, SSE must operate responsibly. For this reason, SSE operates under a set of core values known as the SSE SET.

The definitions for each of the SSE SET of values were renewed in 2017/18, following consultation with employees across SSE.



Safety

If it's not safe, we don't do it.



Service

We are a company customers can rely on.



Efficiency

We focus on what matters.



Sustainability

We do things responsibly to add long-term value.



Excellence

We continually improve the way we do things.



Teamwork

We work together, respect each other and make a difference.

SSE is a responsible employer that recognises that its strategy is dependent on the shared talent, skills and values of the people within the organisation. SSE employees are given opportunities for development and progression within a flexible, family-friendly working environment. Difference, inclusion and diversity are actively encouraged and everyone at SSE is given a voice on workplace issues.

» Read more on **page 77**.

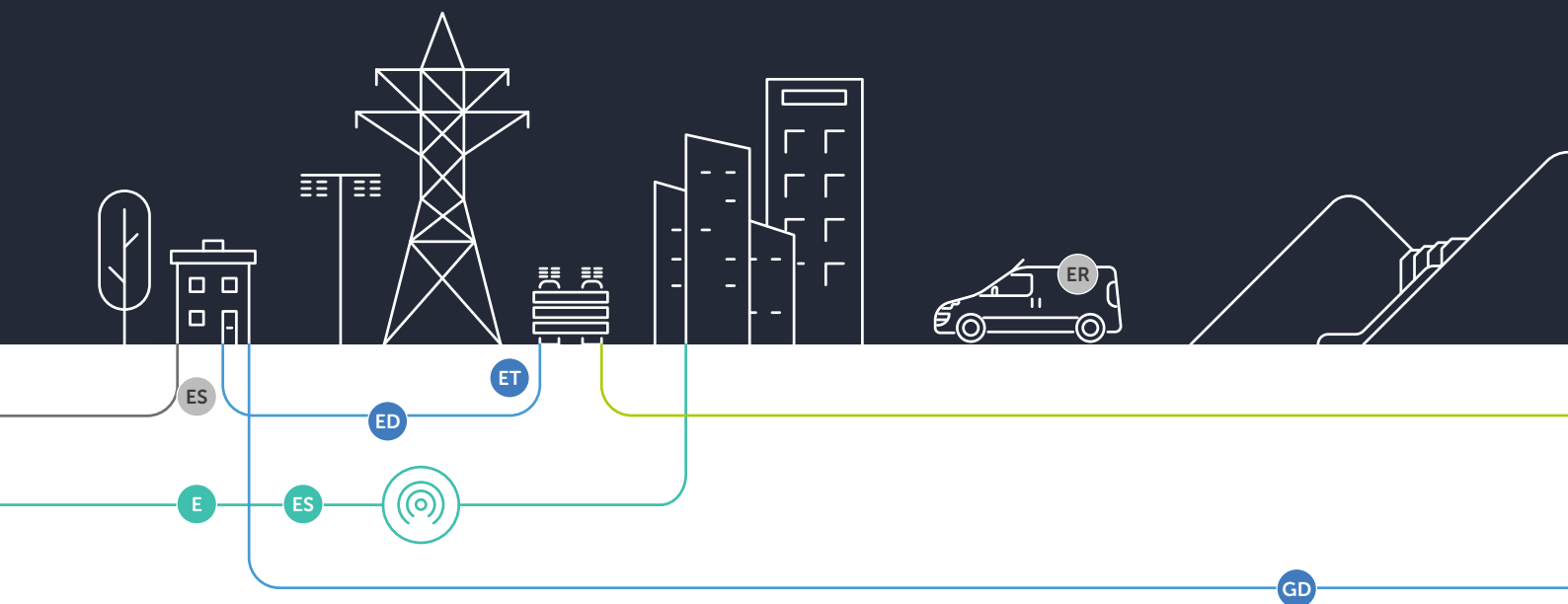
OUR BUSINESS EXPLAINED

6.8M

SSE Energy Services customer accounts – GB

0.49M

SSE Business Energy accounts – GB



WHAT SSE DOES

DEVELOPING, OWNING AND OPERATING

Delivery of SSE's strategy is dependent on the shared talent, skills and values of the people in its balanced range of core and complementary businesses. In **Retail**, the household energy supply and services business in GB is the subject of a planned demerger; but SSE intends to continue to supply energy and provide energy and infrastructure services to business and public sector customers throughout the UK and Ireland and to household customers in Northern Ireland and Ireland. The economically regulated **Networks** businesses transmit electricity in Scotland and distribute electricity and gas to homes and work places in Scotland and the south of England. And **Wholesale** produces energy that powers the UK and Irish economies, as well as providing gas storage facilities for the UK.

RETAIL (DEMERGER PROPOSED)

Supplying energy and services to household customers in GB

SSE supplies energy and other services to the GB household market through SSE Energy Services, a wholly-owned subsidiary formed in early 2018 in preparation for the proposed merger with npower. This is intended to create an efficient new independent energy supply and services business in GB and help develop a new market model by combining the resources of and experience of two established players with the focus and agility of an independent supplier.

ES Energy supply

Retailing domestic electricity and gas to GB households as part of the SSE Energy Services subsidiary.

ER Energy-related services

Providing energy-related products and services to GB households as part of SSE Energy Services.



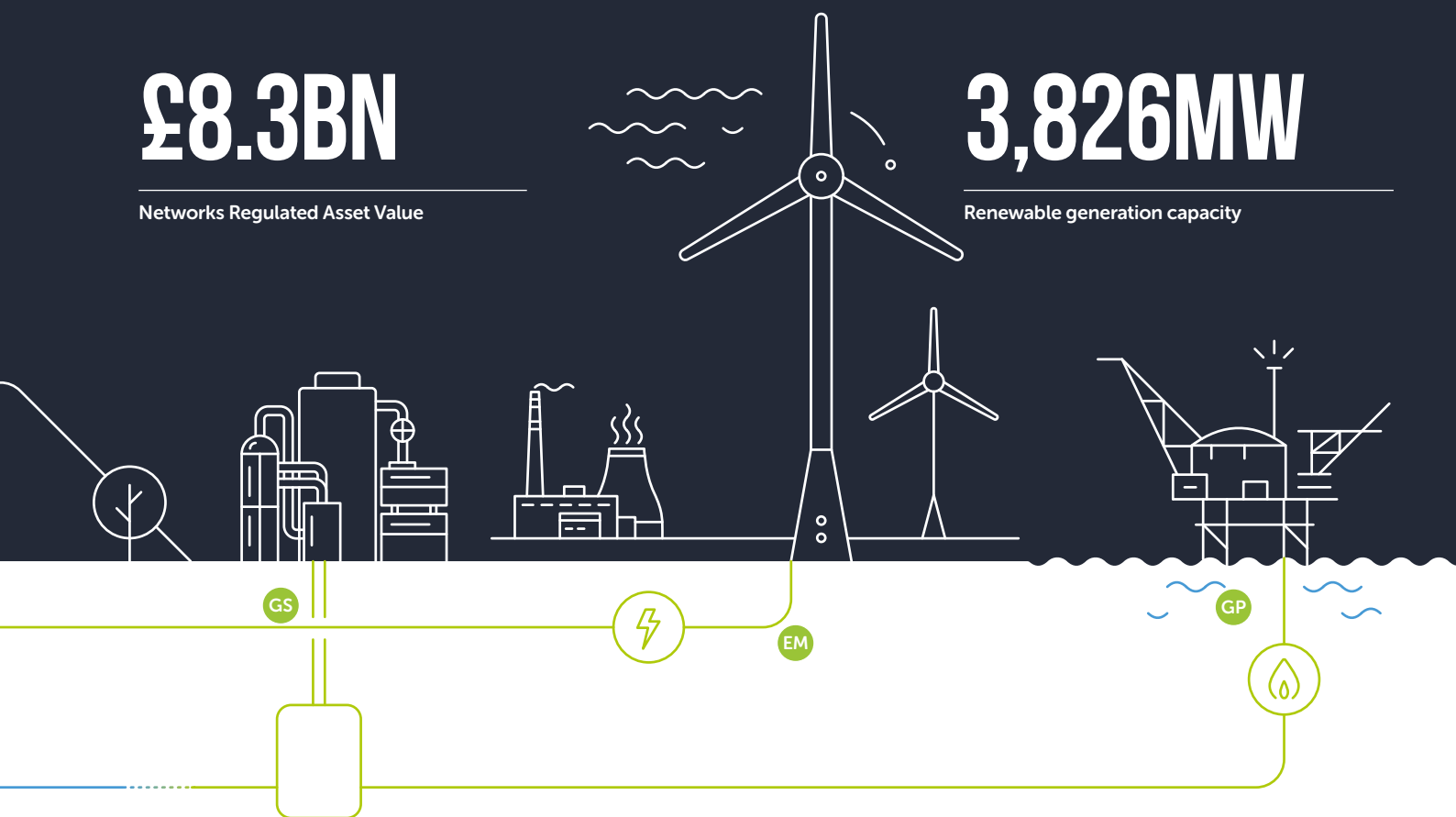
Read more about our businesses from **page 46**.

£8.3BN

Networks Regulated Asset Value

3,826MW

Renewable generation capacity



RETAIL (TO REMAIN IN SSE)

Supplying energy and infrastructure services to businesses and the public sector and to households across Ireland

SSE supplies energy and provides infrastructure services to business and public sector customers through its Business Energy and Enterprise divisions. It also supplies energy and related services to household customers on the island of Ireland through SSE Airtricity. Business Energy and Enterprise work closely with customers to meet their specific requirements in innovative and sustainable ways. SSE Airtricity provides a range of related services to customers, including green energy.

ES Energy supply (Business)
Supplying electricity and gas to business, commercial and public sector organisations across GB.

ES Energy supply (SSE Airtricity)
Supplying energy and related services to customers across the island of Ireland.

E Enterprise
Providing innovative energy solutions to business and the public sector.

NETWORKS

Delivering energy safely to homes and businesses

SSE owns and operates electricity distribution networks in the north of Scotland and central southern England, and the electricity transmission network in the north of Scotland. SSE also has an ownership interest in gas distribution in Scotland and southern England. These businesses are regionally defined and subject to regulatory controls set by Ofgem.

ED Electricity distribution
Using low voltage overhead lines and underground cables to deliver electricity to around 3.8m GB customers.

ET Electricity transmission
Using high voltage overhead lines and underground and subsea cables to carry electricity from generating plant to the distribution network.

GD Gas distribution
Using pipes to distribute gas from the transmission network to homes and businesses in Scotland and southern England.

WHOLESALE

Creating value by sustainably sourcing and producing energy

SSE is a leading generator of electricity from renewable sources in the UK and Ireland. It provides sustainable energy and related services for wholesale customers through energy portfolio management and electricity generation, gas production and gas storage.

EG Electricity generation
Using turbines to convert energy from water, wind, gas, coal, oil and multi-fuel to generate electricity.

EPM Energy portfolio management
Managing energy procurement and contracts.

GP Gas production
Extracting natural gas from fields in the North Sea and west of Shetland, on the outer margins of the Atlantic.

GS Gas storage
Playing a role in security of supply by storing natural gas underground in large caverns for future use.

OUR BUSINESS EXPLAINED CONTINUED

HOW SSE CREATES VALUE

THE RESOURCES AND STAKEHOLDER RELATIONSHIPS WE RELY ON

Financial capital

SSE requires funds to produce goods or provide services. This is obtained through investors and profits generated by operations.

Public services

Public services enable SSE to function and thrive. It relies on the provision of good emergency services, public infrastructure and health and education services.

Human capital

The success of SSE depends on the people who work for it and their innate abilities and learned skills: the human capital embodied in each of its direct employees and those in its supply chain.

SSE HAS OVER 300,000 SHAREHOLDERS



SSE's shareholders own the company and expect to earn a return on their investment.

SSE WORKS WITH GOVERNMENT AND REGULATORS



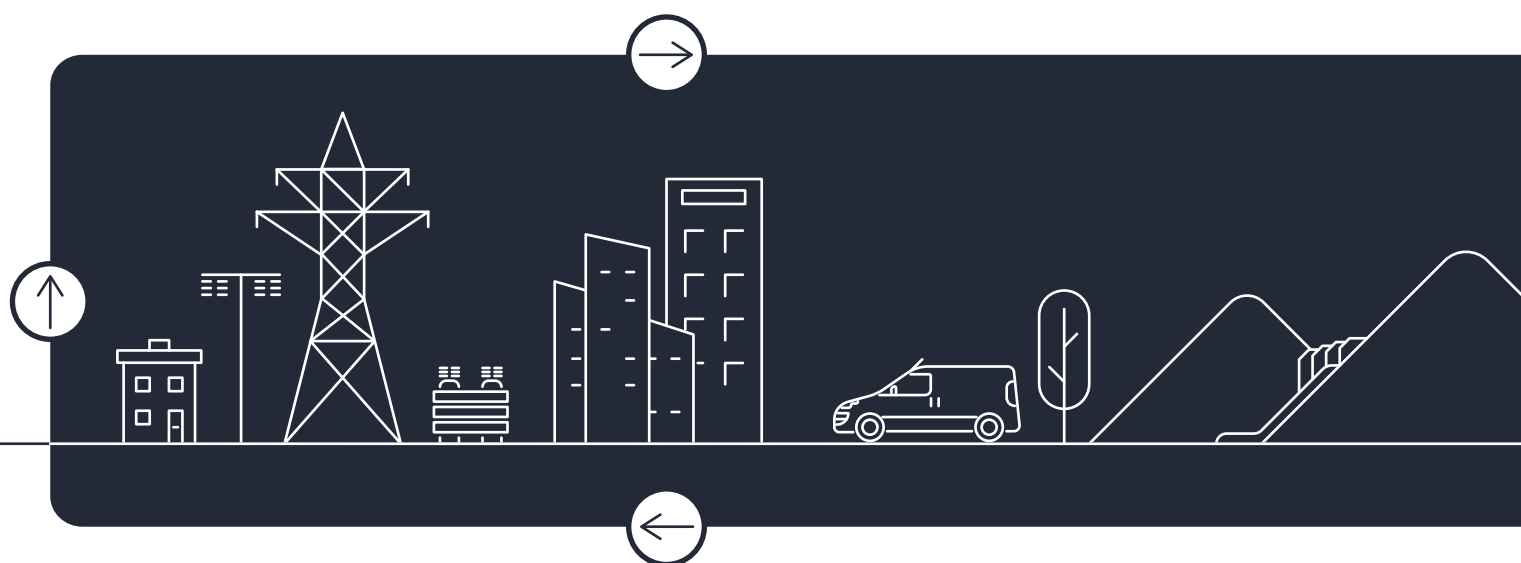
Governments and regulators play a central role in shaping the energy sector.

SSE EMPLOYS AROUND 21,000 DIRECT EMPLOYEES



SSE depends on the shared talent, skills and values of its employees.

WE DEVELOP, OWN AND OPERATE



THE LONG-TERM VALUE WE CREATE

Financial capital

Delivering returns for shareholders.

94.7p

(2017: 91.3p)

Full-year dividend price per share.

Public services

Paying a fair share of tax supports good public services.

£484.1m/€22.6m

(2017: £385.0m/€16.5m)

Total taxes paid in the UK and Ireland.

Human capital

Developing our people.

£25.2m

(2017: £18.9m)

Investment in pipeline programmes and employee learning and development.

Infrastructure

SSE invests significantly in the building of assets and infrastructure, such as power stations and networks, which support its operations and the delivery of energy throughout the UK and Ireland.

Natural environment

Natural resources are essential to support SSE's business operations and value creation – from using wind and water to produce energy, to the resources used to build its assets.

Goods and services

Beyond expenditure on capital projects, SSE relies on a wide range of goods and services to support its business operations.

SSE HAS MILLIONS OF

ENERGY CUSTOMERS



SSE's electricity distribution and energy supply customers expect a quality service that they can rely on.

SSE ENGAGES WITH

NGOs AND CIVIL SOCIETY



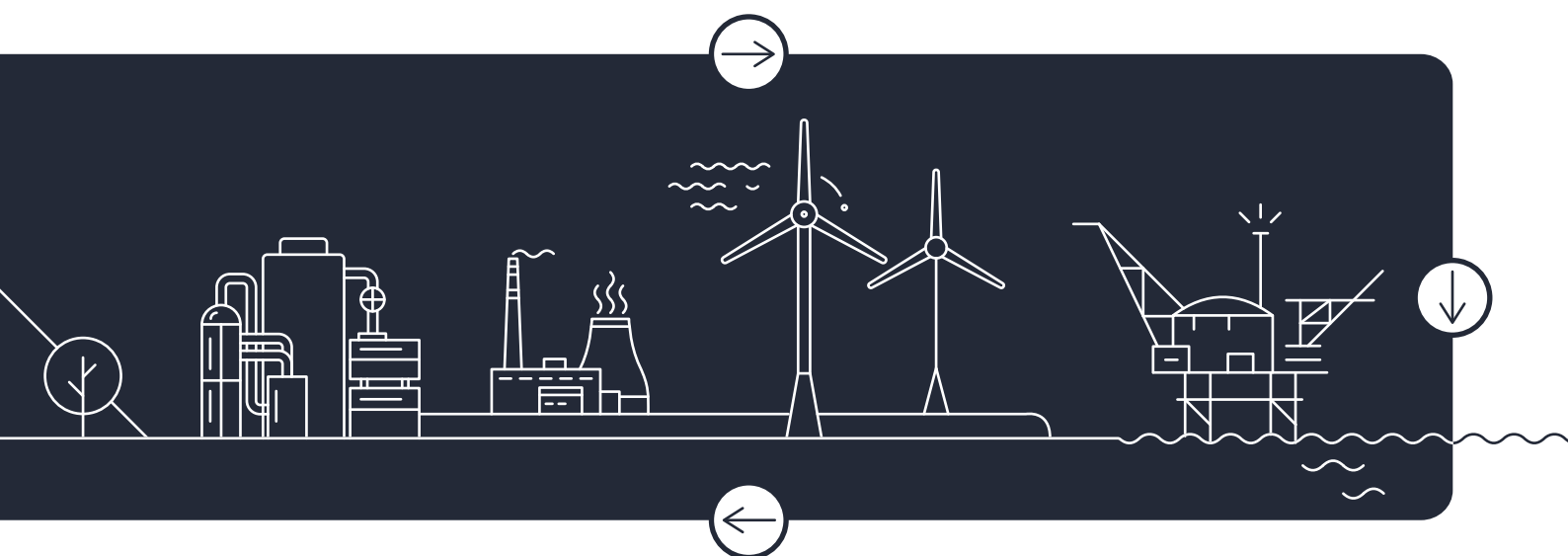
NGOs and civil society bring specialist and distinctive perspectives, contributing to business decision-making.

SSE WORKS WITH OVER 8,000 DIRECT

SUPPLIERS AND CONTRACTORS



SSE relies on its supply chain to deliver projects and ensure it operates successfully.



Infrastructure

Creating wider economic impacts.

£8.6bn/€806m

(2017: £9.3bn/€779m)

Contribution to UK and Irish GDP (PwC analysis).

Natural environment

Addressing climate change.

307gCO₂e/kWh

(2017: 304gCO₂e/kWh)

Carbon intensity of electricity generated.

Goods and services

Supporting sustainable supply chains.

c.£2.9bn

(2017: c.£3.0bn)

Total procurement expenditure.

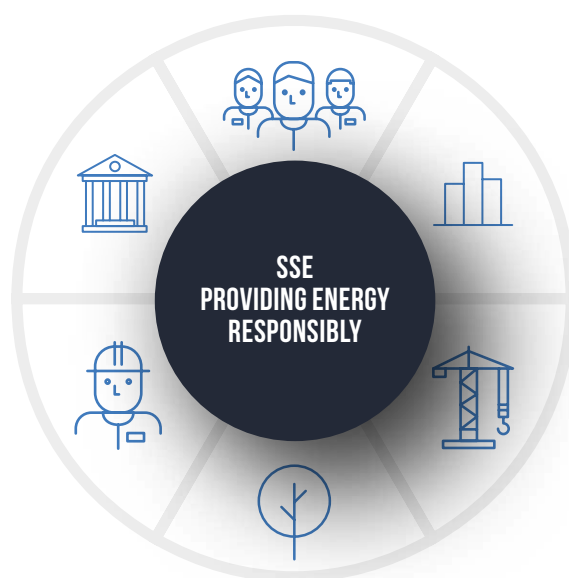
OUR BUSINESS EXPLAINED CONTINUED

SSE'S STAKEHOLDERS

SSE's success depends on its ability to engage effectively and work constructively with stakeholders who have an interest in SSE and the wider industry. Listening and responding to their views and needs helps SSE better achieve its business objectives and deliver the best outcomes for customers, shareholders and wider society.

Interacting with stakeholders in this way is consistent with the ethos of Section 172 of the Companies Act 2006 which sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the company. Detail of key stakeholder engagement carried out by SSE's Board is set out on page 116.

SSE engages with six key stakeholder groups – shareholders, government and regulators, employees, energy customers, NGOs and civil society, and suppliers and contractors. There are multiple methods of engagement, for example, at the most strategic level the SEN Stakeholder Advisory Panel advises Scottish and Southern Electricity Networks on its business plans. Whereas in Retail, Customer Forums provide guidance to the business as it maintains its focus on meeting day-to-day requirements of energy users, whilst ensuring the interests of vulnerable customers are protected.



SHAREHOLDERS

SSE is committed to maintaining constructive dialogue with shareholders and engages with them regularly to understand their concerns and ensure these are considered in its decision making.

Engagement methods

SSE's extensive investor relations programme includes meetings and roadshows, as well as correspondence on a reactive basis. It has ongoing dialogue with key institutional investors, analysts and ratings agencies around financial and operational matters, and increasingly around the management of environmental, social and governance (ESG) issues.

Material issues

- Financial performance
- Investment plans
- Operational performance
- ESG performance



GOVERNMENT AND REGULATORS

SSE works constructively with the governments and regulators in the UK and Ireland in order to protect the long-term interests of energy customers.

Engagement methods

SSE's approach to public and regulatory affairs is to directly engage with policymakers and pursue positive and constructive relationships. SSE employs dedicated teams responsible for engaging with governing and regulatory bodies. The key issues for engagement include SSE's business strategy and investment decisions, particularly for large capital projects, and the development of regulation and policies that could impact on SSE's customers and the energy system.

Material issues

- Security of energy supplies
- Cost effective decarbonisation
- Fair treatment of customers
- Economic impact of investments
- Conduct of large businesses



EMPLOYEES



SSE has a framework for continuous engagement and feedback between itself and employees on employee matters as well as SSE's operations and performance. This helps ensure SSE creates an engaging and supportive environment where people want to work.

Engagement methods

SSE seeks to create an engaging working environment in which employees have the opportunity to provide feedback on employment issues and SSE's business activities. It does this through continued and structured career conversations, all-employee engagement surveys and internal communication channels such as its intranet news and blog feed, the SSE employee app and employee conferences. SSE recognises, and has positive relationships with, four recognised trade unions and its Joint Negotiating and Consultative Committee (JNCC) which provides the structure by which industrial relations are conducted.

Material issues

- Opportunities for development and progression
- Flexible, agile and family-friendly working patterns
- Inclusion and diversity
- The opportunity to have a say and make a difference within SSE

ENERGY CUSTOMERS



SSE's ongoing customer engagement allows it to gain a better understanding of customer needs, as well as how it can deliver continuous improvement in customer service.

Engagement methods

In the provision of its services, SSE engages with customers daily through customer calls and social media activity. To engage at a deeper level, SSE undertakes qualitative research and detailed surveys, and holds customer forums and consultation events to better understand its customers' needs and expectations, and gain their feedback on SSE's initiatives.

Material issues

- Affordable and accessible energy
- Responsiveness to need and vulnerability
- Quality customer service
- Using energy efficiently
- Impact of industry change

NGOS AND CIVIL SOCIETY



SSE engages with a number of key NGOs and civil society groups that focus on social, environmental and other energy- and business-related issues on behalf of energy customers and wider society.

Engagement methods

SSE works, and has ongoing dialogue, with a wide variety of NGOs and civil society groups with interests in energy, the environment and wider social issues. In recognition that more can be achieved to solve key societal issues by working with these stakeholders, SSE actively seeks their engagement through means including direct feedback on reports, participation in public events and responses to surveys and consultations.

Material issues

- Environmental protection and decarbonisation
- Customer vulnerability and fuel poverty
- Employment standards including the real Living Wage and the gender pay gap
- SSE's economic contribution and its approach to tax

SUPPLIERS AND CONTRACTORS



SSE aims to build strong relationships with suppliers and contractors so it can maximise cost efficiencies and enhance positive economic, social and environmental outcomes.

Engagement methods

SSE has a structured approach to engaging with its most strategic supply chain partners, to establish long-term relationships which create sustainable value for both SSE and its suppliers. In addition to regular engagement and audits, SSE's procurement function also engages directly with suppliers around key issues to ensure its values are upheld throughout its supply chain.

Material issues

- Fair expectation in the delivery of projects
- Manage and mitigate health and safety risks on sites
- Deliver economic opportunities to local supply chains
- Ensure social and environmental impacts, such as modern slavery, Living Wage and resource use, are managed and mitigated

CHAIRMAN'S STATEMENT

SSE is creating value in a low-carbon world by focusing on earning returns for shareholders and contributing to society.

SSE is a public listed company that works in the public interest with a commitment to being transparent in the way it does business, responsible in the way it works with stakeholders and sustainable in the way it makes decisions. It has a proud past and the SSE we see today is the product of long-standing values and prevailing principles that will continue to inform its responses to the challenges and opportunities presented by the energy market of tomorrow.

The energy landscape has changed out of all recognition since SSE's formation 20 years ago. The sector has evolved and SSE has evolved with it thanks to a clear purpose to responsibly provide the energy and related services needed now and in the future, and an unflinching focus on what it has always done best: the efficient operation of, and disciplined investment in, a balanced range of energy businesses.

Faced with the opportunities that are emerging through decarbonisation, electrification and the need to upgrade the UK's infrastructure, our focus needs to be keener than ever. This will mean making the most of SSE's core competencies and creating value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way.

I am of the firm belief that this strategy will produce a meaningful contribution to a low-carbon future. Its delivery will be dependent on the shared talent, skills and values of the people at SSE, and the continuation of the progress made in recent years. The foundations for this lie in SSE's performance in 2017/18. That performance, and the economic, environmental and social impact of SSE's activities, are summarised in this Strategic Report. The following pages also look ahead in more detail to what will be a period of renewal for the SSE Group of businesses in 2018/19 and beyond.

Being transparent in the way SSE does business

This Strategic Report seeks to meet Financial Reporting Council and EU regulations and non-binding guidelines on disclosure of non-financial reporting. Accordingly, the following pages detail the inputs to the SSE Group of businesses, their outcomes, associated policies and risks, key performance indicators and the environmental, societal and employee matters that rightly resonate with public opinion.

Indeed, SSE is a leader among FTSE 100 companies when it comes to material disclosure of its impact on the world around it. SSE's gender pay gap was published nearly two years before required by the UK Government and I am pleased that the Board has endorsed an ambitious plan to increase significantly the proportion of women in senior roles between now and 2021, having considered the Hampton-Alexander review of gender balance in FTSE companies. You can read more about this on page 81.

The openness SSE applies to its tax affairs is evident in its record as the first FTSE 100 company to be awarded the Fair Tax Mark, which has now been secured four years running. This transparency is underpinned by the Board and executive management team's firm belief that rather than a penalty on profit, tax is a way for responsible companies to invest in the communities that they rely on to do business and to achieve growth. There is more about SSE's transparency on tax on page 78.

SSE's total tax contribution in the UK and Ireland is just one of several indicators of responsibility and contribution to society that are disclosed annually in the Sustainability Report that is published alongside this Annual Report. It provides data on the number of people injured while working for SSE and its contractors; SSE's overall contribution to GDP in the UK and Ireland; employee productivity (so-called human capital) in the UK; and carbon emissions produced by SSE's operations.

BUILDING



Working responsibly with stakeholders

SSE takes seriously the responsibility that comes with providing an essential service that drives the UK and Ireland economies and touches the lives of millions. A set of six well-established core values known as the SSE SET – Safety, Service, Efficiency, Sustainability, Excellence and Teamwork – have, over the years, become a useful shorthand at SSE for being responsible and doing the right thing. These values guide the complex interplay with various stakeholders whose input influences the way SSE conducts itself and who are, in turn, affected by the output of SSE's decisions and actions.

This Strategic Report explores, in greater detail than ever before, the complex interaction between SSE and its primary stakeholder groups. In the Directors' Report, I set out the work done by the Board to ensure SSE upholds the highest standards of corporate governance and culture in the interests of shareholders and other stakeholders, particularly customers. Elsewhere, dedicated sections describe the importance SSE places on customer service, its engagement with employees, the way it works with its supply chain partners for wider economic benefit and the impact NGO's and civil society have in decision making.

Governments and regulators have a central role in the energy sector and while SSE respects the democratic process, it has a responsibility to proactively engage with policymakers to balance the long-term interests of energy users with shorter-term political priorities.

SSE has actively engaged in the UK Government-commissioned Cost of Energy Review, making the case that a whole system view that meets the challenges of decarbonisation across the power, heat and transport sectors, coupled with an effective Capacity Market to ensure security of supply, will best meet the needs of customers. At the same time, SSE sees a case for the reform and modernisation of electricity networks but believes the challenges of delivering a low-carbon UK economy are best met by a secure, cost-effective energy system that is privatised and well-regulated. And while Brexit poses no immediate risk, SSE will continue to engage with government to maintain existing policy frameworks, retain access to European energy markets and protect the interests of Northern Ireland energy customers within the all-island Single Energy Market.

Making sustainable decisions for shareholders

The SSE described in this report has been built with the support of shareholders, and their ongoing backing will be key to our contribution to a low-carbon future. SSE rewards that support by taking a long-term view to ensure its financial and operational decisions deliver dividends to shareholders and sustainable outcomes for all stakeholders.

Those decisions are of course coloured by the prevailing market and policy trends in the energy sector in the UK and Ireland, and it was against this backdrop that we entered into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services) and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group.

I am confident that a new market model that creates the focus and agility of a standalone supplier is the right response to the future direction of the GB energy supply sector.

I am equally confident that the energy- and infrastructure-focused business that will take shape after the demerger will optimise SSE's core competencies and play a leading role in the transition to a lower-carbon world for future generations. The SSE Group of businesses is being renewed in this way to provide each entity with a sustainable platform for success and to create long-term value for investors.

Making the right investment decisions to support payment of dividends to shareholders continues to be a key focus. A capital investment programme valued at more than £1.5bn was delivered over the course of the year. Much of this spend was in economically regulated electricity networks and in renewable energy projects.

The past year shows how index-linked earnings from projects combined with a commitment to recycling capital through strategic disposals when the right opportunities arise can add real value. We have also taken an innovative approach to financing investments through instruments like SSE's ground-breaking €600m Green Bond.

Contributing to a low-carbon future

SSE responsibly provides the energy and related services people need and it will continue to do so as it goes through this current period of renewal. It will continue to pay dividends to shareholders, continue to invest in vital energy infrastructure and continue to boost the UK and Irish economies. Above all, by being transparent in the way it does business, responsible in the way it works with stakeholders and sustainable in the way it makes decisions, SSE will contribute fully to the creation of a low-carbon future.

This Strategic Report is approved by the Board of Directors as a document of record for you, the shareholder, of SSE's past performance and future strategy.



Richard Gillingwater CBE

Chairman
24 May 2018

CHIEF EXECUTIVE'S REVIEW

Central to our strategy is developing, owning and operating assets that bring scale, diversity and balance to the business.

What, for you, were SSE's highlights of 2017/18?

There are two high points for me: we were disciplined in meeting our primary financial objective for the year of rewarding shareholders with dividend growth, and decisive in responding to the changes we are seeing in the energy sector.

That financial discipline can be seen in the execution of a £1.5bn capital investment programme that has added to an already significant portfolio of quality assets. That £1.5bn spend is part of an ongoing commitment to investment, mainly in economically regulated networks and renewable energy, in support of the dividend. I'm also pleased that we managed to complete over the course of the year a promised return of value to shareholders in the form of a share buy-back of around 34 million shares at a value of around £500m.

... and what were the lows?

The low point for me was reviewing the safety data that showed 45 direct employees and 59 contingent workers were hurt while working for SSE in 2017/18. One injury is too many, but a combined total of 104 is something we are fully committed to tackling and for this reason SSE has set bolder performance targets, revisited its Safety, Health and Environment strategy to 2020 and placed a new emphasis on mental health initiatives.

Does the planned SSE Energy Services transaction still feel like the right thing to do?

The rationale has not changed. I remain convinced that demerging our GB household retail business and merging it with npower is the right thing for customers, the energy market and SSE; and that a refocused energy and related infrastructure and services business is in the best long-term interest of the SSE Group of businesses and our shareholders.

Will a successful transaction reduce the risk profile of the SSE Group?

The risk profile will certainly change, but how exactly remains unclear. The risks associated with the decision need to be seen in the context of the benefits for the Group outlined in November, namely: a greater focus on assets and infrastructure will be more aligned to SSE's core competences; SSE will be more agile and responsive; and we will have a clearer investment proposition, with the majority of earnings coming from regulated and quasi-regulated sources. A dedicated project team within SSE is managing the demerger transaction process as well as the risks directly associated with it and is reporting to the Board and Executive Committee on a regular basis. The risk factors directly associated with the transaction will be set out in the Shareholder Circular which will be published on 27 June 2018 ahead of a vote on the proposal on 19 July. In the meantime, the Group Risk and Group Strategy teams are working closely with the project team and the Board to ensure that any material changes to the current Group Principal Risks continue to be well managed in line with the FRC Corporate Governance Code.

Are you concerned about increased political and regulatory risk?

Political and regulatory change are a fact of life in our business and we will work constructively with government and the regulator to introduce reforms that are intended to benefit customers, while cautioning against any unintended consequences from pricing intervention. In response to Labour Party proposals for a much greater role for the state in energy provision, we argue that modernisation is best delivered by a competitive, cost-effective, privatised system that is well-regulated.

Brexit is, of course, a continuing source of uncertainty and SSE's three key concerns are stability of existing policy frameworks, access to European energy markets and continued inclusion of Northern Ireland customers in the all-island Single Electricity Market.

RESPONDING



What are your predictions for the future of the energy industry?

The sector is undergoing a revolution driven by decarbonisation, electrification and the need to upgrade major public infrastructure in the UK. That revolution is not without its challenges, not least ongoing scrutiny of the cost of energy to end users, but the opportunities are significant. By focusing on core competencies of energy infrastructure and related services, and by staying true to our commitment to creating value for shareholders and society as a whole, we can deliver results that are fair to customers and be a leading energy provider in a low-carbon world. The challenge is to make sure we continue to have the capability and agility to succeed as the energy system changes; and I'm confident that we do.

What role will SSE have in a low-carbon world?

Our vision is to be a leading provider of energy and related services in a low-carbon world. This is supported by our new, longer term carbon intensity ambitions. We aim to reduce the carbon intensity of SSE's electricity generation by a further 50% by 2030, based on 2018 levels. I think SSE's intentions in this area are amply demonstrated by ongoing commitment to renewable energy in our plans to build a complementary new gas-fired power station at Keadby in Lincolnshire which will be the most efficient plant of its kind in the UK.

What benefit has there been to society from two decades of dividend growth?

As a public listed company working in the public interest, I believe SSE has greater obligations and higher standards to meet than other organisations of comparable size. I am proud of SSE's standing as a responsible company that has a keen social conscience. Shareholders finance our operations, customers create revenue through payment of bills, regulators trust us to provide critical services and maintain vital infrastructure and talented people give their time and skills to us as employees. In exchange, we pay dividends, we work hard to reliably and safely provide the energy and services that people need, we give customers value for money, we engage with government and respect the democratic process, we make a major contribution to the UK and Ireland economies and we give

employees a voice and opportunities to develop. I see this as our social contract. There are further examples of this active stakeholder engagement throughout this Annual Report and in its sister publication, the Sustainability Report.

Can SSE's dividend growth be sustained?

SSE remains committed to remunerating shareholders' investment and that's why we have formulated a five-year dividend plan. In 2019 we intend to pay a full-year dividend of 97.5p per share; in the first year after completion of the planned SSE Energy Services transaction the full-year dividend is planned to be 80p per share; and in each of the three years to 2023 we are targeting dividend growth that at least matches RPI inflation. In addition to all this, I'm pleased we delivered a 94.7p per share full-year dividend in 2017/18, which was our 20th successive dividend increase since SSE's formation.

How confident are you that SSE has its ethical house in order?

We have a saying within SSE: "Bad things can happen in good organisations." In a large organisation such as SSE, with many decisions being made by many people every day, things can and do go wrong and this has caused us to reflect internally and redouble our efforts to build a culture where people feel empowered to speak up when they spot wrongdoing. Since 2015 SSE has provided a confidential, third party Speak Up hotline, backed up by a dedicated investigations team that deals with issues sensitively. From 41 reports made in 2015, the independent line has seen traffic grow to 105 over the course of 2017. We see that as a sign not of increased wrongdoing, but rather a clear indication that we now have a safe environment for people to raise concerns in the knowledge that they will be acted on.

What is being done to address the looming skills shortage and the gender pay gap?

Our strategic aims are wholly dependent on the knowledge, skills and commitment of people. We are working hard to encourage young people into Science, Technology, Engineering and Maths careers and we continue to invest in apprentices. A key area of focus for the executive team and the Board is creation of a truly inclusive and diverse SSE. We published our gender pay gap nearly two years ahead of a UK Government requirement to do so. We have also considered the Hampton-Alexander review of gender balance in FTSE leadership and have clear ambitions and plans to increase significantly the proportion of women in senior roles in SSE by 2021 (see page 81).

Finally, what is your ambition for SSE in 2018/19?

The year will be one of major transition for SSE, and I hope it is one in which we are seen as being a safe and responsible company that does a good job for everyone who depends on what we do and contributes positively to the countries we work in.



Alistair Phillips-Davies
Chief Executive
24 May 2018

DELIVERING OUR STRATEGY

MEETING OUR OBJECTIVES

STRATEGIC PILLARS

PROGRESS DURING THE YEAR

OUTLOOK

CREATING VALUE

Focusing on earning returns for shareholders and making a positive economic and social contribution to the countries in which we operate.

SSE maintained its focus on creating value for shareholders through the payment of dividends, completing two decades of annual dividend growth since it was formed.

SSE's adjusted earnings per share was lower than in 2016/17, but higher than expected at the start of the financial year as a result of good operational performance.

SSE continued to assess the value it creates for society as a whole with analysis of its total contribution to the economies of the UK and Ireland.

- SSE paid a full-year dividend of 94.7p per share in 2017/18. In 2018/19 it intends to pay a full-year dividend of 97.5p per share; in the first year after completion of the SSE Energy Services transaction the full-year dividend is planned to be 80p per share; and in each of the three years to 2023 it is targeting dividend growth that at least matches RPI inflation.
- SSE believes that its dividends should be sustainable, based on the quality and performance of its assets and operations, the earnings derived from them and the longer-term financial outlook.
- SSE will retain its focus on creating value for society through its economic contribution, commitment to transparency in its tax affairs and ongoing focus on creating and sustaining skilled jobs.

DEVELOPING, OWNING AND OPERATING

Being efficient in developing, owning and operating energy and related infrastructure and services and being agile in creating and securing value from them.

SSE has continued its programme of investment and project management in capital and investment expenditure, and over the past 10 years has invested around £11bn in regulated electricity networks and renewable energy.

Through continued investment, SSE's asset base in regulated energy networks and renewable energy has continued to grow, with major projects such as the new Caithness-Moray transmission link and Beatrice offshore wind farm continuing to make progress.

Through discipline in investment decision-making and efficiency in the development and construction of new assets, SSE's investment programme is designed to secure returns that are significantly greater than the cost of capital.

- SSE is currently expecting its capital and investment expenditure to total around £6bn across the five years to March 2023, focused on new and upgraded energy and related infrastructure in the UK and Ireland.
- Around £1.3bn of SSE's capital and investment expenditure over the next five years is currently expected to be in renewables and £2.8bn in networks.
- By 2020, SSE's diverse portfolio of renewables will comprise over 4.2GW of capacity and by 2023, it expects to own and operate networks with a total Regulated Asset Value of £10bn.

FOCUSING ON ENERGY AND RELATED INFRASTRUCTURE AND SERVICES

Maintaining a range of complementary business activities that have energy and related services at their core.

SSE announced its intention to demerge what is now SSE Energy Services and merge it with npower, but reaffirmed its commitment to remaining a balanced group of related businesses, specialising in energy and related infrastructure and services.

SSE has adapted the presentation of its results within its Retail and Wholesale segments in anticipation of changes to the SSE Group and in support of greater transparency.

SSE is involved in a range of core and complementary businesses specialising in the energy, infrastructure and services needed to support the transition to a lower carbon future.

- SSE expects to complete the planned SSE Energy Services transaction in the final quarter of 2018 or the first quarter of 2019.
- Following completion of the SSE Energy Services transaction, the SSE Group is expected to benefit from a clearer investment proposition, with greater visibility of future assets and earnings.
- The majority of the reshaped SSE Group's assets and earnings are expected to come from regulated energy networks and renewable energy.

BEING SUSTAINABLE

Creating wider value for stakeholders by doing things responsibly.

SSE launched an extensive and enduring programme of employee engagement on safety, built around a licence to ensure safe working: "If it's not safe, we don't do it". It also supported more than 100,000 jobs in the UK and Ireland over the course of the year.

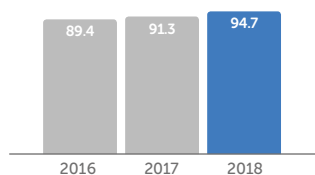
SSE continued to be the only FTSE 100 company to have been awarded the Fair Tax Mark, which requires companies' transparency on tax affairs to be well beyond the requirements of UK company law.

SSE commissioned over 500MW of new capacity for generating electricity from renewable sources, in support of its vision to be a leading energy provider in a low-carbon world.

- SSE is seeking to embed its focus on "if it's not safe, we don't do it" through the effective cascade of a simplified, engaging and encouraging language around safety to be used by all employees.
- SSE will maintain its focus on tax transparency, seeking to retain the Fair Tax Mark for the fifth consecutive year.
- SSE has adopted a new ambition to reduce the carbon intensity of the electricity it generates by a further 50% between 2018 and 2030, building on the 50% reduction already achieved since 2006.

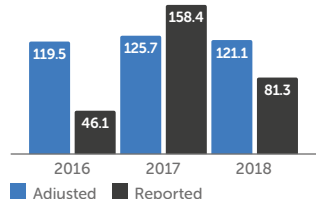
KPIS

Dividend per share (pence)



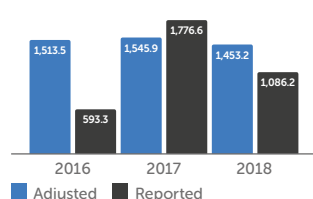
The first financial objective of SSE's strategy is to remunerate shareholders' investment through payment of dividends.

Earnings per share (pence)



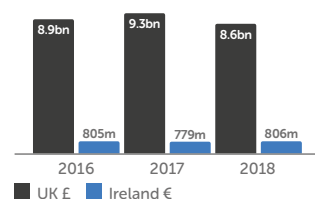
To provide a meaningful measure of underlying financial performance, SSE focuses on adjusted earnings per share.

Profit Before Tax (£m)



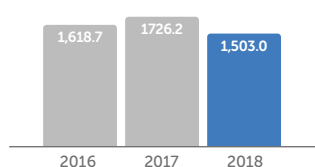
SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

Economic contribution UK/Ireland



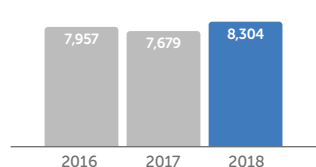
SSE's economic contribution is significantly more than the profits it makes, so SSE measures this by calculating its total contribution to GDP in the UK and Ireland.

Adjusted capital and investment expenditure (£m)



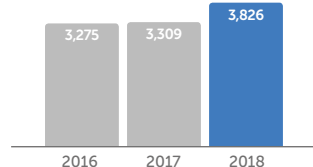
Central to SSE's strategy is efficient and disciplined investment in developing energy and related infrastructure assets needed by energy and utility customers.

Energy networks RAV (£m)



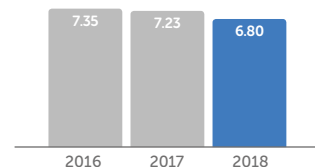
SSE has an ownership interest in five economically-regulated networks, each of which has a Regulatory Asset Value or RAV.

Capacity for renewable energy (MW)



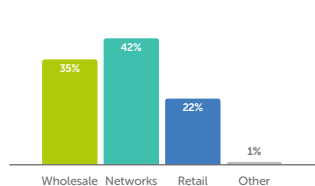
SSE owns and operates four types of capacity for generating electricity from renewable sources, including pumped storage.

SSE Energy Services customer accounts (m)



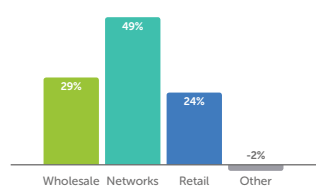
SSE supplies energy and other services to the GB household market through its wholly-owned subsidiary SSE Energy Services.

Adjusted operating profit by segment 17/18 £1,828.7m



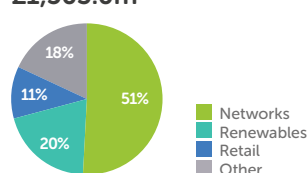
SSE maintains a balanced range of complementary businesses focused on energy and related infrastructure.

Reported operating profit by segment 17/18 £1,379.2m



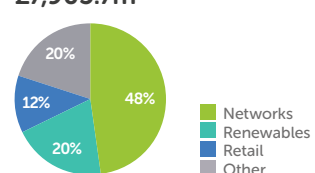
SSE maintains a balanced range of complementary businesses focused on energy and related infrastructure.

Adjusted capital and investment expenditure by segment 17/18 £1,503.0m



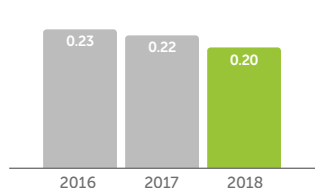
The main focus of SSE's capital and investment expenditure is economically regulated networks and renewable energy.

Adjusted capital and investment expenditure by segment (five-year average) £7,905.7m



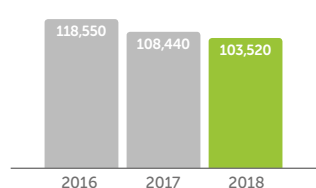
The main focus of SSE's capital and investment expenditure is economically regulated networks and renewable energy.

Total Recordable Injury Rate per 100,000 hours worked (SSE employees and contractor combined)



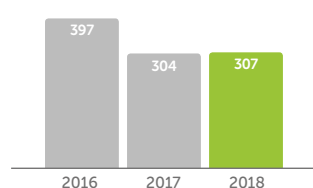
Safety is SSE's first value and SSE assesses the rate of injuries sustained by its direct employees and employees of contractors working on its sites.

Jobs supported in the UK and Ireland



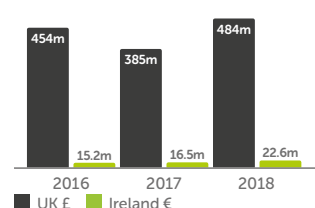
As well as the direct jobs SSE creates across the UK and Ireland, it is responsible for supporting thousands of additional jobs in these countries through supply chain and employee wage spending.

Carbon intensity of electricity generated (gCO₂e per kWh)



SSE supports the move to a low-carbon economy and has set ambitions for further reductions in the carbon intensity of the electricity it generates.

Taxes paid UK/Ireland



SSE contributes to society through paying the right amount of tax in the right place and at the right time.

RISK REPORT

MANAGING SSE'S RISKS

During 2017/18, the Board sought to continue to mature SSE's Risk Management Framework to further enhance flexibility and decision-making throughout SSE, in support of creating value in a sustainable way. SSE's Strategic Framework is part of the wider System of Internal Control (as described on page 114 of the Directors' Report) and is used to support the setting of objectives for the SSE Group and its businesses.

Renewing our business Sustainable and risk informed strategic decision making

When setting strategic objectives the Board considers all material influencing factors, including those relating to climate change, technological developments and customer expectations.

During the course of the year, the Board made the proposal to merge SSE's household energy supply and services business in Great Britain (now named SSE Energy Services) with npower, the retail business of innogy SE, to form a combined independent retail company. As highlighted by the Chief Executive on page 24, a dedicated project team has been put in place to manage this transaction and the risks associated with it and is reporting on its progress to the Board and Executive Committee on a regular basis. Material changes in the nature and impact of SSE's Group Principal Risks are continuously assessed with mitigating actions implemented wherever necessary. The risk factors directly associated with the transaction will be set out in the Shareholder Circular which will be published on 27 June 2018.

The Executive Committee and sub-committees have responsibility for overseeing SSE's Principal Risks. During the third quarter of SSE's financial year, an assessment of each Principal Risk is completed by the assigned oversight committee. This assessment requires committee members to provide commentary on contextual changes to the risks and whether they consider them to have become more or less material during the year. These responses are then consolidated into reports, one for each Principal Risk, which are presented back to the committees along with the results of provisional viability testing and analysis of relevant, current management information and key information relating to interconnecting risks. These reports form the basis for the committees to discuss and confirm risk trend (more, less or equally material), overall effectiveness of the risk control and monitoring environment, and

whether any additional actions are required to improve the control environment. The outputs from these 10 committee assessments are then presented to the Executive Committee for full review, with any emerging risks or additional material changes resulting from this being proposed to the Board for approval.

Following the 2017/18 annual review process, SSE's 10 existing Group Principal Risks remain unchanged. Important revisions have however been made to the descriptions of each to take account of key developments and corresponding mitigations during the year. Full Principal Risk descriptions can be found overleaf.

Risk Appetite Statement

No business is risk free and indeed the achievement of SSE's strategic objectives necessarily involves taking risk. SSE will however only accept risk where it is consistent with its core purpose, strategy and values; is well understood and can be effectively managed; and offers commensurate reward.

The sectors in which SSE operates are inherently subject to a high degree of political, regulatory and legislative risk. Furthermore, each of SSE's business divisions has differing levels of exposure to additional risks. For example, the Networks business is largely economically regulated and is characterised by relatively stable, inflation-linked cash flows while the Wholesale business benefits from cash flows linked to government-mandated renewables. In fulfilling its core purpose, the Wholesale business is however also exposed to significant energy market and commodity risk in its operational and investment decision making.

The key elements of SSE's strategic framework – including the range and nature of the energy businesses and assets within the SSE Group and its financial objective in relation to dividend growth – are fully reflective of its risk appetite. Fundamentally:

- SSE maintains a balanced range of economically regulated and market-based energy businesses and assets ranging from energy production and delivery to the provision of energy and complementary services. These provide a diversified portfolio of business activities whilst keeping the depth of focus on a single sector – energy;
- SSE has a clear understanding of the risks and opportunities in the Great Britain and Ireland energy markets and these markets therefore continue to provide the Group's geographic focus.

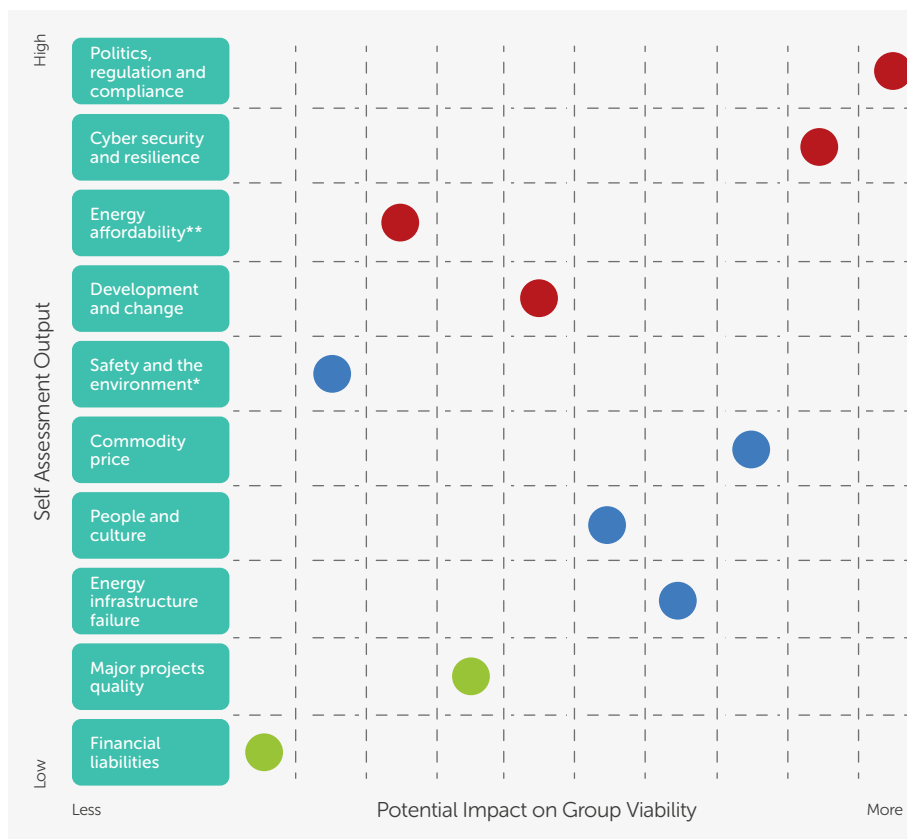
In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's core purpose, financial objectives, strategy and values. In particular, safety is SSE's first value and it has no appetite for risks brought on by unsafe actions;
2. Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with SSE's purpose, strategy and values; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take and for ensuring that risks are managed effectively across the Group.

Group Principal Risks



* **Safety** remains SSE's most important value, and management of this risk remains SSE's highest priority.
 ** It should be noted that **Energy Affordability** is particularly closely linked to – and therefore impacted by – **Politics, Regulation and Compliance** and **Commodity Prices**.

SSE operates in fast moving markets that are subject to a high degree of political, regulatory and legislative intervention. It is therefore essential that SSE's Risk Management Framework is dynamic and flexible, allowing decision makers to focus on material risk information that may have an impact, whether positive or negative, on strategic objectives.

The Board and Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group. This graphic illustrates SSE's 10 Group Principal Risks positioned on a relative basis against the output of the **Principal Risk Self Assessment** process (based on changes in the context and current prevalence of each risk) and **potential impact on Group Viability** based on critical risks scenarios developed in conjunction with business experts.

In addition, Principal Risks that were considered by their oversight committees to have increased in materiality during the year are shown in red, those that have not changed significantly are shown in blue, and those that were deemed to have decreased in materiality are shown in green.

Viability Statement

As required within provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Company over the next 3 financial years to the period ending March 2021. The Directors have determined that as this time horizon is consistent with the Group's current capital programme and is within the strategy planning period, a greater degree of confidence over the forecasting assumptions modelled can be established.

In making this statement the Directors have considered the resilience of the Group taking into account its current position, the Principal Risks facing the Group and the control measures in place to mitigate each of them. In particular the Directors recognise the significance of the strong balance sheet, and committed lending facilities of £1.5bn which could be drawn down in most circumstances.

The Group also has a number of highly attractive and relatively liquid assets – including a regulated asset base which benefits from a strong regulated revenue stream as well as the operational wind

portfolio – which provide flexibility of options. This was demonstrated in the successful sale during the 2016/17 financial year of a 16.7% share of Scotia Gas Networks Ltd.

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed against each of SSE's Principal Risks. These scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include persistently low commodity prices (for **Commodity Prices**); changes to key government energy policies (for **Politics, Regulation & Compliance**); and the impact of the loss of key systems (for **Cyber Security and Resilience**). Analysis relating to reverse stress testing is also incorporated into the assessment.

Scenarios that most have the potential to adversely affect SSE's ability to deliver its core purpose to responsibly provide the energy and related services needed now and in the future are stress tested against forecast available financial headroom. In addition to

considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact and those that are most heavily interconnected with SSE's other Principal Risks. This year, neither regulatory or shareholder approval have yet been received in respect of the proposal to merge SSE's household energy supply and services business in Great Britain (SSE Retail) with the retail business of innogy SE to form a combined independent retail company. As such two assessments have been carried out for the Group – one on the assumption that the approval is received and the other assuming not.

On the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework of the markets in which the Group operates does not substantively change, the Directors have a reasonable expectation that the Group will be able to continue to meet its liabilities as they fall due in the period to March 2021.

GROUP PRINCIPAL RISKS

COMMODITY PRICES	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, CO₂ permits, oil and related foreign exchange values.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may or may not be in line with historical trends both in GB and across Europe. Further detail is available on page 33 of the Strategic Report. Fluctuations in foreign exchange markets. Fluctuations in demand. Generation technology advancements. Geopolitical events and domestic political change. Global economic growth. European generation outputs. International and national agreements on climate change. International inflows of fuel. 	<ul style="list-style-type: none"> Managing increased market volatility related to current geopolitical events including the impact of, and uncertainty relating to, Brexit. 	<ul style="list-style-type: none"> SSE uses VaR measures to monitor and control exposures. Trading limits are set by the Board and managed through separate Retail and Wholesale Risk Committees. Commodity positions are assessed on a daily basis by a Risk Management team. SSE's Energy Economics team provide commodity price forecasts which are used to inform decisions on trading strategy and asset investment. SSE utilises a number of hedging instruments to minimise exposure to fluctuations in commodity prices and foreign exchange markets, details are available in the Financial Statements section of this Annual Report. <p>Oversight Wholesale Risk Committee</p>
CYBER SECURITY AND RESILIENCE	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk that key infrastructure, networks or core systems are compromised or are otherwise rendered unavailable.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Software or hardware issues, including telecoms network and connectivity and power supplies. Malicious cyber-attack. Ineffective operational performance, for example, breach of information security rules or poor management of resilience expertise. Employee and contractor understanding and awareness of information security requirements. 	<ul style="list-style-type: none"> The global profile, prevalence and sophistication of malicious cyber-attack continues to increase. Changes to reporting regulatory requirements generated by the introduction of the General Data Protection Regulation (GDPR) and the Networks and Information Systems (NIS) Directive. Continuously evolving technological environment. 	<ul style="list-style-type: none"> Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised with risk mitigation plans recommended. SSE conducts regular internal and third party testing of the security of its IT networks and systems. Further strengthening and embedding of the cyber risk and controls framework which seeks to continue to identify threats and reduce exposures through, for example, improved use of data analytics and further migration from unsupported systems. Significant longer term Security Programme investment and planning which seeks to strengthen the resilience of the systems on which SSE relies. IT Service Assurance works with individual business units to form and agree appropriate service level agreements for business critical IT services. Business continuity plans are in place and are regularly tested and reviewed. <p>Oversight Information Security and Privacy Committee</p>
DEVELOPMENT AND CHANGE	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk of failing to recognise and react appropriately to competition, technological advancements and changes in customer expectations.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Fast developing customer needs in relation to efficient, innovative and flexible products and services. Climate change and the necessity to generate the energy required in modern society in a responsible and sustainable way which includes ensuring value is shared with those impacted by SSE's operations. The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements. Longer term capital investment plans and budgets. Geopolitical events. Governance and decision making frameworks within the Group. 	<ul style="list-style-type: none"> The planned SSE Energy Services transaction represents the most significant strategic change to the SSE Group since its creation in 1998. An increasingly flexible energy infrastructure network, including the transition in the Networks business from Distribution Network Operator to Distribution System Operator. Identifying innovations and cost reductions in renewable technologies as research and development continues apace. 	<ul style="list-style-type: none"> The Board sets the risk appetite of the Group and approves and regularly reviews the Group's commercial strategy, business development initiatives and long term options, ensuring alignment of risk appetite and strategic objectives. The Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy. A dedicated project team is managing the planned SSE Energy Services transaction process as well as the risks directly associated with it and is reporting to the Board and Executive Committee on a regular basis. <p>Oversight Executive Committee</p>

ENERGY AFFORDABILITY	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
<p> What is the risk? The risk that the combination of the cost of providing reliable and sustainable energy and the level of customers' incomes means that energy becomes unaffordable to a significant number of SSE's customers. This risk is directly connected to political interventions and commodity price exposure.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Fluctuations in the cost of fuels. Generation technology changes. Macro economic impacts on household and business incomes. Supply chain cost management. Public policies, including those aimed at reducing carbon emissions and energy consumption. Required investment in the upgrading of the UK energy infrastructure. 	<ul style="list-style-type: none"> Continued uncertainty surrounding Brexit and its longer-term economic impact, including on households and businesses. The extension of the price cap previously introduced to pre-payment meter customers to those receiving warm home discount and the announcement of Government plans for the introduction of a time limited cap on all standard variable energy tariffs. 	<ul style="list-style-type: none"> SSE's Customer Charter sets out the steps it takes to support customers who are having difficulty paying their bills, encouraging early engagement to work together on arrangements that allow payments to be appropriately managed. In March 2018, SSE attained the British Standard for Inclusive Service Provision, which represents the 'gold standard' in recognising and catering for vulnerability. SSE has a series of programmes, partnerships, funds and schemes in place to support vulnerable customers, including identifying and referring customers for benefits entitlement checks. SSE continues to advocate its belief that modernisation of the energy market is best delivered by a cost-effective, privatised system that is properly regulated. <p>Oversight Retail Risk Committee</p>
ENERGY INFRASTRUCTURE FAILURE	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
<p> What is the risk? The risk of national energy infrastructure failure, whether in respect of assets owned by SSE or those owned by others which SSE relies on, that prevents the Group from meeting its obligations.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Severe adverse weather that causes damage or interrupts energy supply or generation. Appropriate asset management and necessary upgrading works of both generation and network assets. Energy network balancing mechanisms. Government policy regarding the operation of the energy network which relate to security of supply, including the implications of Labour Party proposals for a much greater role for the state in energy provision. Failures in any aspect of the GB national critical infrastructure. Malicious attack on the GB energy infrastructure. 	<ul style="list-style-type: none"> Ongoing efficient investment and the associated risks of upgrading networks assets. Continued investment in a diversified range of generation assets. 	<ul style="list-style-type: none"> SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the ongoing integrity of its generation assets is maintained. Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant energy infrastructure failure events. Where there are material changes in infrastructure (or the management of it) additional plans are developed. SSE continues to be an active participant in national security forums such as the Centre for the Protection of National Infrastructure (CPNI). <p>Oversight Executive Committee</p>
FINANCIAL LIABILITIES	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
<p> What is the risk? The risk that funding is not available to meet SSE's financial liabilities, including those relating to its defined benefit pension schemes, as these fall due under both normal and stressed conditions without incurring unacceptable costs or risking damage to its reputation.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Global macro economic changes and subsequent volatility within foreign exchange markets. Fluctuations in interest rates and inflation which influence borrowing costs. Defined benefit pension scheme investment and performance. The impact of fluctuations in gilt yields on the value of defined benefits pension scheme liabilities. Ongoing commitment to maintain credit rating criteria. 	<ul style="list-style-type: none"> Ongoing uncertainty and volatility in financial markets due to potential macro economic factors, such as the impact of Brexit. Material reduction in defined benefit pension scheme deficit levels. Issuing of a €600m Green Bond, an innovative approach to financing renewable energy infrastructure investment, achieving a coupon of 0.875%, SSE's lowest ever for a senior bond. 	<ul style="list-style-type: none"> The Group approach is to ensure that committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling 6 month period. SSE seeks to maintain a diverse and innovative portfolio of debt to avoid over-reliance on any one market. This allows it to build relationships with, and create competition between, debt providers. Each of SSE's defined benefit pension schemes has a Board of Trustees which acts independently of the Group. <p>Oversight Tax and Treasury Committee</p>
MAJOR PROJECTS QUALITY	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
<p> What is the risk? The risk that major assets that SSE builds do not meet the quality standards required to support economic lives of typically 15 to 30 years.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> Availability of competent contractors. Appropriate contractual arrangements. New or unproven technology. Appropriate and effective budget management. All aspects of supply chain management, including those relating to human rights and labour standards 	<ul style="list-style-type: none"> The Group continues to manage the challenges associated with large capital projects such as the Caithness-Moray high voltage transmission link and the Beatrice Offshore Windfarm. In 2018, SSE became a signatory to the United Nations Global Compact – the world's leading sustainability initiative. Signatories must align their strategies and operations with ten guiding principles, six of which are around human rights and labour standards. 	<ul style="list-style-type: none"> SSE's Large Capital Project Governance Framework ensures that all major capital investment projects for the Group are governed, developed, approved and executed in a consistent and effective manner, with full consideration of best practice project delivery. The manual provides common standards across the Group and incorporates continuous improvement practices. The Large Capital Projects Services function employs dedicated quality and assurance teams who perform in-depth quality reviews. In major projects, SSE generally manages insurance placement by organising owner controlled insurance. This strategy allows it to have greater control and flexibility over the provisions in place. SSE also sees the insurance market as an important source of information on the reliability of technology and uses this to inform the design process of major projects. SSE's strategy supports the transition to a low-carbon electricity system. As part of this, SSE is investing significantly in renewable energy, and is expecting to increase its renewable energy capacity to over 4GW by 2020. <p>Oversight Group Large Capital Projects Governance Committee</p>

GROUP PRINCIPAL RISKS CONTINUED

PEOPLE AND CULTURE	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk that SSE is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision making.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> – Rewarding employee contributions through fair pay and benefits. – Recognition of the value and benefit of having an inclusive and diverse workforce. – A responsible employer ethos (see page 81 for further detail). – Clearly defined roles, responsibilities and accountabilities for all employees. – Availability of career development opportunities and appropriate succession planning that recognises potential future skills shortages. – Clear personal objectives and communication of the SSESET of values. – A focus on ethical business conduct and creating a culture in which employees feel confident to speak up when they suspect wrongdoing. 	<ul style="list-style-type: none"> – Recognising the value of inclusion, SSE has reviewed its inclusion strategy which will be supported by a refined and more targeted delivery plan. – An Employee Communication Forum and a detailed communications plan have been put in place to ensure that all staff impacted by the planned SSE Energy Services transaction can raise questions, issues and concerns. 	<ul style="list-style-type: none"> – SSE has a detailed inclusion and diversity policy and plan which is sponsored by the Executive Committee. This policy ensures that candidates from as wide a talent pool as possible are considered for all relevant vacancies. For more details regarding the progress of these please see the Sustainability Report. – Group policies including <i>“Doing the Right Thing, a guide to ethical business conduct”</i>, explicitly outline the steps employees should take to ensure their day-to-day actions and decisions are consistent both with SSE’s values and ethical business principles. SSE employees can report incidents of wrongdoing through both internal and external mechanisms. SSE uses an independent ‘Speak Up’ phone line and email service, hosted externally by SafeCall, through which incidents can be reported. – The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts. – SSE’s business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent and strategies to strengthen this. <p>Oversight Group Governance, Culture and Controls Committee</p>
POLITICS, REGULATION AND COMPLIANCE	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk from changes in obligations arising from operating in markets which are subject to a high degree of regulatory, legislative and political intervention or uncertainty.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> – Constitutional uncertainty relating to Brexit. – Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business as usual activities. – Government intervention into the structure of the energy sector including renationalisation of any aspect of the UK’s energy infrastructure. – Changes to corporate governance requirements. – International and national agreements such as the 2015 Paris Agreement on Climate Change. 	<ul style="list-style-type: none"> – UK Government’s continuing focus on energy supply markets including further potential interventions. – UK Government policy evolution in key areas such as carbon price support and the capacity market. – SSE continues to focus advocacy efforts on maintaining a long-term collaborative and cooperative UK-EU relationship relating to energy issues. 	<ul style="list-style-type: none"> – The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each Division regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders. – The Group has a dedicated project team to manage all aspects of the regulatory and legislative change impacts of Brexit. – There is regular engagement with the Board and Executive Committee on political and regulatory developments which may impact SSE’s operations or strategy. – SSE has a long-term strategy to reduce the carbon intensity of the electricity it generates. <p>Oversight Group Governance, Culture and Controls Committee</p>
SAFETY AND THE ENVIRONMENT	KEY DEVELOPMENTS IN 2017/18	KEY MITIGATIONS
 <p>What is the risk? The risk of harm to people, property or the environment from SSE’s operations.</p> <p>Material influencing factors:</p> <ul style="list-style-type: none"> – Clear and appropriately communicated safety processes. – Safety culture – “if it isn’t safe, we don’t do it”. – Clear, effective and regular communication of all relevant safety updates. – Competent employees and contractors. – Regular and documented training. – Adverse weather. – Challenging geographic locations. – Appropriate task and asset risk assessment. 	<ul style="list-style-type: none"> – Introduction of the 50/20 Safety family initiative which targets a 50% reduction in injury rate and 50% of our people active on health by 2020. – In 2018, SSE set a new, longer term ambition to 2030 for the carbon intensity of the electricity it generates. 	<ul style="list-style-type: none"> – Safety is the Group’s No 1 value and is overseen by the Group Safety, Health and Environment Committee, supported by the Board’s Safety Health and Environment Advisory Committee. – Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events. – SSE’s dedicated Engineering Centre of excellence reviews and develops plans to ensure that the integrity of its assets is maintained. – Full environmental impact assessments are carried out for all major projects, to ensure adverse environmental impacts are well understood and minimised. <p>Oversight Group Safety, Health and Environment Committee</p>

MANAGING THE IMPACT OF THE WEATHER ON SSE

Much of what SSE does is affected by the weather. It has an impact on the production of renewable energy (Wholesale), the operation of the transmission and distribution networks and the amount of gas and electricity used by customers (Retail).

The weather is an important contributor to business performance that is strongly interconnected to identified Principal Risks such as Energy Affordability, Commodity Prices and Energy Infrastructure Failure (see page 29).

SSE has crisis management and business continuity plans to deal with severe weather events that can damage energy infrastructure, and these were successfully implemented in February and March 2018 in response to the "Beast from the East" cold weather front that presented challenges for the UK's energy system.

Short- and long-term weather conditions are monitored by SSE so that it can manage and respond to conditions for the benefit of customers and to support the fulfilment of its business objectives. This includes:

- Predicting how forecast temperatures might affect demand for gas and electricity, and whether daily fluctuations in temperature require a response from SSE's generation assets.
- Forecasting the temperature to inform how SSE's energy portfolio managers buy power and gas in advance, thereby improving SSE's procurement.
- Determining short-, medium- and long-term wind forecasts and the electricity generation output from renewable generation assets.
- Assessing how rainfall patterns could impact SSE's hydro-electric generation output and storage capabilities.
- Preparing for how extreme weather, such as high winds or excess rainfall, could impact the resilience of the transmission and distribution assets that SSE's customers rely on.



RAINFALL



Hydro-electric generation in the north and west of Scotland is directly affected by rainfall.

Over the course of 2017/18 a total of 1,646.5mm of rain fell over North of Scotland. Despite February and March 2018 being uncharacteristically dry (65% and 47% drier respectively compared to the Met Office 1981-2010 climatology), 2017/18 was around 10% wetter than 2016/17 overall. Output from SSE's hydro-electric assets, excluding from pumped storage, was up slightly at 3,171GWh in 2017/18 compared with 3,101GWh in the previous year.

-4%

Below the 1981-2010 climatology average for the North of Scotland

WIND



The wind drives much of SSE's renewable generation, but too much can damage networks.

Across the UK and Ireland wind speeds in 2017/18 were very close to the 1981-2010 climatology, and only fractionally higher than those seen in 2016/17. Year-on-year, output from SSE's onshore and offshore wind farms increased over the course of 2017/18 to 5,908GWh, up from 4,529GWh the previous year.

0%

The wind speed deviation from the 1981-2010 climatology average was negligible in 2017/18

TEMPERATURE



Fluctuations in temperature can influence total energy demand.

In 2017/18 the UK was marginally warmer than the 1981-2010 climatology with a mean temperature of 9.0C. The year-on-year comparison, however, shows 2017/18 was 0.5C colder than 2016/17 and two of the harshest winter months, February and March, were considerably colder than the previous year.

+0.2°C

Above the 1981-2010 climatology average for UK temperatures

FINANCIAL OVERVIEW

DELIVERING SOLID FINANCIAL RESULTS

SSE's financial results for 2017/18 were ahead of expectations at the start of the financial year. All three of its reportable segments – Wholesale, Networks and Retail – contributed to adjusted operating profit.

Recommended full year dividend
– pence per share

94.7

The first financial objective of SSE's strategy is to remunerate shareholders' investment through payment of dividends.

Adjusted/reported earnings per share
– pence

121.1/81.3

To provide a meaningful measure of underlying financial performance, SSE focuses on adjusted earnings per share.

Adjusted/reported operating profit – £m

1,828.7/1,379.2

SSE seeks to earn a sustainable level of operating profit from each of its reportable segments.

Adjusted/reported profit before tax – £m

1,453.2/1,086.2

SSE's objective is not to maximise profit in any one year but to earn a sustainable level of profit over the medium term.

Adjusted capital and investment
expenditure – £m

1,503.0

Central to SSE's strategy is efficient and disciplined investment in developing energy and related infrastructure assets needed by energy and utility customers.

Adjusted net debt and hybrid capital – £m

9,221.8

SSE seeks to maintain a strong balance sheet, with adjusted net debt and hybrid capital supporting investment to earn returns.

FAIR TAX

SSE is committed to openness and transparency about its tax disclosures and has been an accredited Fair Tax Mark company since 2014.

GREEN BOND

In September 2017, SSE successfully issued its inaugural Green Bond, helping it support the transition towards a low-carbon future.

As expected, 2017/18 involved a number of significant challenges, but SSE is a robust, sustainable business that keeps a strong operational focus on meeting the needs of energy customers. It also keeps its focus on efficient investment in the energy assets needed now and in the future. It is encouraging that financial results for 2017/18 were ahead of expectations at the start of the financial year. Looking ahead, SSE will do the best possible job for customers and other stakeholders, and build options and opportunities for the future, while delivering on its dividend commitment to shareholders.

Gregor Alexander
Finance Director



DELIVERING



FINANCIAL OVERVIEW CONTINUED

Group financial overview

The following tables provide a summary of Group Financial Performance. The definitions SSE uses for adjusted measures are consistently applied and are explained in the Alternative Performance Measures section of this document, before the Financial Statements.

Key Adjusted Financial Metrics [APM]

	March 18 £m	March 17 £m	March 16 £m
Adjusted Operating Profit	1,828.7	1,874.0	1,824.4
Adjusted Net Finance Costs	(375.5)	(328.1)	(310.9)
Adjusted Profit before Tax	1,453.2	1,545.9	1,513.5
Adjusted Current Tax Charge	(130.7)	(157.7)	(193.4)
Adjusted Profit after Tax	1,322.5	1,388.2	1,320.1
Less: hybrid equity coupon payments	(98.5)	(119.3)	(124.6)
Adjusted Profit After Tax attributable to ordinary shareholders	1,224.0	1,268.9	1,195.5
Adjusted EPS – pence	121.1	125.7	119.5
Number of shares for basic/reported and adjusted EPS (million)	1,010.9	1,009.7	1,000.0
Shares in issue at 31 March – million	1,023.0	1,015.6	1,007.6

Key Reported Financial Metrics

	March 18 £m	March 17 £m	March 16 £m
Reported Operating Profit	1,379.2	1,940.5	785.4
Reported Net Finance Costs	(293.0)	(163.9)	(192.1)
Reported Profit before Tax	1,086.2	1,776.6	593.3
Reported Tax Charge	(166.1)	(57.8)	(8.1)
Reported Profit after Tax	920.1	1,718.8	585.2
Less: hybrid equity coupon payments	(98.5)	(119.3)	(124.6)
Reported Profit After Tax attributable to ordinary shareholders¹	821.6	1,599.5	460.6
Reported EPS – pence	81.3	158.4	46.1

1 After distributions to hybrid capital holders.

Dividend per Share

	March 18	March 17	March 16
Interim Dividend pence	28.4	27.4	26.9
Final Dividend pence	66.3	63.9	62.5
Full Year Dividend pence	94.7	91.3	89.4
Increase %	3.7%	2.1%	1.1%
Dividend Cover times/SSE's adjusted EPS	1.28x	1.38x	1.34x

Adjusted Operating Profit by Segment [APM]

	March 18 £m	March 17 £m	March 16 £m
Generation	578.9	510.9	465.5
EPM	46.0	(9.7)	(29.2)
Gas Production	34.0	26.4	2.2
Gas Storage	(6.5)	(13.0)	4.0
Wholesale	652.4	514.6	442.5
Electricity Transmission	195.6	263.7	287.2
Electricity Distribution	402.2	433.4	370.7
SGN (SSE's 50% share reducing to 33% from 26 Oct 2016)	165.3	239.4	268.7
Networks	763.1	936.5	926.6
SSE Energy Services – Energy Supply	260.4	260.8	247.9
SSE Energy Services – Energy related services	18.3	12.7	15.4
Total SSE Energy Services subject to de-merger	278.7	273.5	263.3
Business Energy	64.2	89.4	111.6
Airtricity	33.0	42.7	39.4
Enterprise	26.9	16.7	40.9
Total Retail remaining as part of SSE	124.1	148.8	191.9
Retail	402.8	422.3	455.2
Corporate Unallocated	10.4	0.6	0.1
Total Adjusted Operating Profit	1,828.7	1,874.0	1,824.4

Reported Operating Profit by Segment

	March 18 £m	March 17 £m	March 16 £m
Electricity Generation	523.4	544.8	(114.5)
EPM	(43.1)	191.3	(60.3)
Gas Production	(70.7)	(201.1)	(159.6)
Gas Storage	(6.5)	(36.8)	(146.9)
Wholesale	403.1	498.2	(481.3)
Electricity Transmission	195.6	263.7	287.2
Electricity Distribution	402.2	433.4	370.7
SGN (SSE's 50% share) reduced to 33% from 26 Oct 2016	71.8	151.7	175.3
Networks	669.6	848.8	833.2
SSE Energy Services – Energy Supply	203.5	171.7	247.9
SSE Energy Services – Energy related services	18.3	5.5	15.4
Total SSE Energy Services subject to de-merger	221.8	177.2	263.3
Business Energy	64.2	73.0	93.8
Airtricity	26.9	42.7	39.4
Enterprise	15.1	16.7	40.9
Total Retail remaining as part of SSE	106.2	132.4	174.1
Retail	328.0	309.6	437.4
Corporate Unallocated	(21.5)	283.9	(3.9)
Total Reported Operating Profit	1,379.2	1,940.5	785.4

A reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in Note 5.1 (ii) to the Financial Statements.

Tax

	March 18 £m	March 17 £m	March 16 £m
Adjusted current tax charge <small>[APM]</small>	130.7	157.7	193.4
Effective current tax rate based on adjusted profit before tax	9.0%	10.2%	12.8%
Total UK taxes paid including taxes on profits, property taxes, environmental taxes and employment taxes	484.1	385.0	453.9

Investment and Capex Summary (adjusted) [APM]

	March 18 Share %	March 18 £m	March 17 £m
Thermal Generation	5.9	89.0	108.6
Renewable Generation	20.1	301.7	366.4
Gas Storage	0.1	1.8	0.2
Gas Production	4.4	65.5	72.9
Total Wholesale	30.5	458.0	548.1
Electricity Transmission	28.9	434.2	505.0
Electricity Distribution	21.7	326.1	284.7
Total Networks	50.6	760.3	789.7
SSE Energy Services – Energy Supply	6.7	100.9	172.4
SSE Energy Services – Energy Related Services	0.7	9.9	11.6
Business Energy and Airtricity	0.1	1.5	0.3
Enterprise	4.1	61.9	58.7
Total Retail	11.6	174.2	243.0
Other	7.3	110.5	145.4
Total investment and capital expenditure (adjusted)	100%	1,503.0	1,726.2

FINANCIAL OVERVIEW CONTINUED

Debt metrics

	March 18 £m	March 17 £m	March 16 £m
Adjusted net debt and hybrids ^[APM]	(9,221.8)	(8,483.0)	(8,395.0)
Average debt maturity – years	7.9	8.8	8.9
Adjusted interest cover (excluding SGN) – times ^[APM]	5.0	6.0	5.2
Adjusted interest cover (including SGN) – times ^[APM]	4.3	4.7	4.7
Average interest rate for the period excluding JV/assoc. interest and all hybrid coupon payments)	3.56%	3.66%	3.73%
Average cost of debt at period end (including all hybrid coupon payments)	3.84%	4.10%	3.95%

Net finance costs reconciliation

	March 18 £m	March 17 £m	March 16 £m
Adjusted net finance costs ^[APM]	375.5	328.1	310.9
Add/(less):			
Finance lease interest	(30.8)	(33.1)	(34.7)
Notional interest arising on discounted provisions	(16.3)	(14.2)	(15.7)
Hybrid equity coupon payment	98.5	119.3	124.6
Adjusted finance costs for interest cover calculation ^[APM]	426.9	400.1	385.1

SSE principal sources of debt funding

	March 18	March 17	March 16
Bonds	49%	41%	45%
Hybrid debt and equity securities	23%	33%	25%
European investment bank loans	13%	11%	8%
US private placement	10%	10%	5%
Index – linked debt, long term project finance and other loans	5%	5%	17%
% of total SSE borrowings secured at a fixed rate	90%	91%	87%

Rating agency

	Rating	Criteria	Date of issue
Moody's	A3 Stable outlook	Mid-teens% RCF/Net Debt	August 2017
Standard and Poor's	A- Stable outlook	23% FFO/Net Debt	August 2017

Contributing to employees' pension schemes – IAS 19R

	March 18 £m	March 17 £m	March 16 £m
Net pension scheme asset/(liabilities) recognised in the balance sheet before deferred tax	334.5	70.5	(394.8)
Employer cash contributions Scottish Hydro Electric scheme	29.0	36.2	33.7
Deficit repair contribution included above	14.0	14.0	14.8
Employer cash contributions Southern Electric scheme	68.9	76.3	68.3
Deficit repair contribution included above	45.9	41.2	44.6

Additional information on employee pension schemes can be found in Note 23 of the Financial Statements.

Group financial review

This SSE Group financial review covers SSE's financial performance and outlook, capital investment, balance sheet and tax payments.

Earnings, dividends and dividend cover

Remunerating shareholders' investment through payment of dividends

The Board is recommending a final dividend of 66.3p per share, to which a Scrip alternative is offered, compared with 63.9p in the previous year, an increase of 3.8%. This will make a full-year dividend of 94.7p per share which is: an increase of 3.7% compared with 2016/17, which is in line with RPI inflation; and covered 1.28 times by SSE's adjusted earnings per share.

Focusing on adjusted earnings per share

To monitor its financial performance over the medium term, SSE consistently reports on its adjusted earnings per share (EPS) measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items and the impact of certain re-measurements.

SSE's adjusted EPS measure has been calculated consistently and provides an important and meaningful measure of underlying financial performance. In adjusting for exceptional items and certain re-measurements, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IAS 39 re-measurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results. For more detail on these and other adjusted items please refer to the Adjusted Performance Measures section of this report.

In 2017/18, SSE's adjusted earnings per share was 121.1 pence, which was 3.6% lower than in 2016/17 but nevertheless ahead of expectations at the start of the financial year. As expected, it reflected the impact on Networks of the phasing of returns in the Price Control mechanisms for Electricity Distribution and Transmission and the disposal by SSE in October 2016 of part of its stake in Scotia Gas Networks Limited (SGN). These reductions were partly offset by increased earnings from Renewable and Thermal Generation and a strong operational focus that helped ensure the overall adjusted earnings per share for 2017/18 was better than expected.

Delivering adjusted profit before tax in 2017/18

Adjusted profit before tax in 2017/18 fell by 6.0%, to £1,453.2m from £1,545.9m. SSE's Wholesale, Networks and Retail (including Enterprise) Business Areas were all profitable, with adjusted operating profit increasing in Wholesale, declining, as expected, in Networks, with a moderate fall also reported in the Retail division as a whole.

Summarising the impact of movements on derivatives

SSE enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its three energy supply businesses and to optimise the value of its Generation and Gas Production assets. Some of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value.

SSE shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. It will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 36 months. Conversely, commodity contracts that are not determined to be derivative financial instruments under IAS 39 are accounted for as 'own use' contracts, the cost of which is recognised on delivery of the underlying commodity.

The adverse movement on derivatives under IAS 39 of £89.1m arose partly from a deterioration in the fair value of forward commodity purchase contracts and the unwinding of contracts in 2017/18. The fair

value of such contracts is derived by comparing the contractual delivery price against the prevailing market forward price at the balance sheet date. The position at 31 March 2018, primarily relating to electricity and gas, was a liability of £252.4m, compared to a liability on similar contracts at 31 March 2017 of £163.3m.

In addition to the adverse movement on operating derivatives, there was an adverse movement on the fair valuation of interest and currency derivatives of £33.0m. This movement is due to the maturing of in-the-money cross-currency hybrid swaps which were redeemed in October 2017, offset by a reduction in out-of-the-money interest swaps due to the increase in swap rates. SSE also reports these fair value re-measurements separately as these do not represent underlying business performance during the financial year. The effect of the contracts will be recorded in adjusted profit measures when the transactions are settled.

Exceptional items

In the year to 31 March 2018, SSE recognised a net exceptional charge of £213.3m before tax. The following table provides a summary of the key components making up the net charge position:

The impairment charges recognised for **Gas Production** assets are mainly driven by the latest independent Reserves Report, which takes account of all technical and economic variables, and estimates a reduction in the Proven and Probable (2P) reserves in the Greater Laggan Area assets. In addition, an impairment charge has been recognised in relation to Bacton field assets, predominantly related to higher than previously assessed decommissioning costs.

Total net exceptional charges by asset class

	Property, plant & equipment £m	Other Exceptional (charges)/ credits £m	Total £m
Gas Production	(104.7)	–	(104.7)
Retail technology developments	(53.3)	(9.7)	(63.0)
Other	(20.9)	(24.7)	(45.6)
Total exceptional (charge)/gain	(178.9)	(34.4)	(213.3)

By segment

Wholesale	(120.3)	12.4	(107.9)
Retail	(58.6)	(16.2)	(74.8)
Corporate	–	(30.6)	(30.6)
Total	(178.9)	(34.4)	(213.3)

For a full description of the net exceptional charge see Note 7 of the financial statements.

FINANCIAL OVERVIEW CONTINUED

The exceptional charges for **Retail** and other technology developments reflect impairments of capitalised costs following the decision to undertake the planned SSE Energy Services transaction. The impairment charges relate primarily to the development of certain IT assets to ensure that a new demerged Retail business would contain assets that would be utilised in its post demerger operations. This review resulted in impairments of £29.3m to system and software development assets related to SSE's previous Retail strategic investment in transformation and a further £33.7m of Retail related software developments and programmes within SSE's central service company and other subsidiaries that it was identified would no longer be utilised by the demerged or continuing energy supply businesses.

The other exceptional charges are primarily the impairment of SSE's investment in BIFAB Limited, following disposal of its interest in the company in March 2018, an impairment of SSE's 2.2MW Barkip anaerobic digestion plant to nil, following a review of the future economic contribution of the site, and other net items including the reversal of provisions and impairments previously recognised.

Reported profit before tax and earnings per share

Reported results for 2017/18 are significantly lower than those for 2016/17 due to the impact on reported profit before tax of the significant exceptional charges incurred in the year (see above) compared to lower asset write downs in 2016/17 offset by the gain on sale of a stake in SGN. This together with the relative movement in mark to market valuations on forward purchase contracts for commodities over both years (which at March 2018 remain 'out of the money') contributed to a net reported loss before tax of £332.1m in 2017/18 compared to a profit before tax on those items of £247.5m in 2016/17.

This movement is explained in more detail in the relevant sections throughout this report and is the main driver for:

- Reported profit before tax decreasing to £1,086.2m in 2017/18, from £1,776.6m in 2016/17, due to the movement in non-recurring exceptional items; and
- Reported earnings per share decreasing to 81.3p in 2017/18, from 158.4p in 2016/17, again due to the movement in non-recurring exceptional items.

Investment and capital expenditure

Central to SSE's strategic framework is efficient and disciplined investment in developing and building a balanced range of economically-regulated and market-based energy assets that it generally owns and operates, but from which it also seeks to be agile in securing value. This means that investment should be in line with SSE's commitment to strong financial management and consistent with the maintenance of a balanced range of assets within SSE's businesses.

Investing efficiently in energy assets that the UK and Ireland need in 2017/18

SSE invests only in assets for which returns are expected to be clearly greater than the cost of capital. All projects are intended to complement SSE's existing portfolio of assets and are governed and executed in an efficient manner and in line with SSE's commitment to strong financial management.

During 2017/18, SSE's investment and capital expenditure totalled £1,503.0m. This included:

- A major investment programme in electricity networks totalling £760.3m. This includes ongoing construction of the Caithness-Moray electricity transmission link and the connection of the Stronelairg wind farm. This investment, alongside continued upgrading of the electricity distribution network to meet the changing needs of customers, will further increase the total Regulated Asset Value (RAV) of SSE's networks businesses;
- Further investment in renewable energy in GB and Ireland totalling £301.7m: progress was made in increasing SSE's renewable energy portfolio, with the delivery during 2017/18 of onshore wind farm projects with a total capacity of 517MW. A further 463MW of on- and offshore wind farm capacity is currently in construction: Stronelairg onshore wind farm (228MW); and the project-financed Beatrice offshore

wind farm (SSE share: 235MW). Both remain due for completion in calendar year 2019. This capacity for renewable energy supports the delivery of government targets relating to climate change and output from it qualifies for either the Renewables Obligation (RO), which also applies in Northern Ireland, Contracts for Difference (CfD) and Renewable Energy Feed in Tariff 2 in Ireland.

- In addition, SSE is fulfilling a regulatory obligation to install smart meters for its Energy Supply customers. At 31 March 2018, SSE had installed over 850,000 smart meters on supply in customers' homes. Post installation, SSE's meters transfer to a contracted Meter Asset Provider and SSE's investment and capital expenditure excludes the capital cost of installation and meter assets.

SSE is continuing to undertake significant investment in assets, with capital and investment expenditure of around £1.7bn planned for 2018/19, around two thirds of which relates to developing and maintaining economically-regulated electricity networks and renewable energy projects. Much of the revenue derived from such assets is index-linked.

SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates. The details of the most significant of these are included in the table below.

SSE principal JVs and associates	Asset type	SSE holding	Accounting treatment in SSE's adjusted performance measures	Shareholder loans as at 31 Mar 2018
Seabank Power	1,140MW CCGT	50%	Equity accounted	no loans outstanding
Marchwood Power	840MW CCGT	50%	Equity accounted	£80m
Clyde Windfarm	522MW onshore windfarm	65%*	Equity accounted	£357m (inc. £82m held for sale)*
Walney (UK) Offshore Windfarm	367MW offshore windfarm	25.1%	Equity accounted	no loans outstanding
Seagreen	Phase 1 up to 1,050MW	50%	Equity accounted	£14m
Dogger Bank	Up to 3,600MW	50%	Equity accounted	£43m
Scotia Gas Networks	Gas Distribution Network	33.3%	Equity accounted	£109m
Ferrybridge MFE	68MW	50%	Equity accounted	£128m
Ferrybridge MFE2	70MW	50%	Equity accounted	£110m
Beatrice	588MW offshore windfarm	40%	Equity accounted	Project financed
Cloosh Valley	105MW onshore windfarm part of Galway	50%	Equity accounted	Project financed

* SSE's share of Clyde windfarm is expected to reduce to 50.1% in May 2018.

Greater Gabbard, a 504MW offshore windfarm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.

Financial management and balance sheet

Maintaining a strong balance sheet

As a long-term business, SSE believes that it should maintain a strong balance sheet, illustrated by its commitment to robust ratios for retained cash flow (RCF) to debt and funds from operations (FFO) to debt. SSE believes that a strong balance sheet enables it to secure funding from debt investors at competitive and efficient rates and take decisions that are focused on the long term.

In August 2017, Moody's Investor Services reaffirmed SSE's senior credit rating of A3 with a stable outlook. In the same month, Standard & Poor's affirmed SSE's A- rating and moved it to a stable outlook. While they are not fundamental to it, these ratings help to illustrate the quality and resilience of the SSE Group of businesses.

Managing adjusted net debt and hybrid capital

SSE's **adjusted net debt and hybrid capital** was £9.2bn at 31 March 2018, compared with £9.2bn at 30 September 2017 and £8.5bn at 31 March 2017. The overall level of net debt and hybrid capital largely reflects SSE's ongoing investment programme. The year on year movement also reflects share buy-backs totalling £371.6m which were completed in 2017/18. This being the remainder of the £500m share buy-back programme announced in November 2016.

Adjusted net debt excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Adjusted net debt at 31 March 2018 also includes an accounting increase of £37.3m as a result of fair value adjustments.

A reconciliation of adjusted net debt and hybrid capital to reported net debt is provided in the table headed Adjusted Net Debt and Hybrid Capital in the Alternative Performance Measures section of this statement.

The fair value adjustment relates to mark-to-market movements on cross-currency swaps and floating rate swaps that are classed as fair value hedges under IFRS. The hedges ensure that any movement in the fair value of net debt is offset by an equivalent movement in the derivative position.

The fair value decrease in net debt was driven by both Sterling and Euro strength against the US Dollar along with rising interest rates during the year to 31 March 2018. This benefit is offset by an equivalent decrease to the 'in the money' derivative position of SSE's fair value hedges.

Managing net finance costs

SSE's adjusted net finance costs, including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds, were £375.5m in the year to 31 March 2018 compared to £328.1m in the previous year. This reflected the cost of the additional hybrid debt charges outlined above along with the increase resulting from higher overall debt levels, albeit SSE's average interest rate has decreased as a result of efficient treasury management.

Reported net finance costs were £293.0m, compared to £163.9m, reflecting the increase in debt and the impact of changes in the fair value of financing derivatives.

Summarising cash and cash equivalents

At 31 March 2018, SSE's adjusted net debt included cash and cash equivalents totalling £0.2bn, down from £1.4bn in March 2017 due to the redemption of £1.0bn Hybrids in October 2017 which were refinanced in March 2017. Medium term borrowings maturing in 2018/19 are estimated at around £0.6bn.

FINANCIAL OVERVIEW CONTINUED

Hybrid Bonds summary

	Value £m equivalent – parts are issued in € and \$	Coupon Rate per annum	Accounting Treatment	First Call Date
Hybrid Bonds September 2012	£1bn	All in rate 5.625%	Equity accounted	Redeemed Oct 2017
Hybrid Bonds March 2015	£1.2bn	All in rate 4.01%	Equity accounted	September 2020 & April 2021
Hybrid Bonds March 2017	£1bn	All in rate 3.02%	Debt accounted	September 2022

Further details on each hybrid bond can be found in Notes 21 and 22 of the Financial Statements.

The proceeds from March 2017 £1.0bn Hybrid Bonds, all in rate 3.02%, were used on 2 October 2017 to redeem the Hybrid Bonds issued in 2012, at an all-in rate of 5.6%. The additional costs of carrying additional hybrids for six months is outweighed by the savings realised over the life of the new hybrid.

In 2017/18, the combined coupon payments on the equity and debt accounted hybrid bonds was £128m, compared to £120m in 2016/17. This increase was mainly due to the temporary position in the first six months when SSE made coupon payments on three hybrid tranches, prior to redeeming the 2012 hybrid bonds in October 2017. Total hybrid payments are expected to fall to around £77m in 2018/19 as the full benefit of the replacement hybrid's lower coupon rate is realised.

A table noting the amounts, timing and accounting treatment of coupon payments is shown below.

Hybrid coupon payments	16/17		17/18		18/19	
	HYa	FYa	HYa	FYa	HYe	FYe
Total equity (cash) accounted	£74m	£119m	£57m	£99m	£47m	£47m
Total debt (accrual) accounted	–	£1m	£15m	£30m	£15m	£30m
Total hybrid coupon	£74m	£120m	£72m	£129m	£62m	£77m

SSE's September 2012 and March 2015 Hybrid Bonds are perpetual instruments and are therefore accounted for as part of equity within the Financial Statements but, as in previous years, have been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability.

The new March 2017 Hybrid Bonds have a fixed redemption date and are therefore debt accounted and included within Loans and Other Borrowings.

The coupon payments relating to the September 2012 and March 2015 equity accounted hybrid bonds are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. The coupon payments on the March 2017 debt accounted hybrid bonds are treated as finance costs under IFRS.

SSE has confirmed that the criteria applied by the Rating Agencies, Moody's and Standard and Poor's, will result in broadly the same value of hybrid equity treatment as that of previous years.

Focusing on effective financial management: Treasury facilities in 2017/18

During the year to March 2018, SSE:

- exercised the second, and last, one-year extension option on its £1.3bn revolving credit facility and £200m bilateral facility, meaning these facilities now mature in July 2022 and November 2022 respectively;
- drew down the £200m EIB facility in March 2018 which was signed in March 2017, as two £100m/10-year floating rate loans priced at 6-month LIBOR plus 64.4bps, alongside five-year forward starting swaps to swap the full £200m to a fixed rate of 2.16% for the last five years; and
- rolled a maturing £108m term loan for a further two years at 6-month LIBOR plus 57.5bps.

Issuing SSE's inaugural Green Bond

In September 2017, SSE successfully issued its inaugural Green Bond, an eight year €600m bond with a coupon of 0.875% and an all-in cost of 0.98%. The Bond was almost three times oversubscribed and had significant interest from Green only funds whilst also representing the lowest coupon ever achieved by SSE.

This issuance will help SSE to take a leading role in supporting the transition towards a low-carbon future, through its plans to continue to invest in renewable energy, and reaffirm its position as a leader in renewable sources of energy.

Refinancing over the medium term

SSE's next significant refinancing is outlined below:

- in October 2018 it will redeem its £500m/5% coupon bond;
- in June 2020 it will redeem its €600m/2% coupon bond; and
- September 2020 is the first call date for the £750m/3.875% coupon equity accounted Hybrid.

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with capital and investment expenditure for growth generally financed by a combination of: cash from operations; bank borrowings and bond issuance.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2018, 90% of SSE's borrowings were at fixed rates.

Borrowings are mainly in Sterling and Euros to reflect the underlying currency denomination of assets and cash flows within SSE. All other foreign currency borrowings are swapped back into either Sterling or Euros. SSE has kept the recent €600m Green Bond in Euros and has swapped €400m of the 2% June 2020 bond to Sterling, increasing the all-in cost of that portion of the 2020 bond to 2.99%. This allows SSE to maintain a level of Euro debt to match SSE's Euro assets in the Republic of Ireland under a net investment hedge.

Transactional foreign exchange risk arises in respect of: procurement contracts; fuel and carbon purchasing; commodity hedging and energy portfolio management operations; and long-term service agreements for plant.

SSE's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Transactional foreign exchange risk arises in respect of overseas investments, hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis. Overall, while SSE has kept its treasury policy under review following the result of the UK's EU Referendum in June 2016, it has so far identified no need for change.

Ensuring a strong debt structure through medium and long-term borrowings

SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2018 was 7.9 years, compared with 8.8 years at 31 March 2017.

SSE's debt structure remains strong, and on 31 March 2018 it had around £8.9bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt, hybrid securities and other loans.

Operating a Scrip Dividend Scheme

The Scrip Dividend Scheme, the renewal of which is being sought at the 2018 AGM, gives shareholders the option to receive new, fully paid ordinary shares in the Company in place of their cash dividend payments. It therefore reduces cash outflow and so supports the balance sheet. The Scrip dividend take-up:

- **in August 2017** (relating to the final dividend for the year to 31 March 2017) resulted in a reduction in cash dividend funding of £324.5m, with 23.5 million new ordinary shares, fully paid, being issued; and

- **in February 2018** (relating to the interim dividend for 2017/18) resulted in a reduction in cash dividend funding of £7.1m, with 0.5m new ordinary shares, fully paid, being issued.

The average Scrip dividend take-up since 2010 is 24%. This means that the cumulative cash dividend saving, or additional equity capital, resulting from the introduction of SSE's Scrip Dividend Scheme in 2010 now stands at £1,621m and has resulted in the issue of 117.5 million Ordinary shares.

SSE believes the Scrip remains an important option for shareholders but SSE is entering a new phase in its development and is confident about the enduring strength of the business. As a result, SSE believes the Scrip's impact needs to be balanced. That means that if Scrip take-up of the full-year dividend exceeds 20%, SSE now intends to buy back shares so that its dilutive effect is not excessive. SSE believes this strikes the right balance in terms of giving shareholders choice, potentially securing cash dividend payment savings and managing the number of additional shares issued.

Tax

SSE is one of the UK's biggest taxpayers, and in the survey published in December 2017 was ranked 17th out of the 100 Group of Companies in 2017 in terms of taxes borne (those which represent a cost to the company and which are reflected in its financial results).

SSE considers being a responsible taxpayer a core element of being a responsible member of society. SSE seeks to pay the right amount of tax on its profits, in the right place, at the right time, and continues to be the only FTSE 100 company to have been awarded the Fair Tax Mark. While SSE has an obligation to its customers and shareholders 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 understands it also has an obligation to the society in which it operates, and from which it benefits – for example, tax receipts are vital for the public services SSE relies upon. Therefore, SSE's tax policy is to operate within both the letter and spirit of the law at all times.

In October 2017, SSE published Talking Tax 2017: Being transparent about tax. It did this because it believes building trust with stakeholders on issues relating to tax is important to the long-term sustainability of the business.

In the year to 31 March 2018, SSE paid £484.1m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £385.0m in the previous year. The increase in total taxes paid in 2017/18 compared with the previous year was primarily due to:

- A reduction in the level of asset impairments in 2017 and 2018 on which corporation tax relief was claimed. Asset impairments in 2016 were particularly high which, due to the timing of quarterly tax payments, meant corporation tax paid in the first half of the year to 31 March 2017 was relatively low. Corporation tax payments then returned to their normal levels for the rest of 2017 and 2018.
- Increased amounts of business rates being payable on Network assets, partly due to the continued expansion of the electricity transmission and distribution network and increased rates.
- Increased amounts of Climate Change Levy being payable due to the increased volume of gas used across SSE's fleet of electricity generating assets.

In 2017/18 SSE also paid €22.6m of taxes in Ireland, compared to €16.5m the previous year; being the only country outside the UK in which it has any trading operations.

As with other key financial indicators, SSE's focus is on adjusted profit before tax, and in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax, is 9.0%, as compared with 10.2% in 2016/17 on the same basis, the reduction being primarily due to the reduction in the headline rate of UK corporation tax from 20% to 19%.

As would be expected for a group of SSE's 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 after the tax returns have been filed. SSE engages proactively with HMRC on such matters, but 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 for the potential 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.

Group financial priorities for 2018/19

SSE's financial priorities for 2018/19 include:

- Delivering an increase in the full-year dividend to 97.5 pence per share;
- Continuing a disciplined approach to investment in building, owning and operating a balanced range of energy related assets and delivering assets within the established investment programme, especially in economically-regulated Networks and government-mandated renewable sources of energy; and
- Maintaining a strong balance sheet, with robust ratios for retained cash flow to debt and funds from operations to debt.

FINANCIAL OVERVIEW CONTINUED

Group strategy and financial outlook from 2018/19 onwards

SSE expects the planned SSE Energy Services transaction to be completed in the second half of financial year 2018/19 making this a year of transition for SSE.

Completion of this transaction is subject to necessary shareholder and regulatory approvals; which SSE believes will be secured. In addition to providing benefits for energy customers and the energy market as a whole, its completion will:

- give SSE a greater focus on the infrastructure and related services relied on by energy customers, which is more aligned to its core competencies; and
- give investors greater visibility of assets and earnings in the future, the majority of which will come from regulated networks and renewables.

Strategy

Purpose, vision and strategy

The reshaped and renewed SSE will have a simple purpose: to responsibly provide energy and related services needed now and in the future. Its vision is to be a leading provider of energy and related services in a low-carbon world; and its strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

- **Create value** means focusing on earning returns for shareholders, sustaining skilled jobs and making a positive economic and social contribution to the countries in which SSE operates.
- **Developing, operating and owning** means being efficient in developing, operating and owning infrastructure and services and being agile in creating and securing value from them.
- Energy and related infrastructure and services means maintaining a range of complementary business activities with a depth of insight on a core sector and related infrastructure.
- **Sustainable way** means doing things responsibly.

Dividends and earnings

Remunerating shareholders' investment through payment of dividends

The financial objective of this strategy is to remunerate shareholders' investment through the payment of dividends. SSE believes that its dividends should be sustainable, based on the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook.

In line with this, taking account of the impact of the expected key developments in 2018/19, and reflecting the underlying quality and value of its assets and earnings and the cash flows they deliver, SSE's plan for the dividend for the five years to 2023 is as follows:

- For **2018/19**, SSE is intending to recommend a full-year dividend of **97.5 pence per share**, an increase of 3% on 2017/18, which is broadly in line with expectations for RPI inflation. This provides clarity in a year of transition and is not subject to the timing of either the SSE Energy Services transaction or the Domestic Gas and Electricity (Tariff Cap Bill).
- For **2019/20**, SSE is planning to set the first post-transaction dividend at **80 pence per share**, which reflects the impact of the changes in the SSE Group expected to take effect by then. This provides a sustainable basis for future dividend growth.
- For **2020/21, 2021/22 and 2022/23** SSE is targeting annual increases in the full-year dividend that at least keep pace with RPI inflation. This reflects SSE's confidence in the quality and value of its assets and earnings and cash flows they deliver.

This plan for the dividend for the five years to March 2023, when the current electricity distribution Price Control comes to an end, supersedes SSE's previous reference to a dividend cover range and is a plan which:

- Aims to provide shareholders with certainty in 2018/19, a year of transition for SSE;
- Reflects the changes in the SSE Group expected to take effect by the start of the 2019/20 financial year; and
- Sets the dividend on a path for sustainable growth for the three years from 2020.

In addition to the dividend plan above, subject to the necessary approvals being secured, the transaction relating to SSE Energy Services announced on 8 November means shareholders in SSE will receive one share in the planned new independent energy supply and services company for every one SSE share they hold at the relevant record date.

Focusing on adjusted earnings per share

To help assess its financial performance over the medium term, SSE will continue to report on its adjusted earnings per share (EPS) measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items and the impact of certain re-measurements. It provides an important and meaningful measure of underlying financial performance.

Investment and capital expenditure

Investing efficiently in energy assets that the UK and Ireland need

SSE's strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way. Central to this is investing in assets for which returns are expected to be clearly greater than the cost of capital. New assets should complement SSE's existing portfolio of assets and their development and construction should be governed and executed in an efficient manner and in line with SSE's commitment to strong financial management.

SSE is currently expecting capital and investment expenditure to total around £6bn across the five years to March 2023. Economically-regulated electricity networks and government-supported renewable sources of energy are expected to account for around 70% of this. As is to be expected, the investment is weighted more towards the first half of the five-year period than the second; and includes around £1.7bn planned for 2018/19 and around £1.2bn currently planned for 2019/20.

Around 80% of the £6bn is committed. It includes around £2.8bn of investment in electricity networks investment, which should support further growth in the RAV to around £10bn in 2023. It also includes investment in electricity generation such as a new £350m highly efficient and flexible gas-fired power station at Keadby 2 in Lincolnshire, an additional multi-fuel plant and some potential investment in offshore wind farms.

Final investment decisions will be determined by the need to secure returns that are clearly greater than the cost of capital, enhance earnings and support the delivery of dividend commitments. Indeed, SSE believes that strict financial discipline is more important than ever as auctions become an increasing feature of energy networks infrastructure provision and SSE will result taking on in appropriate risks or accepting returns on investment that are financially unsustainable.

Supporting investment with effective financial management

SSE's continued investment in 2018/19 and 2019/20 means it currently expects its adjusted net debt and hybrid capital to peak at around £10bn. With its annual capital and investment expenditure likely to be at lower levels in the subsequent three years, SSE's cash flow based on its current plans should allow adjusted net debt and hybrid capital to fall back towards £9bn by 2023.

SSE's debt structure remains strong, with around £9.5bn of medium/long-term borrowings in the form of issued bonds, European Investment Bank debt and other loans. Of this, around £5.5bn of medium/long term borrowings are scheduled to mature in the period to March 2023. Medium/long-term borrowings are supported by around £0.3bn of cash and cash equivalents and cash held as collateral, resulting in adjusted net debt of £9.2bn at 31 March 2018.

This outlook is based on completing the planned SSE Energy Services transaction, the capital and investment expenditure plans described above, planned changes to the Scrip dividend scheme and delivering new dividend commitments. At the same time, opportunism and agility will continue to be important to SSE and if good opportunities to invest in, or acquire, new assets emerge that are consistent with SSE's approached to discipline in financial decision-making, levels of adjusted net debt and hybrid capital may increase; but this would be in direct support of adjusted earnings per share and the dividend.

Taskforce on climate-related financial disclosures

In June 2017, the report of the Task Force on Climate-related Financial Disclosures (TCFD) was published, which included a series of recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change.

SSE endorses the recommendations and in November 2017 signed up to their implementation; and over the next three years, will report against them in relation to governance, strategy, risk and targets.

Strategy and outlook – conclusions and priorities

The first financial objective of the strategy of the re-shaped SSE, following the planned SSE Energy Services transaction is clear: it is to remunerate shareholders' investment through the payment of dividends. Over the period to 2023, SSE's strategic and financial priorities are:

- Effective execution of SSE's agreed strategy, with its focus on regulated energy networks and renewable energy;
- Delivery of SSE's five-year dividend plan;
- Financial and operational discipline in relation to capital and investment expenditure currently expected to total around £6bn between 2018 and 2023;
- Maintenance of strong financial management, including robust ratios for RCF and FFO/debt;
- Progress towards SSE's long-term vision of being a leading energy provider in a low-carbon world.

WHOLESALE

INVESTING IN PRODUCING ENERGY

SSE's Wholesale segment consists of four business areas: Energy Portfolio Management (EPM); Electricity Generation; Gas Production; and Gas Storage. It represents a balanced portfolio of businesses, assets, contracts and investment opportunities.

Adjusted/reported operating profit – £m

652.4/403.1

The businesses in SSE's Wholesale segment source, produce and store energy through energy portfolio management, electricity generation, gas production and gas storage.

Adjusted capital expenditure and investment – £m

458.0

Capital expenditure and investment in Wholesale is primarily in renewable generation.

Renewable generation capacity – MW

3,826

SSE develops, owns and operates four classes of renewable energy capacity: onshore wind farms; offshore wind farms; conventional hydro-electric schemes; and pumped storage.

Total generation capacity – MW

11,160

SSE's capacity for generating electricity (including joint ventures) comprises 5,305MW of gas- and oil-fired generation; 1,995MW of coal-fired generation; 3,826MW of renewable energy; and 34MW of multi-fuel plant.

Renewable generation output – GWh

9,428

Output of electricity from SSE's on- and offshore wind farms, conventional hydro-electric schemes and pumped storage power station at Foyers. Electricity output in any one year is subject to weather conditions.

Total generation output – GWh

33,098

Output of electricity from SSE's coal-, gas- and oil-fired generation capacity and its capacity for generating electricity from renewable sources.



517MW

SSE commissioned 517MW of new capacity for generating electricity from renewable sources during 2017/18.



588MW

The Beatrice offshore wind farm on the outer Moray Firth is expected to be fully operational in 2019. SSE's share is 40%.

SSE's Wholesale segment comprises an important and growing group of assets, including a unique portfolio of renewable energy capacity and flexible thermal generation. The gas production assets and separate gas storage business also have important parts to play in contributing to the energy system. These businesses are operated, developed and supported by skilled and experienced teams who seek to create value in a way that is consistent with their responsibilities to the energy customers in the UK and Ireland that they ultimately serve.

Martin Pibworth
Wholesale Director



WHOLESALE



WHOLESALE CONTINUED

Wholesale key performance indicators

	March 18	March 17
Electricity Generation and Energy Portfolio Management (EPM)		
Generation adjusted operating profit – £m	578.9	510.9
Generation reported operating profit – £m	523.4	544.8
EPM adjusted operating profit/(loss) – £m	46.0	(9.7)
EPM reported operating (loss)/profit – £m	(43.1)	191.3
EPM and Generation adjusted capital expenditure and investment – £m	390.7	475.0
Generation capacity – MW		
Gas- and oil-fired generation capacity (GB) – MW	4,013	4,013
Gas- and oil-fired generation capacity (Ire) – MW	1,292	1,292
Coal-fired generation capacity – MW	1,995	1,995
Multi-fuel capacity – MW	34	34
Total thermal generation capacity – MW	7,334	7,334
Pumped storage capacity (GB) – MW	300	300
Conventional hydro capacity (GB) – MW	1,150	1,150
Onshore wind capacity (GB) – MW	1,260	900
Onshore wind capacity (NI) – MW	141	122
Onshore wind capacity (ROI) – MW	594	456
Offshore wind capacity (GB) – MW	344	344
Biomass capacity (GB) – MW	37	37
Total renewable generation capacity (inc. pumped storage) – MW	3,826	3,309
Total electricity generation capacity (GB and Ire) – MW	11,160	10,643
Renewable capacity qualifying for ROCs – MW	c2,150	c1,850
Generation output – GWh		
Gas- and oil-fired (inc. CHP) output (GB) – GWh	19,153	14,977
Gas- and oil-fired output (Ire) – GWh	2,739	2,463
Coal-fired (inc. biomass co-firing) output – GWh	1,462	901
Multi-fuel output – GWh	316	0
Total thermal generation – GWh	23,670	18,341
Pumped storage output – GWh	259	233
Conventional hydro output – GWh	3,171	3,101
Onshore wind output GB – GWh	2,774	1,895
Onshore wind output NI – GWh	306	251
Onshore wind output ROI – GWh	1,509	1,211
Offshore wind output – GWh	1,319	1,172
Biomass output GB – GWh	90	92
Total renewable generation (inc. pumped storage) – GWh	9,428	7,955
Total Generation output all plant – GWh	33,098	26,296

Note 1: Capacity is wholly-owned and share of joint ventures.

Note 2: Output is electricity from power stations, including multi-fuel, in which SSE has an ownership interest (output based on SSE's power purchase agreements (PPA)). SSE awarded Ferrybridge Multifuel 1 PPA October 2017.

Note 3: Wind output excludes 406GWh of constrained off generation in 2017/18 and 309GWh in 2016/17.

Note 4: Onshore wind capacity and output at March 18 includes additions at Clyde (net 165MW) Bhlaraidh (110MW) Dunmaglass (94MW), Galway (120MW), Slieve Divina (19MW) and Leamamore (18MW) and the disposal of Port of Tilbury (– 9MW).

Note 5: An additional 78MW of Clyde onshore windfarm was sold May 2018.

Note 6: Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise. Capacity and output included above.

	March 18	March 17
Gas Production		
Gas production adjusted operating profit – £m	34.0	26.4
Gas production reported operating (loss) – £m	(70.7)	(201.1)
Gas production – M therms	543	618
Gas production – Mboe	9.05	10.21
Liquids production – Mboe	0.74	1.05
Gas production capital investment – £m	65.5	72.9
Total net proven and probable reserves (2P) bn therms	1.9	2.5
Total net proven and probable reserves (2P) Mboe	33.8	43
Gas Storage		
Gas storage adjusted operating (loss) – £m	(6.5)	(13.0)
Gas storage reported operating (loss) – £m	(6.5)	(36.8)
Gas storage customer nominations met – %	100	100
Gas storage capital investment – £m	1.8	0.2

Financial performance in Wholesale

During the year to 31 March 2018 total adjusted operating profit in Wholesale was £652.4m compared to £514.6m in the previous year. The primary drivers relating to operating profit were as follows:

Generation: adjusted operating profit increased to £578.9m in 2017/18, from £510.9m in the previous year, reflecting increased output in both renewable and thermal generation. This was partly offset, as expected, by a lower achieved power price than in the previous year and the end of the one-year contract under which Fiddler's Ferry power station provided Blackstart services to National Grid.

Within this segment **Renewable Generation** adjusted operating profit increased to £473.8m, up from £391.6m in the previous year.

Energy Portfolio Management: earned an adjusted operating profit of £46.0m in 2017/18, compared to an operating loss of £9.7m in 2016/17, due to an improved trading position.

Gas Production: adjusted operating profit increased to £34.0m in 2017/18, from £26.4m in the previous year, mainly due to a higher achieved price, partly offset by slightly lower production volumes.

Gas Storage: adjusted operating loss improved to £6.5m in 2017/18, from £13.0m in the previous year, due to an improved trading performance and year on year cost savings.

Reported Wholesale Operating Profit: decreased to £403.1m in 2017/18, compared to £498.2m the previous year, due to the factors above, offset by the impact of exceptional items and re-measurements. In the year, there was an exceptional impairment of Gas Production assets of £104.7m, compared to £227.5m in the previous year. The result on operating derivatives was an £89.1m loss in 2017/18 versus a £201.0m gain in the prior year. There was also a fair value uplift on deconsolidation of Clyde wind farm of £59.1m in prior year.

Wholesale financial outlook for 2018/19

In 2018/19 **Wholesale's** adjusted operating profit will be affected by the cessation of 'in the money' power purchase agreements and by the fact renewable energy output is forward-hedged at a price lower than in 2017/18.

Overview

SSE's Wholesale segment consists of Electricity Generation, Gas Storage, Gas Production and Energy Portfolio Management. The businesses within Wholesale are well positioned to support the trends towards decarbonisation, electrification and infrastructure.

A diverse and complementary generation portfolio

SSE owns and operates a highly complementary portfolio of renewable and thermal generation assets. This is in line with its strategic interest to develop, own and operate renewable generation and supporting flexible generation.

Low-carbon generation from SSE's onshore wind farm, offshore wind farm and hydro assets creates sustainable returns, with the majority rewarded through renewable support schemes. Renewable generation is influenced by weather conditions, but when renewable output is low, SSE's thermal assets are able to respond quickly, providing back up to renewables and delivering value from thermal flexibility.

The diversity of SSE's generation portfolio is fundamental to achieving the overall earnings in Electricity Generation. Moreover, maximising portfolio returns requires a deep operational understanding of all generation assets combined with extensive commercial experience to secure value in an increasingly volatile market.

Renewable energy

Increasing output of renewable energy

Output of electricity from renewable sources, including pumped storage, increased in 2017/18, compared to the previous year (9.4TWh compared to 7.9TWh). The primary driver for this differential was an increase in onshore wind capacity, as new wind farms came online, along with improved wind conditions. Overall renewable energy capacity, including conventional hydro and pumped storage, increased, to 3,826MW as at 31 March 2018, from 3,309MW in the previous year. The further sale of a 78MW stake in Clyde wind farm in May 2018 means this stands at 3,748MW at 24 May 2018.

Enhancing management of hydro assets

Hydro is unique in SSE's portfolio, as it can be characterised as both renewable and flexible. Over the last financial year, SSE's hydro stations have delivered increased value from their flexibility, enabled by enhancements to SSE's commercial management of these assets.

In addition to 400MW of run-of-river hydro, SSE has 750MW of flexible hydro. Alongside SSE's 300MW of pumped storage, flexible hydro operates as 'Britain's biggest battery'. Increasing volumes of wind energy coming onto the UK system will create the need for more flexibility in the form of energy storage, and SSE's hydro assets are well placed to provide this in an optimal way.

Generating value from onshore wind

2018 marks ten years since SSE's acquisition of Airtricity, and over the past decade SSE has developed strengths in the efficient development, construction and operation of onshore wind. To date, SSE's focus has been on completing Renewable Obligation (RO) projects in the UK and REFIT projects in Ireland. Seven new onshore wind energy projects have been delivered in the last 16 months, and all have come in under budget. These include Bhlaraidh in Scotland (110MW) and Leanamore (18MW) in Ireland, which were both delivered in the second half of 2017/18.

Following the sale of 78MW of capacity at Clyde, SSE's onshore wind farm capacity now stands at 1,917MW. Stronelairg (228MW), SSE's final wind farm to be constructed under the RO, is on track for completion in 2018. The project reached a significant milestone on 24 March 2018 when it achieved first export, rendering it eligible for RO accreditation.

SSE's onshore wind farm pipeline consists of around 800MW of potential new build projects and extensions, including the joint venture Viking Wind Farm (up to 457MW – SSE share 50%), located on Shetland, and Strathly South (up to 133MW). In February 2018, the UK Government received State Aid clearance from the European Commission to enable wind projects on the remote islands of Scotland to compete in the next Contracts for Difference auction alongside other less established technologies. Confirmation of the treatment of remote islands projects in the next allocation round is expected in the coming months.

At present, there is no indication of a further UK Contracts for Difference auction for onshore wind. In Ireland, SSE awaits the outcome of the Irish Government's consultation on the development and design of a new Renewable Electricity Support Scheme (RESS). In both jurisdictions, SSE continues to explore future development options for onshore wind and is well placed to take advantage of future opportunities as they emerge.

WHOLESALE CONTINUED

Continuing to invest in offshore wind

Part of the value of SSE's offshore wind farm assets is their geographic diversity around the UK, which provides a spread of wind capture opportunities. Existing offshore wind continues to hold possibilities of growth through more efficient operation, better targeting of operations and maintenance (O&M) investment or enhancements to revenue streams.

The joint venture operations of SSE's existing offshore assets have created strong commercial partnerships and resulted in shared industry learnings.

Offshore wind represents a huge opportunity for SSE to deliver its own decarbonisation ambitions and contribute to the achievement of the UK's and Ireland's carbon targets. For example, in the UK, to meet legally binding carbon targets, the Committee on Climate Change estimates an additional 80 to 100TWh of low-carbon generation are needed by 2030. In October 2017, the UK Government announced that £557m will be available for future Contracts for Difference auctions for less established technologies, including offshore wind. The next auction is expected to take place in Spring 2019. The UK Government also intends to work with industry to develop an offshore wind Sector Deal, which could result in at least 10GW of new capacity in the 2020s.

SSE continues to develop its expertise in offshore wind, primarily through the Beatrice Offshore Windfarm joint venture (588MW – SSE share 40%), which is making excellent progress towards its construction milestones and which will contribute to earnings from mid-2019/20. SSE has interests in three further offshore wind prospects under development:

Dogger Bank (up to 3.6GW), a 50:50 joint venture formed with Statoil to develop three projects in the Dogger Bank zone – Creyke Beck A, Creyke Beck B and Teesside A. The projects are being progressed in readiness for potential participation in the next CfD auction.

Seagreen (Phase One up to 1,050MW), a 50:50 partnership with Fluor Limited, which in November 2017 was cleared of the legal challenge to its consent. Work is also under way to prepare Seagreen to potentially enter the next CfD auction.

Arklow Bank (520MW) in Ireland. SSE wholly owns this consented site and awaits the outcome of the Irish RESS to see whether offshore wind will be eligible for support.

The Crown Estate and the Crown Estate Scotland have signalled their intent to make new seabed rights available to offshore wind developers to ensure new projects can start to operate from the late 2020s. SSE is following this process closely to prepare for potential new offshore wind leasing in the form of extensions or new sites.

Thermal generation

Complementing renewable energy

Efficient, reliable and flexible thermal back-up offers weather insurance for SSE's wind farm capacity and allows optimisation of the portfolio to a higher overall economic return. In addition to managing variability in renewable production and demand, SSE's thermal fleet provides an advantage within the wider electricity market by providing reliably capacity at scale in response to market changes, for example, unplanned nuclear outages.

SSE's CCGTs are among the most flexible on the GB electricity system and have increasingly created value from their intra-day flexibility.

Capacity market auction

In February 2018, the UK Government procured 5.8GW of de-rated capacity in the year-ahead capacity market auction for delivery in 2018/19. The auction cleared at a price of £6.00/kW (kilowatt). SSE successfully secured an agreement for its CCGT at Peterhead (1,044MW) worth £6.3m. Below is a summary of the auction results for capacity which will be delivered in 2018/19 and results that were decided in 2017/18.

2018/19 Delivery Year	Clearing price (£/kW)	Successful SSE capacity (MW)	Total SSE income (£/year)
T-1 auction (February 2018)	6.00	1,044 of gas-fired power generating plant (Peterhead)	6.3 million
Total of 5.8GW procured			
T-4 auction (December 2014)	19.40	849MW of hydro electric and pumped storage plant	85.5 million
Total of 49.26GW procured		2,266MW of gas-fired power generating plant	
		1,294MW of coal-fired power generating plant	
2021/22 Delivery Year	Clearing price (£/kW)	Successful SSE capacity (MW)	Total SSE income (£/year)
T-4 auction (February 2018)	8.40	806MW of hydro electric and pumped storage plant	35.1 million
Total of 5.8GW procured		3,371MW of gas-fired power generating plant (including all existing CCGTs)	

The capacity market revenue will be received on a pro-rated basis throughout the delivery year, which runs October through September. To secure the revenue arising from the capacity market, providers of generating capacity must produce electricity when the system requires during the relevant delivery year; failure to do so will result in penalties being levied.

Looking to future requirements for electricity

Whilst recent capacity market auctions have not resulted in new-build CCGT, the mandated closure of coal-fired generation and continued uncertainty over nuclear life extensions and nuclear new build mean that new capacity will be required by the mid-2020s.

As a result, SSE, in partnership with Siemens, has decided to proceed with a unique commercial opportunity to introduce first-of-a-kind, high efficiency, gas-fired generation technology to the UK. Work will begin in Spring 2018 on an 840MW CCGT at Keadby 2. Siemens will provide its 9000H technology and will manage technical, construction risk until the plant is handed over to SSE as well as provide appropriate performance guarantees. SSE will invest around £350m in the development and construction of the project, with a substantial proportion of its financial exposure deferred until the plant is operational.

Once completed, the station will be the most efficient CCGT on the system, delivering large-scale capacity from the early 2020s onward. It will be able to provide the flexible generation needed to support the integration of large-scale renewables into the electricity grid.

SSE continues to believe the GB capacity market is the right mechanism to ensure the electricity system remains secure at the lowest cost to consumers. Alongside wholesale market and ancillary services revenues, capacity market payments remain an important aspect of the economics of Keadby 2, and SSE intends to participate in future auctions to secure a capacity market agreement.

Additionally, SSE continues to develop a CCGT project at Ferrybridge D with the view to progressing should market conditions warrant further investment in high efficiency gas-fired generation. There is also considerable value in the optionality of the existing sites at Ferrybridge and Fiddler's Ferry.

Securing capacity contracts in Ireland

In January 2018, the results of the first competitive capacity auction under Ireland's new Integrated Single Electricity Market (I-SEM) were published. All units at each of SSE's four thermal plant in Ireland (Great Island CCGT (464MW), Rhode (104MW), Tawnaghmore (104MW), and Tarbert (590MW)) secured I-SEM capacity contracts at the auction clearing price of €41.8/kW.

The new I-SEM capacity contracts will be from October 2018 until September 2019. Capacity market revenue will be received throughout the delivery year. Generators that fail to provide energy when called upon will be subject to financial penalties.

Gas production

SSE has a diverse equity share in over 15 producing fields across 17 licences in three regions of the UK Continental Shelf: the Easington Catchment Area, the Bacton Area and Greater Laggan Area.

Total output in 2017/18 was 543 million therms (9.05 mmmboe) of gas and 0.74 mmmboe of liquids, compared with 618 million therms of gas (10.21 mmmboe) and 1.05 mmmboe of liquids for 2016/17. This decline in production was primarily due to the natural decline of the fields. Average daily gas and liquids production was around 1.6mth/day (gas equivalent) in 2017/18.

Gas Production currently produces enough gas to supply all of SSE's Business Energy customers as well as SSE Airtricity household customers in Ireland. This acts as a natural

hedge to other parts of the SSE Group. For example, the availability of fixed price fuel within the Wholesale portfolio enables SSE to provide sales contracts to I&C customers which offer longer term price protection.

Successes over the last financial year included the early delivery of the Edradour and Glenlivet fields across the Greater Laggan Area, as well as achieving operational efficiency at the Shetland Gas Plant (SSE share – 20%) of 95.4%.

SSE does not expect to make further acquisitions; however, investments to enhance its existing assets may be undertaken. For example, further exploration and appraisal activities are planned for the West of Shetland region in financial year 2018/19.

Energy Portfolio Management (EPM)

Energy Portfolio Management provides a route-to-market and effective risk management for Wholesale and other businesses.

EPM is responsible for ensuring SSE has the energy supplies it requires to meet the needs of customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; selling the power output from this plant; where appropriate, securing value and managing volatility in volume and price through the risk-managed trading of energy-related commodities; and providing energy solutions and services to customers.

As the electricity system changes to integrate intermittent, inflexible and distributed forms of generation alongside conventional plant, EPM's ability to realise the value of flexibility from SSE's thermal and hydro assets is increasingly important. Building on a foundation of strong asset optionality in wind forecasting capabilities, EPM's ability to take responsible trading decisions provides the opportunity to increase value derived from SSE's onshore and offshore wind portfolio.

Gas storage

The economic conditions continued to be challenging for gas storage in 2017/18. Following the closure of Rough capacity, SSE now holds around 40% of the UK's conventional underground gas storage capacity, and the overall UK storage duration curve has shrunk to around 16 days. This loss of energy storage will be further exacerbated as coal-fired generation shuts over the next few years, taking with it the storage inherent in coal stocks.

Although the UK has access to diverse gas supply sources, such as interconnection and LNG, gas storage will play an important role in safeguarding the UK's gas and electricity security of supply. If the market or regulatory signals are present, SSE's gas storage assets are well-placed to provide this service to energy users.

Wholesale – conclusion and priorities

SSE's Wholesale directorate comprises a unique portfolio of complementary, high quality businesses with assets and expertise that cannot be replicated in the market. It is well placed to respond to the trends of decarbonisation, electrification and infrastructure development as outlined in Realising Opportunities section of the Strategic Overview.

The Wholesale businesses have a significant role to play in delivering SSE's ambition to be a leading provider of energy and related services in a low-carbon world. Having already met its 2020 carbon target and helping the UK to meet its first two carbon budgets, SSE has a new ambition to further reduce the carbon intensity of the power it generates by 50%, to around 150gCO₂eq/kWh, by 2030. SSE continues to believe that putting a meaningful price on carbon emissions is a critical part of UK and Irish energy policy and is one of the most important policy tools that governments have to help the continued cost-effective delivery of reliable and low-carbon electricity.

Together, SSE's Wholesale businesses have delivered adjusted operating profit of £652.4m and present material opportunities for further growth. They support SSE's strategic goal of creating value for shareholders and society. Over the next financial year, Wholesale will continue to focus on the following priorities:

- safe, responsible and efficient operation of all existing assets;
- efficient, responsible and successful investment in assets that energy customers need now in the future; and
- development of existing and new growth options in the UK and Ireland – with a focus on realising value from SSE's material offshore wind farm interests, maintaining options for onshore wind and CCGTs, beginning work to construct Keadby 2; and pursuing new multi-fuel capacity.

NETWORKS

POWERING COMMUNITIES EVERY DAY

SSE owns and operates an electricity transmission network in Scotland and two electricity distribution networks, in Scotland and southern England. Through its 33.3% stake in Scotia Gas Networks, it is also involved in the distribution of gas.

Adjusted/reported operating profit – £m

763.1/669.6

Profit for this business covers activity across all electricity and gas networks SSE has interests in.

Total Networks RAV – £m

8,304

SSE is on target to take the Regulated Asset Value of its business to almost £10bn by 2023.

Adjusted capital expenditure and investment – £m

326.1

SSE owns and invests in two electricity distribution companies: Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution.

Transmission networks capital expenditure – £m

434.2

SSE owns and invests in one electricity transmission company Scottish Hydro Electric Transmission.

Adjusted and reported distribution operating profit – £m

402.2

Scottish and Southern Electricity Networks (SSEN), operating as Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) under licence, is responsible for maintaining the electricity distribution networks supplying more than 3.8m homes and business across central southern England and north of the central belt of Scotland, the Mull of Kintyre and the Scottish islands.

Adjusted and reported transmission operating profit – £m

195.6

Scottish and Southern Electricity Networks (SSEN), operating as Scottish Hydro Electric Transmission under licence, is responsible for maintaining and investing in the electricity transmission network in the north of Scotland.



£95M

Regulatory funding secured for innovative projects since 2010.



£10BN

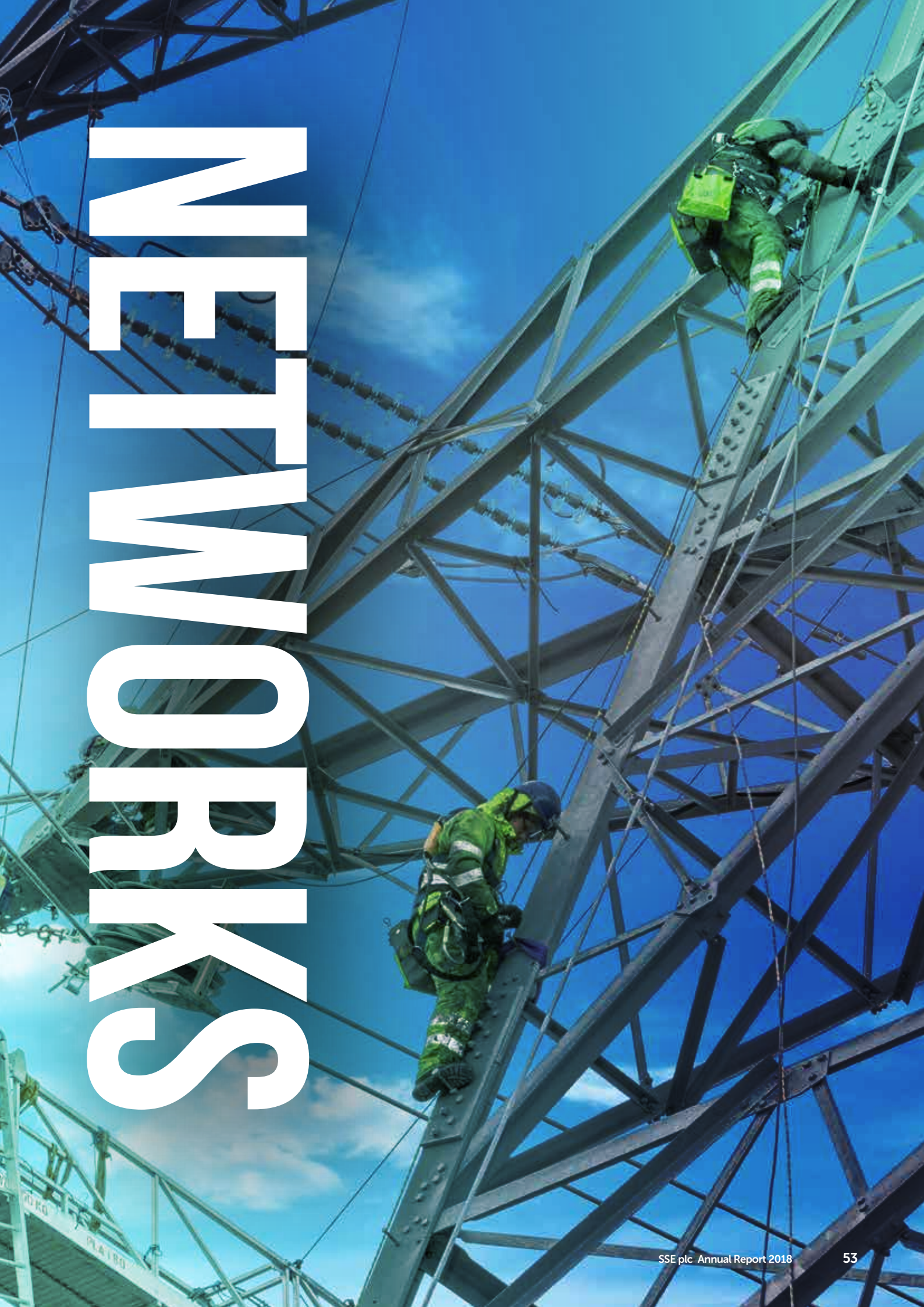
Forecast SSE energy networks Regulated Asset Value in 2023.

Economic regulation of energy networks can appear complex, but it is in fact a straightforward equation. If we deliver for our customers – improving network reliability, excelling in customer service and progressing innovation – we will share in the rewards. This means we have to operate our businesses to the highest possible standard on a 24/7 basis, while also looking to the future needs of customers and communities as the move to a greener, smarter, more flexible energy system gathers pace. SSE's networks are well-positioned to deliver on both of these key priorities.

Colin Nicol
Managing Director, Networks



NETWORKS



NETWORKS CONTINUED

Networks key performance indicators

	March 18	March 17
Electricity transmission		
Transmission adjusted and reported operating profit – £m	195.6	263.7
Regulated Asset Value (RAV) – £m	3,070	2,685
Capital expenditure – £m	434.2	505.0
Electricity distribution		
Electricity distribution adjusted and reported operating profit – £m	402.2	433.4
Regulated Asset Value (RAV) – £m	3,406	3,246
Capital expenditure – £m	326.1	284.7
Electricity Distributed TWh	39.2	39.3
Customer minutes lost (SHEPD) average per customer	55	60
Customer minutes lost (SEPD) average per customer	48	43
Customer interruptions (SHEPD) per 100 customers	57	68
Customer interruptions (SEPD) per 100 customers	55	48
Scotia gas networks (SGN)		
SSE's 50% share reducing to 33% from 26 Oct 2016		
SGN adjusted operating profit (SSE's share) – £m	165.3	239.4
SGN reported operating profit (SSE's share) – £m	71.8	151.7
Regulated Asset Value – £m	1,828	1,748
Uncontrolled gas escapes attended within one hour %	98.2	98.7
SGN gas mains replaced – km	1,000	989

Owning, operating and investing in Networks

Energy networks continue to play a pivotal role in the transition to a low-carbon economy, providing the critical national infrastructure required to support the ongoing shift to a decarbonised energy system and electrification of transport.

SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Its electricity networks businesses are collectively known as Scottish and Southern Electricity Networks (SSEN).

SSE's interests in economically-regulated energy networks support the maintenance of a balanced range of assets, operational efficiency and disciplined investment. SSE's capital expenditure and investment programme for its electricity networks in the five years to 2023 is forecast to be around £2.8bn. This will support future earnings and

growth with the RAV (Regulatory Asset Value) on course to reach £10bn by 2023, across SSE's electricity and gas networks interests.

Through Price Controls, Ofgem sets the framework through which network companies can earn index-linked revenue through charges levied on users to cover costs and earn a return on regulated assets.

These economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the market-based parts of the energy sector. They are core to SSE's strategy in the short, medium and long-term and contribute significantly to its commitment to the payment of dividends to shareholders.

Looking ahead to RIIO-2

On 7 March 2018, Ofgem published a consultation on the regulatory framework for the next Price Control periods, RIIO-2, which for SSE will run from April 2021 for

its electricity transmission business and its share in SGN; and from April 2023 for its two electricity distribution businesses.

In its consultation, Ofgem has set out that it expects the range of available returns for network businesses to be lower for the next round of Price Controls, while maintaining high levels of innovation and reliability. It has also set out its strongly "minded to" position to revert to five-year price control periods and confirmed a stronger voice for customers and stakeholders in the development of Price Control business plans through the establishment of independent user groups and panels.

Despite its focus on lower returns, Ofgem has confirmed it is still expected that high performing companies will continue to be rewarded through outperformance of the incentive based regulatory framework.

SSE will continue to engage constructively with Ofgem and other stakeholders as the regulator further develops its proposals for RIIO-2, helping to ensure the evidence base is robust, the outcomes are clear and the views of customers, communities, stakeholders and investors are fully considered.

Company	Network	SSE Ownership	Geography Covered
Scottish Hydro Electric Transmission Plc	Scottish Hydro Electric Transmission (SHET)	100%	North of Scotland
Scottish Hydro Electric Power Distribution Plc	Scottish Hydro Electric Power Distribution (SHEPD)	100%	North of Scotland
Southern Electric Power Distribution Plc	Southern Electric Power Distribution (SEPD)	100%	Central Southern England
Scotia Gas Networks	Scotland Gas Networks	33%	Scotland
	Southern Gas Networks		Southern England

Engaging stakeholders in decision making

SSEN continues to place its customers and stakeholders at the forefront of its decision making and during 2017/18 it held three major stakeholder engagement events for each of its three licenced electricity networks.

The events focused on SSEN's performance against its business plan and will lead to a number of changes to its practices and priorities during 2018/19 and beyond as a direct result of the feedback received.

SSEN's independent Stakeholder Advisory Panel is now firmly established and working alongside its Board, and continues to provide key external input to help scrutinise business performance in meeting SSEN's business plan commitments.

In January 2018, SSEN also established the industry's first Inclusive Service Panel, bringing together representatives with expertise ranging from mental and physical disability to religious diversity and equality. The Panel is already providing invaluable insight and making practical recommendations to help ensure SSEN delivers a truly inclusive service for all.

The commitment to place its stakeholders at the heart of its business will help ensure SSEN is well placed to adapt to the evolution of the regulatory framework, RIIO2, and to the enhanced and enduring role its customers and stakeholders will play in the development of its future business plans.

Financial performance in Networks

As expected, total adjusted operating profit in Networks for FY2017/18 decreased to £763.1m, compared to £936.5m in the previous year, with the principal movements as follows:

Transmission: as expected, adjusted operating profit decreased to £195.6m in 2017/18, from £263.7m in the previous year. This was mainly due to the phasing of capital expenditure on significant projects and the resulting impact on regulatory revenue, along with the impact of the sharing of the previous year's total expenditure (totex) underspends with customers.

Distribution: as expected, adjusted operating profit decreased to £402.2m in 2017/18, from £433.4m in the previous year. While base revenue increased in line with the growing RAV (Regulatory Asset Value), this was offset by the expected net reduction in under-recoveries and losses incentive income, outlined in the table below.

There are several factors which contribute to RIIO Price Control earnings which can be found on the Ofgem website in the Transmission and Distribution Licence, Price Control Financial Handbook and Price Control Financial Model.

Gas Distribution: as expected, SSE's share of SGN's adjusted operating profit fell to £165.3m in 2017/18, from £239.4m in the previous year, mainly due to SSE's disposal of a partial equity stake (16.7%) in October 2016, but also due to the phasing of regulatory revenue and the sharing of out-performance with customers, as part of the RIIO Price Control. The impact on operating profit of the part disposal in the full financial year 2017/18 was £55m.

Reported Networks operating profit: decreased to £669.6m, from £848.8m, primarily for the reasons outlined above. In addition, SGN had an exceptional gain in 2016/17 of £19.5m due to the change in Corporation Tax rate.

Networks financial outlook – 2018/19

Total adjusted operating profit in the economically-regulated Networks segment is expected to increase by a mid-single digit percentage, mainly as a result of the phasing of income recovery in Electricity Transmission and a higher expected contribution from SGN.

This table also gives an indication of the expected impact of under- or over-recoveries in future years and also income from incentives:

	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Under/over recovery from 2 yr. previous FY	+£38m under-recovered from 2014/15	+£5m under-recovered from 2015/16	-c.£10m over-recovered from 2016/17	-c.£14m over-recovered from 2017/18. A further -£10m related to 2017/18 over recovery will be absorbed in 2021/22
DPCR Losses incentive income	+£35m	+£15m	–	–
Incentives Performance				
		FY2017/18 (performance earned in 2015/16)	FY2018/19 (performance earned in 2016/17)	FY2019/20 (performance earned in 2017/18)
Interruptions Incentive Scheme (IIS)		£18.45m	£13.9m	£6.81m
Customer Satisfaction and Engagement				
Customer Satisfaction Survey		£1.70m	£2.78m	£2.73m
Stakeholder Engagement and Vulnerable Customers*		£1.13m	£0.82m	£1.15m*
Connections		£2.33m	£1.73m	£1.77m
Total		£23.61m	£19.23m	£12.46m

Numbers shown are in the price base of the year in which incentives are earned, and under the price control are inflated to the price base of the year in which they are recovered.

A requirement for continual improvement is built into the incentives framework, this means if performance measures do not demonstrate improvement year on year, incentive income falls.

* Estimated outturn (actual not determined until later in 2018).

NETWORKS CONTINUED

Electricity transmission

SSEN, operating as Scottish Hydro Electric Transmission plc, is responsible for maintaining and investing in the electricity transmission network in the North of Scotland.

In addition to the base rate of return (WACC) on the RAV, we are able to earn incentives as part of the RIIO framework. In RIIO-T1 the financial incentives available are driven primarily by totex outperformance and the potential to deliver savings in capital investment to the benefit of customers. Given the significant capital investment programme that SSEN has undertaken, the outcome of efficiency savings will be dependent on the successful completion of multi-year large scale projects and the close out of RIIO-T1 after 2021. It is currently expected that SSEN will deliver totex savings over the course of RIIO-T1 of which, under the price control agreement, 50% will be retained by SSEN, supporting returns for RIIO-T1, with the remaining 50% returned to customers.

Operating a rapidly growing network

SSEN's first priority is to provide a safe and reliable supply of electricity to the communities it serves. SSEN has established a dedicated and experienced team within its transmission business to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology.

During the current period of rapid growth in transmission development, including commissioning of substantial new assets and the connection of large volumes of renewable generation capacity, SSEN has maintained an impressive reliability of over 99.9% in 2017/18.

Connecting renewable electricity generation

SSEN's strategic priority for the RIIO-T1 period has been to enable the transition to a low-carbon economy through building the transmission infrastructure necessary to connect and transport renewable energy.

Since the beginning of RIIO-T1, the installed renewable electricity generation capacity connected to SSEN's transmission network has grown significantly, from 3.7GW to over 5GW and is forecast to grow to over 6GW by the end of the current Price Control period. This successful and timely connection of renewable electricity generation is contributing significantly to Government renewable and climate change targets.

During 2017/18, generation assets connected to SSEN's transmission network included Stronelaig wind farm (228MW); and Aberdeen

Offshore Windfarm (96MW), both of which were successfully connected during March 2018.

SSEN continues to work with its generation customers to provide timely and efficient connections to its network, including Dorenell wind farm (220MW) due to connect in 2018/19; Beatrice Offshore Wind Farm (588MW also due to connect in 2018/19; and Moray Offshore Renewable Limited (MORL) (504MW) due to connect in 2020/21.

Investing to provide the infrastructure to support a decarbonised energy system

Since the start of the RIIO-T1 Price Control, SSEN's capital investment in its transmission network has totalled over £2.3bn, with this investment playing a pivotal role in providing the key national infrastructure to facilitate the UK's transition to a low-carbon economy and a largely decarbonised energy system.

SSEN continues to make progress with the delivery of its Caithness-Moray transmission link. With an agreed allowance of £1.1bn, the project is the largest single investment undertaken by any part of the SSE Group to date. Construction progress on most aspects of the project continues to be excellent, although as with any project of this size and complexity there are challenges to overcome in terms of construction risk and quality assurance. SSEN continues to work very closely with its key contractors to make the necessary progress in the coming months so that the commissioning and energising of the reinforcement is successful and remains on track for delivery by the end of 2018.

Despite the changes affecting onshore wind policy, SHE Transmission still has a healthy pipeline of projects for the remaining three years of the current price control period. This comprises:

- planned projects associated with on- and off-shore wind generation developments; and,
- projects to renew ageing infrastructure dating back to the 1950s and 1960s.

These projects represent a forecast pipeline of investment of around £900m in the next three years and mean the business is on track to increase the Transmission RAV to around £3.6bn by the end of the current Price Control period in 2021. This investment pipeline, plus a further £300m of Transmission capital and investment expenditure in the period to 2023, means the RAV is forecast to grow to £3.8bn by 2023. This total of £1.2bn of spend in the five years to 2023 is one component of SSE's Group capital and investment plans of £6bn over the five years to 2023.

In addition to its base case capital and investment plans of £1.2bn, SHE Transmission has visibility on a further £700m of contingent projects that are dependent on the progress of onshore wind developments against a continued uncertain policy regime. This means the timing and ultimate need for them is not yet clear. Several of these relate to potential onshore reinforcements in Argyll and Kintyre and across the Highlands. This list also includes projects which came forward in January 2018, when the System Operator, National Grid, published its Network Options Assessment (NOA) report, which gave SSEN the signal to proceed with plans to reinforce the existing North East and East Coast onshore transmission system.

Once complete, the reinforcements will provide additional network capacity to facilitate the planned connection of significant offshore wind generation across the north east of Scotland, the increase in transmission entry capacity (TEC) at Peterhead Power Station and the proposed NorthConnect interconnector to Norway.

Preparing to connect Scotland's island groups

The potential transmission links to the Scottish islands groups provide further potential for future growth.

Following confirmation that the UK Government intends to allow remote island onshore wind to complete in the next Contracts for Difference auction in spring 2019, SSEN continues to work with its generation customers and other stakeholders across the three island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation.

In March 2018, SSEN submitted to Ofgem a Needs Case for the Orkney transmission link. SSEN's proposed solution would deliver a phased approach to reinforcement, which will initially deliver a single 220MW subsea cable in October 2022, followed by a second cable of similar specification once further generation has committed and the economic case has been made for the further investment.

SSEN also intends to submit Needs Cases for both the Western Isles and Shetland during the second half of 2018 and will continue to engage positively and constructively with developers, Ofgem, Government and other stakeholders to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed. Together, these three island links could provide an investment opportunity of £1.5bn.

Addressing competition in transmission

In January 2018 Ofgem published an update to its plans to introduce competition into onshore electricity transmission for new, separable and high value onshore transmission assets.

With a strong track record for connecting renewable energy developments on time and within budget, SSEN believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements.

SSEN remains supportive in principle of the introduction of competition, where it can be clearly demonstrated that it delivers benefits to energy customers and the wider economy as well as maintaining the efficient delivery of transmission infrastructure. It does, however, have a number of concerns about its implementation. In particular, SSEN believes Ofgem's proposals would effectively reopen the current Price Control without following due process; and they are not underpinned by legislation and they risk delays to the delivery of well-established and advanced projects.

For these reasons, SSEN believes competition should not be implemented before the beginning of the next Price Control in order that these material factors be adequately addressed in an open and transparent manner and SSEN will continue to engage constructively with Ofgem and other stakeholders as part of this process.

Planning for the RIIO-ET2 price control

Preparations are well under way to gather evidence to support the development of SSEN's next transmission business plan.

SSEN's main focus during 2017/18 has been on future energy scenarios across the north of Scotland, with extensive consultation and engagement with key stakeholders helping SSEN identify the likely network requirements for the next Price Control. This has ranged from future energy trends; the future outlook for electricity generation, including repowering of ageing onshore wind farms; as well as the likely speed and scale of the electrification and decarbonisation of heat and transport.

SSEN will undertake further engagement and consultation with key stakeholders in the year ahead, including its Stakeholder Advisory Panel and the soon to be established User Group and Industry Panels, which will form a key component of the RIIO2 framework. This research and engagement will help SSEN build a credible and evidence-based business plan for submission to Ofgem in 2019.

Electricity distribution

SSEN, operating as Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) under licence, is responsible for maintaining the electricity distribution networks supplying over 3.7 million homes and businesses across central southern England and north of the central belt of Scotland.

Delivering for customers under the incentive based framework

SSEN is now three years into the RIIO-ED1 Price Control and continues to deliver significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making.

SSEN's performance is assessed against the commitments made in its business plan and this drives the revenue which is earned. The key areas addressed are: network availability and reliability; social obligations; safety; environmental impact; connections; and customer satisfaction.

The outcomes of the incentive based framework within which SSEN operates are increasingly dependent on customer opinion and feedback, providing opportunities for additional earnings through a range of incentive schemes. The additional incentive based performance is measured against: The Interruption Incentive Scheme; Ofgem Customer Satisfaction Measures; Complaints Performance; Stakeholder Engagement and Customer Vulnerability; and Incentive in Connections Engagement. A requirement for continual improvement is built into the incentives framework, this means if performance measures do not demonstrate improvement year on year, incentive income falls.

By making a concerted effort to focus on its people and its processes, SSEN has made significant changes to ensure it is meeting its customers' needs and delivering against the measures as set by the RIIO-ED1 price control. This has ensured it is able to deliver outputs aligned to the expectations of its customers, stakeholders and the regulator while delivering a fair financial return to investors.

'Keeping the lights on' for customers

A fundamental responsibility of SSEN is to 'keep the lights on' for its customers. Through the RIIO-ED1 price control, SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions. This is part of the Interruption Incentive Scheme (IIS).

After a good performance in 2016/17, SSEN experienced a fall in IIS incentive income from £13.9m to £6.8m in 2017/18. This was largely due to an unusual and sustained pattern of weather in the south of England leading to pockets of unplanned supply interruptions that did not qualify under Ofgem's 'exceptional event' definition.

In SSEN's central southern England network region, CI increased to 55 (48 in 2016/17) and the average CML increased to 48 (43 in 2016/17).

In SSEN's north of Scotland network region, CI decreased to 57 (68 in 2016/17) and the average CML decreased to 55 (60 in 2016/17).

SSEN's commitment to providing a safe and secure electricity supply and to minimise unplanned interruptions requires a continuous programme of investment in the network. This includes the refurbishment and reinforcements of assets; upgrades to automation which reduces the number of customers affected and the duration of faults; minimise the impact of tree related damage; as well as investments in new innovative technologies.

Providing leading customer service and engaging with stakeholders

Since beginning of the RIIO-ED1 price control, SSEN has implemented significant changes to its customer services operations to improve the journey for its customers and respond to the incentive based framework.

SSEN's continued focus on its customers and doing the right thing has resulted in a total incentive reward of £2.7m for 2017/18 against the Customer Satisfaction (or Broad) Measure Incentive which is slightly lower than in the previous year (£2.8m).

To benchmark its performance against leading customer service providers SSEN has become a member of the Institute of Customer Service and continues to look across a range of sectors to help it achieve its ambition to be recognised for providing leading customer service.

SSEN remains fully committed to supporting its customers who require extra help and ensuring suitable support is provided to its Priority Services Register (PSR) Customers during network outages. Supporting vulnerable customers is also a key component of the Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive and contributes to 25% of the total award available. In respect of performance in FY17, SSEN was awarded £0.8m under the SECV incentive against a total available reward of £3.1m.

NETWORKS CONTINUED

The outcome of the SECV incentive for 2017/18 will not be known until the second half of 2018 but it is currently estimated to be £1.15m.

A key challenge continues to be identifying customers who are eligible for support through its PSR. SSEN continues to look at innovative ways of reaching these customers, from its vulnerability mapping tool, to working with external partners and trusted intermediaries building on existing partnerships and forging new relationships with a broad and diverse range of organisations, such as the London Sustainability Exchange and NHS Highland, helping broaden the reach of SSEN's support.

Continuing improvements in connections

Over recent years, SSEN has made significant changes and improvements to its connections process, informed by the needs and expectations of customers, which was reflected by an award of £1.8m under the Average Time to Connect Incentive for 2017/18 against a total reward available of £2.4m, up from £1.7m the previous year.

This commitment to place its connections customers at the heart of its processes was also reflected by SSEN avoiding a penalty for the second consecutive year under the penalty-only Incentive in Connections Engagement (ICE) for the 2016/17. The outcome of ICE for 2017/18 will not be known until the second half of 2018.

Targeting frontier incentive performance

Performance in relation to interruptions, customer service and connections, plus stakeholder engagement, are the subject of an incentives framework which rewards companies for good performance but also penalises them where performance does not meet required standards. In summary, this provides an opportunity for network operators to share in the rewards from delivering improvements for its customers. Improved performance against these metrics remains a key objective for SSEN.

Looking collectively at RIIO-ED1 incentive performance during 2017/18, SSEN earned £12.5m from a maximum available award of £43.1m. It also avoided penalty-only awards totalling £9.7m. Whilst this represents progress in incentive performance since the start of RIIO-ED1, significant headroom remains across each area.

SSEN is targeting operational improvements across its business to drive performance, including the increased use of automation, the monitoring of multiple interruptions and 'at risk' circuits, and a consistent approach for design and quotation in connections. A new Customer Relationship Management system will be introduced in 2019, which will provide a platform for effective management of customer-related issues.

SSEN is confident these incremental improvements in reliability, customer service and connections, plus stakeholder engagement, will move it closer to maximising its incentive income as it progresses through the RIIO-ED1 price control.

Delivering a major programme of capital investment

SSEN continues to undertake a major capital investment delivery programme across both its distribution licenced networks which will deliver significant improvements for its customers and provide the infrastructure required to support economic development, as well as contributing to sustained and fair returns and increased RAV.

In 2017/18 SSEN invested a total of £326.1m in its distribution networks, bringing the total invested in the first three years of the ED1 Price Control to £869.1m – which is part of a forecast investment of £2.4bn throughout the RIIO-ED1 period.

Good progress is being made to deliver SSEN's Bicester to East Claydon project which, at £24m, is the largest single project being delivered by SSEN under the RIIO-ED1 Price Control and is one of the largest electricity distribution investments ever undertaken in south east England.

In the north of Scotland, SSEN is taking forward a major rolling programme of investment to replace the existing subsea cables which have successfully and safely served the Scottish islands for many decades. With a forecast investment of £100m across ED1, subject to regulatory approval, the responsible and evidenced based approach SSEN has adopted to inform its subsea cable replacement programme will deliver RAV growth, whilst minimising the cost impact to its customers.

SSEN's disciplined and efficient approach, underpinning the delivery of its capital and strategic investment programme, will ensure it continues to deliver value for energy consumers and provide a fair return on investment for shareholders.

Leading on networks innovation

Innovation continues to play a key role in the development and improvement of the service provided to SSEN's customers and, at the same time, help inform the wider industry as it prepares for fundamental changes to the electricity system.

SSEN has a clear track record in progressing innovation through Ofgem funded structures, securing over £95m in regulatory funding for innovation projects since 2010. This record was strengthened in July 2017, when SSEN was awarded an additional £2m as a discretionary award from Ofgem for its Tier 1 innovation projects, the highest amount awarded to any Distribution Network Operator (DNO) group.

SSEN has also been successful in progressing new initiatives outside of funding mechanisms, where benefits to the efficiency of operations or delivery for customers are proven. This includes investment in aerial scanning of its overhead network using LiDAR technology, which is now 90% complete. This initiative, which will give measurements accurate to 2cm, will bring significant benefits in ensuring safety and asset compliance, efficient vegetation management and, ultimately, improved fault performance. SSEN is the first network operator to bring this technology into business-as-usual operation.

In 2017/18, many of SSEN's innovation projects, such as a trial of Constraint Managed Zones, were designed to inform the wider industry on the move to a new, smart, flexible system and the transition of DNOs to a new Distribution System Operator (DSO) role.

Supporting the transition to a smart, flexible electricity system

One of the biggest changes in the energy system is the flexibility revolution. Distributed generation, electric vehicles, demand-side response and energy storage are transforming the energy system and giving customers access to new products and services from a new range of providers.

DNOs will play a pivotal role in this revolution which will increase the investment needed across networks, creating new opportunities in managing this demand.

In November 2017, SSEN published its DSO strategy, Supporting a Smarter Electricity System, setting out the five key principles it believes should underpin the transition to a smart, flexible electricity system. These are: working for all customers; ensuring cost efficiency; market neutrality; removing barriers to local solutions; and adopting an approach of learning by doing.

SSEN continues to play a leading role in the influential Open Networks project, led by the Energy Networks Association, and will continue to engage with industry, policy-makers and the regulator in support of a phased approach to the DSO transition whereby impacts can be carefully reviewed and the best interests of customers maintained.

Preparing for the electrification of transport

A key aspect of the transition to a smart, flexible electricity system is the electrification and decarbonisation of transport. SSEN continues to respond to the growth in electric vehicles (EV) which is forecast to accelerate in the coming years in response to ambitious targets set by both the UK and Scottish Governments to phase out petrol and diesel vehicles by 2040 and 2032 respectively.

To prepare for the likely growth in uptake of EV and Low Emissions Vehicles, SSEN continues to support the industry in identifying the challenges and solution to ensure the transition is as smooth as possible. This includes a consultation SSEN published in March on 'Managed Electric Vehicle Charging', which seeks views on proposed solutions to help avoid potential overloads on local electricity networks caused by sharp increases in the use of electric vehicles.

The consultation forms part of SSEN's Smart EV project, undertaken alongside technology partners EA Technology and supported by GB distribution network operators. The project, funded by Ofgem's Network Innovation Allowance, sets out to review and research charging solutions that will allow the transition to electric vehicles to take place with minimum disruption to customers and avoiding unnecessary network reinforcement.

SGN

Covering Scotland and the south of England, SGN is the gas network company distributing natural and green gas to 5.9 million homes and businesses through a network of 74,000km of mains and services. Good progress is also being made building a third distribution network in the west of Northern Ireland comprising some 700km of new gas pipelines which will allow up to 40,000 customers to connect for the first time to mains natural gas. SGN now has 36 biomethane plants connected to its GB networks, supplying enough green gas for the needs of almost 180,000 homes. This is good progress to achieving its 2021 ambition of supplying 250,000 customers with green gas.

As the current RIIO-GD1 eight-year price control moves closer to its 2021 conclusion, SGN remains focused on the delivery of all its outputs under this RIIO framework as well as ensuring it maximises its regulatory incentives. In November 2017 SGN committed to Ofgem a voluntary contribution of £145m in price control allowance terms to customers, which was welcomed by Ofgem.

The primary focus of the SGN management team is to ensure all its operations are run safely for the public at large, its customers, contractors and employees. SGN continues to invest in both its network and people, while ensuring: it minimises its impact on the environment; engages with and communicates with its customers and stakeholders; and delivers new initiatives to help reduce fuel poverty and increase awareness of Carbon Monoxide dangers.

SGN had a good year in all its operations activities, including emergency repair and gas mains replacement. At the year-end, it exceeded its 97% emergency response target and dealt with a number of multiple 'no gas' incidents, many caused by broken water mains and third-party damage. SGN also achieved its gas mains replacement year-end targets in both networks with 269km achieved in Scotland and 731km in its southern network area.

Initiated in 2015, SGN's three-year customer experience transformation programme is continuing to deliver much improved customer experience, by leveraging digital technology and adding value by reducing cost to serve. Through the commitment and hard work of its operations and field teams, for the second year running SGN is the UK number one gas network for customer service. It is also the UK's number one gas network company for complaint handling, reducing customer complaints on average by 18% each year and overall by 66% since 2012/13.

Networks – conclusion and priorities

SSE's economically-regulated Networks businesses will continue to play a pivotal role in the transition to a low-carbon economy, providing the critical national infrastructure required to support the ongoing shift to a decarbonised energy system and electrification of transport.

SSE's capex and investment programme for electricity networks in the five years to 2023 is forecast to be around £2.8bn, forming a significant part of the SSE Group capital and investment expenditure plans of £6bn over the same period. This will support future earnings and growth with the RAV (Regulatory Asset Value) on course to reach £10bn by 2023, across SSE's electricity and gas networks interests, delivering value for money for customers and a fair return for investors. Additional contingent projects totalling £700m as well as potential island links with a total value of around £1.5bn provide further opportunities for growth in the 2020s.

SSE will work, in 2018/19 and beyond, to ensure it continues to meet the needs of its customers and stakeholders, and earn fair returns for shareholders through focusing on the current and future needs of customers, disciplined investment and innovation and excellence in delivery, creating a stable platform for future growth.

Networks priorities for 2018/19 and beyond

SSE's Networks businesses' priorities in 2018/19 and beyond are to:

- operate safely and meet all compliance requirements while providing leading customer service, delivering required outputs and maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets and opportunities for future growth;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements to support the transition to a smart, flexible energy system;
- adapt and prepare for the evolution of the regulatory framework for future Price Control, RIIO-2, including maintaining effective stakeholder relationships.

RETAIL

SUPPLYING ENERGY AND SERVICES

SSE supplies energy and related services to households, businesses and public sector customers in the UK and Ireland. SSE Energy Services supplies energy and related services to households in Great Britain and is subject to a proposed demerger and combination with npower to create a new, independent company.

Retail adjusted/reported operating profit – £m

402.8/328.0

SSE is involved in supplying energy and related services to households, businesses and public sector customers in the UK and Ireland.

SSE Airtricity adjusted/reported operating profit – £m

33.0/26.9

SSE Airtricity supplies energy to households and business and public sector customers across the island of Ireland.

SSE Energy Services adjusted/reported operating profit – £m

278.7/221.8

Within the Retail segment, SSE Energy Services supplies energy and related services to households in Scotland, England and Wales.

SSE Business Energy adjusted/reported operating profit – £m

64.2/64.2

Within the Retail segment, SSE Business Energy supplies electricity and gas to business and public sector customers in Scotland, England and Wales.

SSE Energy Services customer accounts – m

6.8

SSE Energy Services' customer accounts cover provision of energy and related services such as telephone, broadband and boiler care.

All-island energy customer accounts (Ireland) – m

0.74

SSE Airtricity supplies energy to households and business and public sector customers across the island of Ireland (and is the only retailer to operate in all of the competitive gas and electricity markets across the island).



SMART METERS

SSE connected 474,850 domestic smart meters in 2017/18.



INCLUSIVE

SSE Energy Services secured the British Standard for Inclusive Service Provision, recognising and adapting to customers' vulnerabilities, in March 2018.

Our shared goals in leading what is now SSE Energy Services through this period of change are clear. They are to retain and attract more customers; reduce our costs; deliver smart meters in a safe and customer-focused way; and build on SSE's customer-centric culture. Sustainable success in supplying energy and related services in what is an extremely competitive market will require these priorities to be very clearly pursued in 2018/19. The shared commitment to delivery across the SSE Energy Services team stands the business in good stead.

Stephen Forbes
Chief Commercial Officer
and Co-Head of Retail

Tony Keeling
Chief Operating Officer
and Co-Head of Retail





SAFE

RETAIL CONTINUED

Retail key performance indicators

	March 18	March 17
SSE Energy Services		
SSE Energy Services – Energy Supply (households GB) adjusted operating profit – £m	260.4	260.8
SSE Energy Services – Energy Supply (households GB) reported operating profit – £m	203.5	171.7
SSE Energy Services – Energy Related Services (households GB) adjusted operating profit – £m	18.3	12.7
SSE Energy Services – Energy Related Services (households GB) reported operating profit – £m	18.3	5.5
Total SSE Energy Services adjusted operating profit	278.7	273.5
Total SSE Energy Services reported operating profit	221.8	177.2
Retail Businesses remaining after the proposed transaction		
Energy Supply – Business Energy adjusted operating profit – £m	64.2	89.4
Energy Supply – Business Energy reported operating profit – £m	64.2	73.0
Energy Supply – SSE Airtricity adjusted operating profit – £m	33.0	42.7
Energy Supply – SSE Airtricity reported operating profit – £m	26.9	42.7
Enterprise adjusted operating profit – £m	26.9	16.7
Enterprise reported operating profit – £m	15.1	16.7
Total Remaining within SSE adjusted operating profit – £m	124.1	148.8
Total Remaining within SSE reported operating profit – £m	106.2	132.4
Capital expenditure (SSE Energy Services) – £m	110.8	184.0
Capital expenditure (Business, Airtricity & Enterprise) – £m	63.4	59.0
Electricity customer accounts (GB domestic) – m	3.82	4.06
Gas customer accounts (GB domestic) – m	2.53	2.70
Energy Related Services (GB domestic) – m	0.45	0.47
Total SSE Energy Services customers – m	6.80	7.23
Energy customers' accounts (Business Energy sites) – m	0.49	0.45
All-Island energy market customers (Ire) – m	0.74	0.79
Total Retail Customer accounts	8.03	8.47
Electricity supplied household average (GB) – kWh	3,788	3,793
Gas supplied household average (GB) – th	454	440
Household/small business aged debt (GB, Ireland) – £m	85.8	80.2
Bad debt expense (GB, Ireland) – £m	46.0	47.9
Customer complaints to third parties (GB) ¹	1,616	1,322

1 Ombudsman: Energy Services and Citizens Advice.

Smart Meters on supply

Over 850,000 Over 500,000

Providing energy and related services in Great Britain and Ireland

SSE is one of the largest energy suppliers operating in the competitive energy markets in Great Britain and Ireland. At 31 March 2018, it supplied electricity and gas to 7.58 million household and business accounts. It also provides other related products and services, including telephone, broadband and boiler care, to 0.45 million household customers.

The Retail business area includes those businesses which are subject to the planned SSE Energy Services transaction.

Financial performance in Retail

During the 12 months to 31 March 2018, total adjusted operating profit in Retail including Enterprise was £402.8m compared with £422.3m for 2016/17. The principal movements were as follows:

SSE Energy Services – Energy supply (households in GB): adjusted operating profit was flat at £260.4m in 2017/18 compared to £260.8m in 2016/17. While electricity tariffs increased to recognise rising non-energy costs, overall profits were also impacted by customer account losses and the introduction of price caps for certain customer groups, offset by ongoing efficiency savings. The business also benefited, in the last quarter of the financial year, from higher customer

energy consumption due to unseasonably cold weather.

SSE Energy Services – Energy-related services (households in GB): adjusted operating profit increased to £18.3m in 2017/18, from £12.7m in 2016/17, reflecting increased profitability of SSE's home services and telco businesses, which was partially offset by a reduction in revenues from the heritage metering business.

Energy Supply (Business Energy): adjusted operating profit decreased to £64.2m in 2017/18, from £89.4m in 2016/17. While underlying profits remained similar, 2016/17 included a larger prior year reconciliation catch up.

Energy Supply (SSE Airtricity): adjusted operating profit decreased to £33.0m in 2017/18, from £42.7m in the previous year, due to a combination of increased competition and increased energy costs.

Enterprise: Adjusted operating profit increased to £26.9m in 2017/18, from £16.7m in the previous year, due to a combination of higher revenues and focused cost cutting.

Reported Retail operating profit: increased to £328.0m from £309.6m in prior year due to the reasons outlined above in addition to the impact of exceptional items and certain re-measurements. In the year, the Group has recorded exceptional impairments totalling £63.0m as a result of its decision to demerge its UK domestic gas and electricity supply business. In addition, there was an exceptional impairment of £11.8m in the Heat Networks business due to a re-evaluation of some of the contracts within the business. In the prior year impairments totalled £112.7m.

Consolidated segmental statement

In line with its licence condition, SSE will publish in June 2018 a Consolidated Segmental Statement (CSS) setting out the revenues, costs and profit or losses of businesses in its Wholesale and Retail segments in Great Britain for 2017/18. The CSS will be fully reconciled to SSE's published financial statements and reviewed by SSE's auditors, KPMG. It is expected to show that SSE's operating profit margin from supplying electricity and gas to British households in 2017/18 was slightly down on the previous year, at 6.8%.

Within this, SSE has previously highlighted an increasing divergence between gas and electricity margins due to increasing policy costs being levied predominantly levied on electricity. However, following the increase to electricity prices only in April 2017, margins are more balanced across fuels in 2017/18 than the previous year.

Retail financial outlook for 2018/19

Retail's adjusted operating profit attributable to SSE will be subject, amongst other things, to the progress and timing of the planned transaction relating to SSE Energy Services and the timing and impact of the Domestic Gas and Electricity (Tariff Cap) Bill.

Adapting to a changing environment Preparing SSE Energy Services for the future

In its full-year results statement for 2016/17, SSE stated that the rapidly evolving and increasingly competitive market for the supply of energy and related services presents a number of challenges for traditional energy

supply business models and they must evolve and adapt in order to be sustainable in the medium to longer term. On 8 November 2017, SSE set out that following discussions with innogy SE (innogy), SSE had identified an opportunity – subject to the necessary regulatory and shareholder approvals – to combine its household energy and services business in GB with that of innogy's subsidiary, npower, to create a new, independent company to be listed on the London Stock Exchange. Both SSE and innogy believe the planned SSE Energy Services transaction has potential to drive real benefits for customers, employees, shareholders and the wider energy market by combining the expertise and resources of two established providers with the focus and agility of an independent supplier in what would be a unique model in the market. With its own dedicated Board and expert management team, the new company would be well positioned to respond to changing customer and stakeholder expectations by becoming more efficient, agile and innovative.

The planned SSE Energy Services transaction is subject to approval by the Competition and Markets Authority (CMA) and a merger notice was formally submitted to the CMA on 28 February 2018. Following an initial Phase One investigation, on 8 May 2018, the Competition and Markets Authority referred the planned transaction for a so-called 'Phase 2' investigation, by a group of independent panel members. The deadline for the final report from that investigation is 22 October 2018. The transaction is also subject to approval by SSE's shareholders and a shareholder circular will be published on 27 June 2018 in advance of a vote at a General Meeting to take place immediately after the SSE Annual General Meeting on 19 July 2018. As stated in November 2018, significant synergies are also anticipated, and further detail on these will be set out in the shareholder circular. Taking these timetables into account, the planned SSE Energy Services transaction remains on track for completion in the last quarter of the 2018 calendar year or first quarter of 2019.

Until such time as approval is given and the transaction is completed, SSE Energy Services and npower remain entirely separate and compete with one another as normal. However, integration planning work is under way to make necessary plans and preparations for the new business, to the extent allowed within the letter and spirit of competition law. A number of key milestones have already been reached, including the appointment of Katie Bickerstaffe as Chief Executive Designate of the future combined business. Katie will take up her new appointment later this year

and will lead the work to prepare for the formation and listing of the new company. Her role during that period will not include any involvement in the leadership or management of either existing organisation.

Facing up to the core challenges

Energy supply businesses in GB face a number of headwinds due to the rapidly evolving and increasingly competitive nature of the market. These headwinds can be characterised as four 'core' challenges to which SSE Energy Services must respond in order to stay relevant and sustainable:

Competition: the energy supply market continues to intensify with around 80 suppliers now competing to win and retain customers, the arrival of new entrants from start-ups to major multi-nationals such as Shell, Vattenfall and Engie, and record levels of customer switching, according to Energy UK data. As a result, despite ongoing efforts to attract and retain customers, in 2017/18 SSE GB domestic electricity and gas customer accounts numbers fell to 6.35m compared with 6.76m at 31 March 2017.

Operating costs: in this environment, ensuring controllable costs are as low as possible is key to staying competitive and offering customers value while delivering for shareholders; however, the cost of supplying energy is increasing and there is upward pressure from a number of areas principally the many and varied impacts of the smart meter roll-out, falling underlying energy consumption, regulatory intervention and lower customer numbers.

Regulatory intervention: there will always be intense political interest in the energy market and this has major implications for the regulatory environment in which SSE Energy Services operates. The Domestic Gas and Electricity (Tariff Cap) Bill 2017-19 is expected to receive royal assent in Summer 2018 and Ofgem is already consulting on how to implement this market-wide cap on standard household energy prices. Although SSE has warned against the unintended consequences of such a significant intervention in a rapidly evolving and highly competitive market, it is engaging constructively with Ofgem to help ensure the methodology used to set and update the cap is robust, fair and takes account of the real costs and risks of supplying energy to a large and diverse range of customers. At the same time, transformational regulatory projects are being undertaken in the form of the smart meter roll-out and the faster switching programme.

RETAIL CONTINUED

As well as introducing an unprecedented amount of change, implementing these projects requires a significant commitment of resources.

Evolving customer expectations: the energy market does not exist in a vacuum and customers' expectations continue to increase, informed by their experiences of other companies and markets. Demand is growing for more tailored, personalised services underpinned by data (used responsibly), seamless customer experiences across channels and devices, and an enhanced ability to 'self-serve' via user-friendly, intuitive digital platforms. In the longer term, the development of disruptive technologies from smart meters to domestic micro-generation, storage and electric vehicles could change fundamentally the nature of the services customers require.

Setting and delivering on the right strategic priorities

In the longer term, SSE believes the planned SSE Energy Services transaction is the right strategic response to these issues, creating an independent business with singularity of focus and the ability to be more agile and responsive to changing market and customer dynamics.

However, this is subject to regulatory and shareholder approvals and in the interim SSE Energy Services remains focused on its own internal strategic priorities for addressing these challenges across both Energy Supply and Energy Related Services:

Attracting and retaining more customers: in a fiercely competitive market, winning and keeping customers is challenging and a key area of focus. In 2017/18, SSE Energy Services continued to leverage its investment in entertainment sponsorship to offer additional rewards to customers in order to engage and retain them and more than 2.5m people visited SSE-sponsored venues during this 12-month period alone. In exploring ways to engage customers in new ways, SSE is developing partnerships with leading retail brands such as WH Smith, nectar and Argos. It will also soon launch a 'renew 1-year fix' tariff through which it will automatically sign up customers whose fixed-term deal is ending to a new fixed-term tariff with no exit fees – giving them price protection and, critically, introducing a new prompt to engage with their tariff choices on renewal each year. These efforts are also supported by innovative new propositions such as offering low-cost unlimited broadband and the popular 'Boiler Rescue' offer of a free emergency boiler repair to any customer who then signs up to a new boiler care subscription. This makes SSE Energy Services the only energy provider

offering to fix their customers' boiler for free, even if they don't have cover at the point of breakdown. This has contributed to strong performance in SSE's Energy-Related Services business and, having successfully completed its transition to a regulated insurance model in Home Services, SSE sees further opportunities for growth in this area, as well as improving energy customer retention through value-adding, bundled propositions.

Reducing our cost to serve: given the competitive environment, upward pressure on costs and the need to keep energy as affordable as possible for customers, efforts to drive efficiency improvements across SSE Energy Services are vitally important. Through further embedding 'lean' methodology and continuous improvement hubs, with more than 300 staff now trained as part of the 'lean academy', this programme continued to deliver cost efficiencies in 2017/18. Also in 2017/18, SSE Energy Services made further progress in its efforts to digitalise its front and back-office systems, rolling out further process automation to reduce administrative costs and helping more customers to self-serve online, as demonstrated by a 200% uplift in phone and broadband sign-ups online following improvements to the customer journey.

Delivering smart in a safe, cost-effective and customer-centric way: the smart meter roll-out represents an opportunity to transform the relationship between customers, their energy supplier and the energy they consume. SSE remains committed to delivering on its obligations under the roll-out in a way that is safe, minimises where possible costs to customers, and maximises the net benefits to customers by engaging them with their energy use. To that end, as of 31 March 2018, SSE had more than 850,000 smart meters on supply in customers' homes. Despite ongoing challenges associated with the availability of key enabling technology, generating demand from customers and timing the ramp-up of its workforce, SSE was pleased to deliver against its binding targets agreed with Ofgem for 2017 and is now preparing to make the transition to the enduring SMETS2 solution, once available. Given the degree of complexity and up-front investment costs involved, SSE has consistently argued that the roll-out and associated targets should be kept under review so that pragmatic, informed decisions can be made that lead to the highest possible net benefits to customers from the programme as a whole.

Building on SSE's customer-centric culture: throughout a year of change, SSE has continued to put customers at the heart of everything it does. Senior managers met regularly with customers in SSE's Customer

Forums and the company has engaged with over 60,000 consumers through a programme of research which includes its 3,000-strong online Customer Connect community. SSE's focus on delivering excellent customer service has seen it sign up to the Energy Switch Guarantee and the Energy UK Billing Code and these commitments have helped maintain a strong performance in the Citizens Advice Energy Supplier rating, including SSE once again being identified as having the lowest levels of complaints to third parties amongst the major energy suppliers in Great Britain. SSE remains very mindful of its responsibilities in respect of supporting customers in vulnerable circumstances; to that end, it committed to attaining the British Standard for Inclusive Service Provision, which is widely regarded as the 'gold standard' in recognising and adapting service to customer vulnerability in all its forms. SSE achieved the Standard in March 2018, for the key areas of Complaints, Credit Management and Sales.

Delivering for business energy customers

Business Energy supplies energy to business and public sector customers throughout Great Britain, to a market which consumes a total of around 180TWh of electricity and 8 billion therms of gas annually.

Business Energy continued to perform robustly across all customer segments, this strong position is built on solid core competencies in meeting business customers' energy needs. Competencies such as excellent customer service and sales channels exist within Business Energy, whilst others are leveraged across the wider SSE Group, for example, the ability to develop products that navigate the increasing complexity of the GB energy market.

In 2018/19 the focus remains on growing Business Energy's core market segments, whilst broadening into related services such as energy optimisation and demand side response where there is an opportunity to use data and technology to improve outcomes for customers.

Supplying energy and essential services across Ireland

In Ireland's all-island energy market, SSE's retail arm SSE Airtricity is the second-largest provider of energy and related services across the Republic of Ireland (ROI) and Northern Ireland (NI), and the only retail energy brand operating in each of the competitive gas and electricity markets across the island.

At 31 March 2018, SSE Airtricity supplied electricity and natural gas to 0.74 million household and business customer accounts in ROI and NI, reflecting a fall in household

customer numbers due to increased competitive pressures, particularly in electricity markets.

Focused cost-management alongside competitive product pricing ensured that SSE Airtricity continued to deliver value to existing and new home energy customers, while enabling further investment in digitised service offerings, including the introduction of a new video-chat customer channel. As a result, SSE Airtricity was named Best for Customer Service in February 2018 for the second year running by leading Irish internet comparison site Bonkers.ie.

In NI, SSE Airtricity increased household electricity prices by 7.5% from 1 October 2017 while in ROI electricity prices increased by 5.6% from 1 November 2017. These were the first such increases in both markets since 2013 and were as a result of increases in the cost of supply including wholesale and regulated networks costs. On 1 April 2018, SSE Airtricity increased its regulated natural gas prices in NI by 7.8% for home and small business customers. This increase was examined and approved by the NI Utility Regulator.

SSE Airtricity Business Energy increased customer load across the island by 12% in the 12 months to 31 March 2018, while the company's Eco team has facilitated energy efficiency initiatives that are saving businesses almost 110GWh of primary energy annually. For the second year running SSE Airtricity received the highest supplier satisfaction rating (81%) in the Irish SME electricity market, according to the latest Annual Survey

published by the Commission for Regulation of Utilities.

In April 2018, SSE Airtricity announced a 40% acquisition of Activ8 Solar Energies, a leading supplier of Rooftop Solar systems to home and business customers, with an option to acquire a further 10 per cent after two years. The acquisition marks yet another step forward in the development of the company's commercial and domestic energy services solutions.

SSE's Energy Markets trading team in Ireland is at the final stages of preparation for the introduction of the Integrated Single Electricity Market (I-SEM) this year, under which new balancing obligations will be established.

Retail – conclusion and priorities

After a solid performance in the 12 months to 31 March 2018, 2018/19 promises to be another year of change and transition as SSE continues to adapt to the rapidly evolving competitive markets in which it operates. At the same time, it must retain a keen focus on its core operations and delivering on its strategic priorities to ensure it is well positioned for the future, regardless of the outcome from the proposed merger.

In Great Britain, SSE Energy Services remains focused on:

- attracting and retaining more customers;
- reducing its operating costs;
- delivering smart in a safe, cost-effective and customer-centric way; and
- building on its customer-centric culture.

In Ireland, SSE's key priorities are to:

- attract and retain energy supply customers in increasingly competitive markets;
- deliver customer value through cost-management and investment in digitised services;
- further expand its commercial and domestic Energy Services solutions; and
- optimise its Energy Markets capabilities ahead of the introduction of the Integrated Single Electricity Market (I-SEM).

In Business Energy, SSE's priorities are to:

- further strengthen SSE's strong position in meeting the core energy needs of business and public sector customers
- leverage internal capabilities across the SSE Group to broaden the customer offering to include smarter products such as energy optimisation and demand side response.

Beyond these immediate priorities, work will continue to: complete the separation of SSE Energy Services within the SSE Group; engage with shareholders and the CMA to secure the necessary approvals; plan and prepare for integration; and complete the planned transaction. This, combined with a continued focus on delivering strong operational performance in the interim, will help position both the merged retail business and remaining SSE businesses for long-term success following the expected completion of the transaction, subject to approvals, in the last quarter of 2018 or first quarter of the 2019 calendar year.

Enterprise key performance indicators

	March 18	March 17
Enterprise adjusted operating profit – £m	26.9	16.7
Enterprise reported operating profit – £m	15.1	16.7
Capital expenditure – £m	61.9	58.7
SSE Heat network customer accounts	Over 9,400	Over 6,500
Number of Enterprise Telecoms infrastructure projects connecting businesses	363	260
Number of Bollere EV charge points installed to date in London by Enterprise Contracting	583	315
Number of train stations maintained or improved by Enterprise Rail	1,002	517

Financial performance in Enterprise

Enterprise: Adjusted operating profit increased to £26.9m in 2017/18, compared to £16.7m the previous year, due to a combination of higher revenues and focused cost cutting.

Reported operating profit decreased to £15.1m in 2017/18 from £16.7m in 2016/17 due to the factors above, offset by an impairment of Heat Networks assets and a provision against future contracts following an operational review of that area of the business.

Looking ahead, Enterprise will continue to engage with its significant restructuring exercise – which is designed to drive out unnecessary cost and thereby ensure the business is best placed to seek out and win new growth opportunities. Safety remains a key priority for Enterprise, with an objective to reduce reported accidents – in line with the targets of SSE Group.

Playing to the core strengths of Enterprise

SSE Enterprise is a group of businesses that provides energy and telecoms services to industrial, commercial and public sector customers across the UK and Ireland. To fulfil that need the business has developed the capacity to build, own, operate and maintain assets. Its four business areas are: Contracting, Utilities, Telecoms and Rail.

ENTERPRISE

There is a pipeline of significant opportunities which the four Enterprise business streams are well placed to tap into. These include bigger and better opportunities in mechanical and electrical, energy storage, distributed energy, electric vehicle infrastructure, fibre networks, 5G infrastructure, and rail power and communications infrastructure.

Moving forward, the role of Enterprise, within SSE Group, will be to consolidate and grow its existing market share as well as explore new opportunities in areas that are complementary to the Group's core energy portfolio. Enterprise is one of several adjacent businesses which can benefit directly and indirectly from the strength and depth of SSE Group's experience in core energy markets.

To ensure Enterprise is a growth driver for the SSE Group it aims to:

- Focus on growth in its existing core markets;
- Develop larger projects which give longer term visibility of earnings and build on the strengths of the company's diverse business areas and multi-utility capabilities;
- Develop further the capacity of the business to build, own, operate and maintain assets; and
- Focus on providing innovative solutions to meet the changing needs of customers.

A dynamic player in an evolving energy environment

Developing strategic partnerships will continue to help Enterprise deliver value and support SSE Group to meet the changing needs of the energy and telecoms sector. For example, helping to deliver electric vehicle infrastructure in the UK represents an exciting opportunity for Enterprise to build on the success of its London project for electric buses at Waterloo bus depot. Likewise, the Utilities business will be aiming to play a bigger role in distributed energy and energy as a service.

In Rail, work awarded through the national Building and Civils Framework will transform the size of the business. In Contracting, there are opportunities arising from supporting the infrastructure growth agendas and further investments in High Voltage, and large scale projects across the UK. And finally, the Telecoms business has secured an important contract agreement with Three UK, which will see the two companies working together to support the mobile network's growth and expansion goals.

With national infrastructure investment set to increase, there are major opportunities within Enterprise's existing core markets.

These include:

- The move towards distributed energy and energy as a service;
- The significant spend on rail infrastructure. For example, the combined value of the spend on such projects as HS2 and Network Rail's Control Period 6, is expected to be in excess of £100bn;
- The emergence of the clean growth agenda and the increasing requirement for EV infrastructure for public and private vehicles;
- The migration towards 5G and the fact that broadband is increasingly seen as a fifth utility; and
- The development of the smart city agenda, which involves elements of multi-utility, telecoms and contracting.

Performance summary of four business streams

Contracting

On the back of a substantial and successful efficiency programme, SSE Enterprise Contracting has made further progress in putting in place the building blocks for future growth. It retains a clear focus on mechanical and electrical as well as power activity as the foundations of its success. SSE Enterprise Contracting is also pursuing larger scale opportunities using a disciplined approach to pick the right segments and right customers to engage with.

Utilities

SSE Enterprise Utilities aims to be a leader both in its core utility infrastructure market and the fast-growing market for distributed energy networks. It is looking to increase the scale of the energy assets and networks it currently builds, owns, operates and maintains. The business is set to target the rapidly growing electric vehicle market, and is involved in the installation and power supply of EV infrastructure. In response to demand, it is seeking to deliver solutions to integrate energy generation, storage and utility infrastructure. On the back of strong growth by Slough Heat and Power in its private electricity network, the business is aiming to recreate this capability across the UK market.

Telecoms

SSE Enterprise Telecoms continues to accelerate new network development to help bring major UK data centres "on net" and expand its commercial footprint throughout the UK and especially on key strategic routes by unbundling more BT Exchanges. It is winning long term core network agreements with new clients in the banking, transportation and service provider markets. It is also supporting both broadband rollout and Mobile Network Operators with their 5G network preparation. In Ireland, SSE is a member of a consortium that has been participating in a competitive tender dialogue process with the Irish government to deliver Ireland's National Broadband Plan.

Rail

SSE Enterprise Rail continues to grow thanks to its reputation for delivering an outstanding quality of work – as evidenced by recent PRISM scores from Network Rail. SSE Enterprise Rail has a unique service offering because it can be a local service provider; whilst retaining the capability to bid for work on major infrastructure projects such as HS2, drawing on the experience of SSE Group. The award of a significant quantum of work via the national Building and Civils Framework shows that the business can become a 'supplier of choice' for Network Rail through its scale and quality capabilities.

Enterprise – conclusion and priorities

2017/18 represented a very positive year for the Enterprise business, thanks primarily to its focus on efficiency and delivering for customers in its core markets. That disciplined approach will continue into 2018/19, to ensure the Enterprise business is well placed to deliver further growth to SSE Group.

Enterprise's key priorities are:

- To continue to improve its safety performance in line with SSE Group objectives;
- To continue its relentless focus on consolidating and growing its presence in core markets;
- To ensure it is meeting the changing needs of its customers with innovative solutions; and
- To ensure that 2018/19 is another year of progress.

DELIVERING ENERGY SOLUTIONS

SSE Enterprise provides energy and telecoms services to industrial, commercial and public sector customers across the UK. In recent years it has developed the capacity to build, own, operate and maintain assets through its four business areas of Contracting, Utilities, Telecoms and Rail.

SSE Enterprise adjusted/reported operating profit – £m

26.9/15.1

SSE Enterprise represents a growth area within the SSE Group as it continues to deliver smart energy and communication solutions.

Adjusted capital expenditure – £m

61.9

The UK Government's strategic focus on upgrading critical national infrastructure presents growth opportunities in Enterprise's core markets.

SSE heat network customer accounts

9,400+

Enterprise Utilities delivers multi-utility infrastructure and distributed energy networks across the UK, in the emerging era of distributed energy and energy as a service.

Telecoms projects

363

Enterprise Telecoms offers its clients leading edge connectivity across the UK through its private network, in an age where broadband is becoming seen as a 'fifth utility'.

EV charging points installed across Greater London

583

The growing demand for widespread electric vehicle infrastructure means Enterprise Contracting can build on the success of its existing London car and bus projects.

Rail stations and depots served by Enterprise Rail

1,002

Enterprise Rail has now firmly established its reputation for outstanding service and it is well placed to capitalise on the increasing spend on rail infrastructure.



13,700KM

Distance spanned by Enterprise Telecoms' UK network.



1M+

Number of street lights maintained by Enterprise Contracting.

SSE Enterprise will continue with its restructuring to drive out unnecessary cost and to deliver smart energy and communication solutions for business and the public sector. Our primary focus will be on growth in core markets and there is a notable pipeline of major opportunities in mechanical and electrical, distributed energy, electric vehicle infrastructure, fibre networks, and rail power and communications infrastructure, for us to tap into. The future role of Enterprise within SSE Group will be to consolidate and grow its existing market share, as well as explore new opportunities in areas that are complementary to the Group's core portfolio.

Neil Kirkby
SSE Enterprise Managing Director



OUR ROLE IN SOCIETY















A large electricity pylon stands in a field of golden-brown grass and hay bales. The sky is a deep blue with scattered white clouds. The pylon is a complex lattice structure, and several power lines extend from it across the frame. In the background, another smaller pylon is visible. The overall scene is a mix of industrial infrastructure and rural landscape.

CONTROLLING

SSE'S NON-FINANCIAL IMPACTS SUMMARY 2017/18

The new EU Corporate Social Responsibility Directive (2014/95/EC) requires additional disclosure of non-financial impacts. SSE welcomes this development and the table below summarises the requirements of the new reporting expectation, pointing to where additional information can be found. The non-financial information provided in SSE's Strategic Report summarises the material issues SSE has identified in line with the new requirements, alongside information around risks, action taken, due diligence and performance for these topics. Specifically, SSE's response to its material environmental impacts, social impacts, employee issues, respect for human rights, anti-corruption and anti-bribery is outlined. Further disclosure around all of these areas can be found in SSE's Sustainability Report 2018.

	Material issue	Relevant Group Principal Risk
PROTECTING ENVIRONMENT AND CLIMATE  Pages 72 to 75	Greenhouse gas (GHG) emissions and contribution to climate change	 Politics, Regulation and Compliance
	Environmental impacts of development, construction and operation of assets	 Safety and the Environment
SHARING SOCIAL CONTRIBUTION  Pages 76 to 78	Responsible approach to tax in both the UK and Ireland	 Politics, Regulation and Compliance
	Contributing to the UK and Irish economies and sustaining inclusive jobs	 Politics, Regulation and Compliance
	Providing affordable and inclusive service for all	 Energy Affordability
	Sharing value with local communities	 Development and Change
DEVELOPING PEOPLE  Pages 79 to 82	Health and safety for direct employees and contractors	 Safety and the Environment
	Impact of the planned SSE Energy Services transaction	 People and Culture
	Predicted skills gap in the energy sector	 People and Culture
	Lack of diversity in SSE's workforce	 People and Culture
REINFORCING CULTURE  Pages 83 to 85	Reinforcing an ethical business culture and reducing the risk of bribery and corruption occurring	 People and Culture
	Human rights violations of direct and supply chain employees	 Major Projects Quality

Action taken	Due diligence
Targets for carbon intensity of electricity generated and leading renewable energy generator across the UK and Ireland.	GHG data assured by PwC and CDP Climate Change Programme submission.
Minimise adverse environmental impacts and enhance positive ones arising from SSE activities.	Compliance with environment agencies' standards and Environmental Impact Assessments for major projects.
Proactive approach to paying a fair share of tax with leading disclosure and advocacy around a responsible approach to tax.	Independent Fair Tax Mark accreditation.
Use of local or nationally-based suppliers when feasible and enhanced understanding of local and national economic contribution.	Annual economic contribution and jobs supported analysis by PwC.
Efficient business operations with additional programmes to support vulnerable customers.	Achievement of the British Standard for Inclusive Service Provision in Retail and Networks businesses.
Large private funder of community projects in both the UK and Ireland.	Majority of SSE's Community Investment Funds are awarded through panels which are independent to SSE.
Implementation of '50by20' Safety initiative and roll-out to wider employee population of enhanced health and safety training.	Safety audits conducted on a regular basis at SSE sites for direct employees and contractors.
SSE and npower are meeting with their trade union partners using their current consultation mechanisms and supplementing this with additional meetings with officials. Dedicated, two-way employee communications channels established.	Competition Markets Authority review and assessment of the planned SSE Energy Services transaction.
Recruitment into talent pipeline programmes and continued investment in training and skills development for employees.	Recruitment and training data closely monitored. Independent interviews carried out with leavers.
Inclusion Strategy 2017-2020 created and year one actions implemented across the Group, with new ambitions set for women in senior leadership positions by 31 March 2021.	Inclusion Strategy created with inclusion specialists Equal Approach, who continue to monitor progress along with the Board and Executive Committee.
Mandatory anti-bribery training for all employees. Launch of internal campaign to encourage employees to 'Speak Up' against wrongdoing.	Incidents reported internally or to the externally-hosted whistleblowing service are fully investigated.
Roll-out of modern slavery training for all procurement professionals and risk assessment of Tier 1 supply chain spend.	Activities monitored by the Human Rights Steering Group and any reported incidents are fully investigated.

ENVIRONMENT AND CLIMATE

PROTECTING

SUPPORTING A
LOW-CARBON TRANSITION

SSE's vision is to be a leading energy provider in a low-carbon world, and it has a significant role to play in driving the transition to a low-carbon economy. In light of this, and with increasing scrutiny concerning the management of climate-related impacts, SSE seeks to provide open and transparent disclosures around these issues.

Performance summary

CO₂ emissions (000s tonnes)

	2017/18			2016/17		
	CO ₂	CO ₂ e	Total CO ₂	CO ₂	CO ₂ e	Total CO ₂
Generation ¹	10,076	28	10,104	7,915	38	7,953
Other scope 1	40	12	52	40	12	51
Scope 1 Total²	10,116	40	10,155^(A)	7,955	49	8,004^(A)
Distribution network losses	773	0	773	971	0	971
Other scope 2	58	0	58	63	0	63
Scope 2 total³	832	0	832^(A)	1,034	0	1,034^(A)
Raw fuels purchased	1,421	0	1,421	969	0	969
Gas sold	9,074	0	9,074	9,086	0	9,086
Transmission losses	110	0	110	286	0	286
Other scope 3	17	0	17	16	0	16
Scope 3 total⁴	10,621	0	10,621^(A)	10,357	0	10,357^(A)
Total emissions⁵	21,569	40	21,609^(A)	19,346	49	19,395^(A)
Intensity ratios						
Emissions relative to kWh output (gCO ₂ e per kWh) ⁶	307			304		

Due to rounding, some numbers may not appear to total correctly.

1 The figure for generation emissions adjusts the figure from SSE-owned generation (in GB and Ireland) to include energy bought in under power purchase agreements.

2 Scope 1 comprises electricity generation, operational vehicles and fixed generation, sulphur hexafluoride emissions and gas consumption in buildings.

3 Scope 2 comprises electricity distribution losses, operational vehicles and fixed generation, sulphur hexafluoride emissions and gas consumption in buildings. In 2017/18 there was a change in the approach used for Scope 2 data collection. This change was immaterial to the overall total Scope 2 balance and therefore no restatement was required.

4 Scope 3 comprises emissions that occur outside of the organisation in support of its activities. Scope 3 emissions include upstream emissions associated with the extraction, refining and transport of raw fuels purchased, SSE Transmission losses, gas sold and business travel.

5 GHG emissions from SGN's activities are excluded (SGN reports these separately). GHG emissions from other Joint Ventures are also excluded.

6 Emissions intensity relative to kWh is calculated against scope 1 emissions only, rather than total emissions.

(A) PwC has provided limited assurance against ISAE 3000 (Revised) and ISAE 3410 standards for selected key data in 2017/18. Where you see the (A) 'Assurance symbol' in this report, it indicates data has been subject to assurance. For the limited assurance opinion and SSE's reporting criteria, see sse.com/beingresponsible/reporting-and-policy/.

Pathway towards full TCFD disclosure

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information. These recommendations focus on businesses' strategies to manage climate-related risks and low-carbon opportunities, with an emphasis on financial disclosure and the use of scenario analysis.

In November 2017, SSE committed to meeting these voluntary recommendations in full by 2021. SSE will continue to respond to the CDP Climate Change Programme, which links to the TCFD recommendations. In the meantime, its response to the four themes of the TCFD recommendations – strategy, metrics and targets, governance and risk management – is outlined.

Strategy

Supporting a low-carbon transition

At the heart of SSE's strategy is a commitment to contribute substantively to the transition to a low-carbon electricity system. This means undertaking a strategic shift away from carbon intensive fossil fuel generation towards electricity generation from renewable sources, enabling the connection of renewable sources of electricity to its network and optimising the networks as they adapt to a lower carbon future.

To bring about this strategic change the SSE Group has:

- **Invested significantly in renewable energy:** SSE has invested over £3.5bn in renewables since 2010 and has the largest renewable energy capacity across the UK and Ireland at around 3.8GW (inc. pumped storage).

- **Moved from a portfolio weighted towards coal and gas, to one weighted towards gas and renewables:** In 2017/18 coal-fired generation contributed around 4%, renewable generation (inc. pumped storage) 28% and gas- and oil-fired generation 66% of SSE's total generation output.
- **Enabled more renewable generation to connect to the electricity network:** SSE has invested over £2.3bn since the Transmission price control period began in 2013 in new electricity transmission infrastructure. In 2017/18, around 400MW of new renewable generation capacity was connected.

ENVIRONMENT AND CLIMATE CONTINUED

A new carbon intensity ambition for 2030

SSE's long-standing commitment to reduce the carbon intensity of its electricity generation by 50% by 2030, using 2006 performance as its baseline, was first met in 2016/17. Its performance in 2017/18 is also consistent with that target.

In order to set an equivalent carbon ambition to 2030, an assessment of a number of different development scenarios has been undertaken. As a non-nuclear generator, SSE's carbon strategy for its electricity generation portfolio is to focus on its core competences in wind (onshore and offshore), hydro (including pumped storage) and flexible gas-fired generation. This strategy will make an important contribution to the UK and Ireland's electricity needs in the period to 2030 and beyond.

SSE is now setting a new, longer term ambition for the carbon intensity of the electricity it generates:

**↓ 50%
BY 2030**

SSE aims to reduce the carbon intensity of its electricity production by a further 50% by 2030, based on 2018 levels.

Delivering this reduction in carbon intensity will require a stable and investable UK policy framework. It is crucial the government provides clarity around: the timing and frequency of future Contracts for Difference rounds; budgets for delivering low-carbon generation; and a robust carbon price signal to 2030.

Working towards a science based carbon target

While the carbon emitted from SSE's electricity generation activities is its most material impact, other direct and indirect carbon emissions arise as a result of its business activities, which contribute to SSE's total carbon emissions.

SSE's current 2020 carbon intensity target is supported by additional targets to address other carbon emissions across the SSE group, for example the reduction of carbon emissions relating to losses on the electricity distribution networks by 3% between 2015 and 2023. SSE is working towards setting a comprehensive science based target and will outline further targets that relate to these other emissions before the end of the next financial year (31 March 2020).

Advocating for carbon pricing

During 2017/18, SSE maintained its advocacy for a strong and stable carbon price which continues well into the next decade. SSE engaged with government officials around carbon pricing and its impacts on investment and also collaborated with other energy companies and NGOs on a letter to the Chancellor of the Exchequer setting out the importance of carbon pricing for a competitive, productive and sustainable UK economy, and the need for carbon price clarity beyond 2021.

Using scenario analysis to assess the resilience of SSE's business model

In July 2017, SSE published its first carbon scenarios report, *Post-Paris*, assessing the resilience of its business model in GB against three climate change scenarios. SSE's existing, resilient, portfolio of assets can respond to the various scenarios assessed, and its diverse range of future development options provide many potential opportunities for the future.

The full report can be found at sse.com/being-responsible.

SSE will continue to develop its scenario analysis by extending it to cover gas and bring more financial information into its disclosures.

Metrics and targets

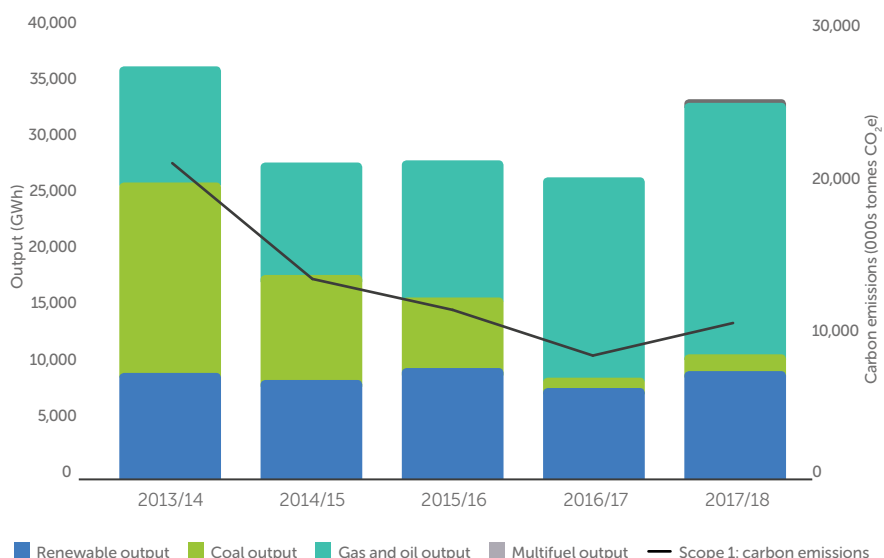
Measuring SSE's carbon emissions performance

SSE's total carbon emissions (scope 1, 2 and 3) increased by 11% between 2016/17 and 2017/18. The main contributing factor was a 27% rise in scope 1 emissions, largely due to Peterhead gas-fired power station returning to full operation (1,180MW) in October 2017 following a period of operating at 400MW. Fiddler's Ferry coal-fired power station also increased output, driven by power price increases and unusually cold weather across the country. Both Peterhead and Fiddler's Ferry made an important contribution to the UK's security of electricity supply in 2017/18, demonstrating the ongoing importance of thermal generation through the transition to a low-carbon world.

SSE's scope 2 emissions fell by nearly 20% compared to 2016/17 and accounted for less than 4% of total carbon emissions in 2017/18. This reduction is mainly a result of lower electricity losses on SSE's electricity networks and changes in carbon emission factors due to decarbonisation of the UK grid.

Scope 3 emissions increased by over 2% compared to 2016/17 and contributed to nearly 50% of SSE's total carbon emissions in 2017/18. This rise is mainly a result of an increase in the fuel purchased for thermal power stations, as a result of changes in SSE's generation mix and an increase in demand compared to the previous year.

Generation output (GWh) and scope 1 carbon emissions (000s tonnes CO₂e)



SSE's total generation output increased 26% between 2016/17 and 2017/18, meaning despite the increase in scope 1 emissions, the carbon intensity of the electricity SSE generated remained relatively stable and only increased marginally from 304gCO₂e/kWh in 2016/17 to 307gCO₂e/kWh in 2017/18. As a generator with flexible thermal generation plant which is required to complement low-carbon generation and provide other system security services, some fluctuation in the carbon intensity of the electricity SSE generates is expected. In 2017, SSE was awarded a B for its response to the CDP Climate Change Programme.

Governance

Governance of climate-related issues

SSE's Chief Executive has lead responsibility for climate-related issues, including at Board-level. The Board is responsible for setting the Group strategy direction and, when setting strategic objectives, it considers all material influencing factors including those relating to climate change.

The Executive Committee is responsible for implementing the Group strategy set by the Board. It drives climate-related performance programmes across the organisation through its Group Safety, Health and Environment Committee, as well as through support from SSE's Sustainability team. In addition to this, climate-related issues are managed within each business unit.

Risk management

Managing climate-related risks and low-carbon opportunities

Climate change, and the imperative to decarbonise energy systems, creates both risks and opportunities for SSE. SSE identifies and evaluates risk at both Group and divisional (including assets) level. The Group Risk Management Framework has been designed to ensure, amongst other things, that SSE is in a position to address the issue of climate change, whether as a risk or as an opportunity. This framework is outlined on pages 28 to 33.

Addressing climate change involves mitigation as well as adaptation and this is reflected in SSE's approach to risk management. Climate change and its impacts are considered throughout SSE's Group Principal Risks. More detailed analysis of climate-related risks and low-carbon opportunities can be found in SSE's Sustainability Report 2018.

Using resources responsibly

Managing water use

In 2017/18, SSE's operations abstracted a total of 24 billion m³ of water compared to 22.7 billion m³ in 2016/17. The vast majority was abstracted by SSE's hydro generation operations and is therefore returned almost immediately to the environment – only 0.008 billion m³, of this water was consumed in 2017/18 compared to 0.005 billion m³ in 2016/17. None of SSE's core operations have an impact on water-stressed areas.

Enhanced disclosure around SSE's water use is detailed in its Sustainability Report 2018.

Water abstraction, consumption and return (billions m³)

Water consumption	2013/14	2014/15	2015/16	2016/17	2017/18
Total water abstracted	27.9	27.1	28.9	22.7	24.0
Total water consumed	0.016	0.019	0.008	0.005	0.008
Total water abstracted and returned	27.9	27.1	28.9	22.7	24.0

Managing air emissions

SSE continued to invest in operating practices and technologies that reduce or remove air pollutants from its generation processes, as well as changing its energy generation mix. In 2017/18, SSE's thermal generation sites in GB emitted 1,791 tonnes of sulphur dioxide and 5,612 tonnes of oxides of nitrogen. This compares to 1,546 and 5,555 tonnes respectively in 2016/17. The rise in air emissions was due to increased running of thermal generation plant in 2017/18.

Air emissions from SSE's GB thermal generation plants

	Units	2013/14	2014/15	2015/16	2016/17	2017/18
Nitrogen oxide	tonnes	29,969	16,871	10,685	5,555	5,612
Sulphur dioxide	tonnes	24,233	9,977	6,704	1,564	1,791
Total thermal generation output	GWh	26,687	18,931	18,081	18,341	23,670

Additional information available on [sse.com/beingresponsible](https://www.sse.com/beingresponsible)

Sustainability Report

Half-year Sustainability Statement

Post-Paris Climate Change Scenario Report

CDP submissions – carbon, water, supply chain and forests

Biodiversity Report

GHG and water assurance statement

Environment and Climate Change Policy

SOCIAL CONTRIBUTION

SHARING

FULFILLING A
SOCIAL CONTRACT



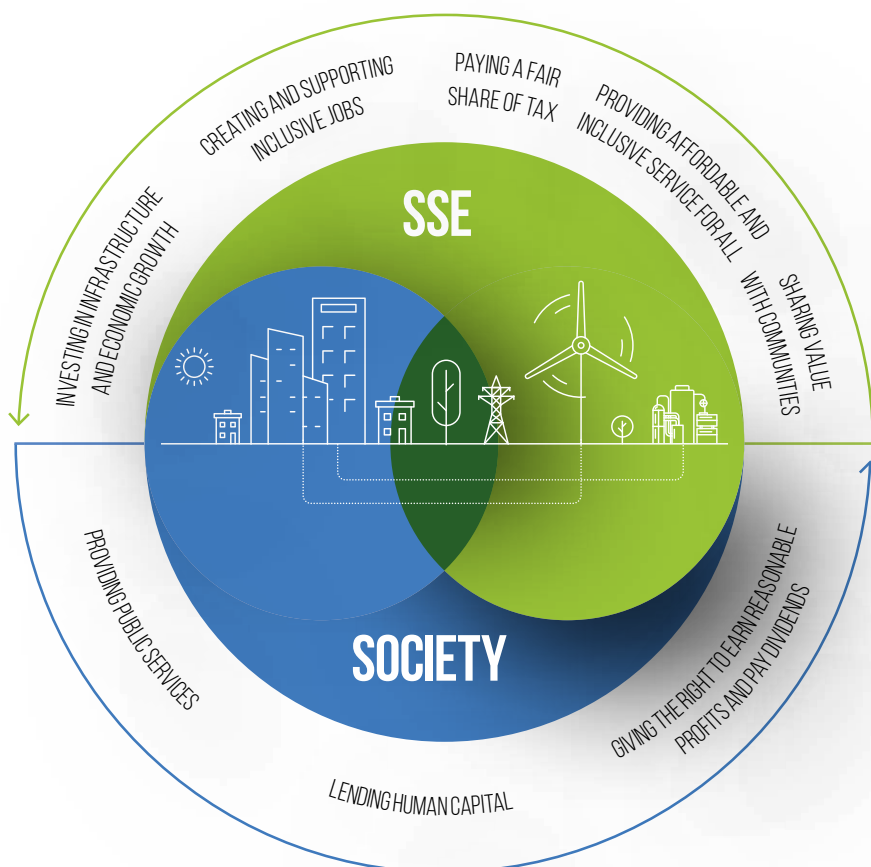
SSE seeks to create value for shareholders and for society in a sustainable way. Through a responsible approach to its operations and the way it does business, SSE makes a number of important positive social impacts in the UK and Ireland.

SSE's social contract

SSE operates in markets which are subject to a high degree of regulatory, legislative and political intervention or uncertainty. It therefore recognises it has additional obligations to carry out its business in a way that best meets the needs of its customers and wider society, while earning a reasonable profit to remunerate shareholders for their investments.

SSE's relationship with the societies it operates within is deeply interconnected. It relies upon these societies to provide good public services, provide human capital and give the right to earn a reasonable profit and pay dividends to its shareholders. Those shareholders often represent future pensioners from within those communities.

In exchange, SSE must act in the public interest to maximise the social and economic benefits in the UK and Ireland from its operations. It does this by providing reliable and sustainable energy, investing in infrastructure, contributing to inclusive economic growth and sustainable jobs, paying its fair share of tax, providing inclusive service for all and sharing value with local communities. It is the fulfilment of this 'social contract' that will secure SSE's legitimacy to operate as a privately owned energy company working in the public interest.



Investing in infrastructure and economic growth

SSE is a UK-listed company with a focus on the GB and Irish energy markets. This means SSE is committed to contributing to the long-term success of the economies of the UK and Ireland, and believes this will be best achieved with economic growth that is inclusive, creates social value and is geographically balanced across both urban and rural areas.

In 2017/18, SSE contributed £8.6bn and €806m to UK and Irish GDP and was responsible for 0.5% and 0.3% of total GDP in the UK and Ireland respectively. SSE's economic activities also supported 103,520 jobs across these countries in 2017/18. SSE is one of the few FTSE companies to assess

its wider economic contribution annually alongside its financial results, with the calculation carried out by independent professional services firm PwC and full reports available on sse.com/beingresponsible. Since SSE started calculating its economic contribution in 2011/12, it has contributed £65.2bn to UK GDP and €6.0bn to Irish GDP (in 2017/18 prices).

SSE's investment in infrastructure comprises a key component of its economic contribution each year. In 2017/18, SSE's investment and capital expenditure was over £1.5bn. Around £1.1bn of this investment was in networks and renewables, with a strong emphasis on supporting the connection and delivery of renewable energy projects.

Performance summary

	Unit	2017/18	2016/17
Contribution to GDP (UK/Ireland)	£bn/€m	8.6/806	9.3/779
Total jobs supported (UK/Ireland)	Number	99,000/4,520	103,720/4,720
Total taxes paid (UK/Ireland)	£m/€m	484.1/22.6	385.0/16.5
Customers who have received assistance from SSE through the Warm Home Discount scheme (GB)	Number	352,677	359,505
Networks customers on the Priority Services Register (GB)	Number	574,047	487,202
Value of Open4Business contracts	£m	12.9	36.9
Investment in communities ¹	£m	6.5	6.9

¹ Total across UK and Ireland, including: charitable donations through matched funding, Community Investment Funds, Resilient Communities Fund and financial value of employee volunteering.

SOCIAL CONTRIBUTION CONTINUED

Over the next five years, SSE expects its investment and capital expenditure to total around £6bn. This investment ensures the countries' energy infrastructure can meet the energy demands of society and provide the backbone of a thriving, growing economy. A strong economy and attractive investment environment supported by political and regulatory stability is therefore essential for SSE to meet its aspirations and continue making a substantial economic contribution each year.

Creating and supporting inclusive jobs

Not all economic growth is equal and some has more social value than others. SSE has been ranked the top company in the FTSE 350 for inclusive jobs growth by the Good Economy, an independent sustainability consultancy firm. This is due to two key factors, demonstrating the way SSE creates value for individuals right across society:

- (1) The geography of SSE's business means it is embedded throughout the UK and Ireland, serving cities as well as rural places and recruiting from those communities.
- (2) The scale of SSE's workforce and the impact of its responsible employment ethos.

Further disclosure on SSE's approach to employment and inclusive jobs can be found on pages 79 to 82.

Paying a fair share of tax

The payment of taxes underpins good public services. According to an annual survey by the Institute of Business Ethics, corporate tax avoidance remained the greatest business concern of consumers in 2017. SSE understands paying tax is an essential part of its social contract to act in the public interest.

Additional information available on [sse.com/beingresponsible](https://www.sse.com/beingresponsible)

Sustainability Report

Half-year Sustainability Statement

PwC results of SSE's economic contribution calculation

Talking Tax booklet

Single-issue sustainability impact reports on infrastructure projects

Community Investment Reviews

Customer Charter

Responsible Procurement Charter

In 2017/18, SSE made a total tax contribution of £939.9m and €79.5m to the UK and Irish Governments. This was made up of £484.1m taxes paid and £455.8m taxes collected in the UK, and €22.6m taxes paid and €56.9m taxes collected in Ireland.

SSE remains the leading FTSE company on responsible tax and achieved Fair Tax Mark accreditation for the fourth consecutive year in 2017/18. This accreditation is independent verification that SSE pays the right amount of tax in the right place, at the right time. In 2017/18, SSE also published its second 'Talking Tax' booklet which can be found on [sse.com/beingresponsible](https://www.sse.com/beingresponsible). It provides additional disclosure of SSE's approach to tax, its policies and processes, its tax strategy and due diligence, with full breakdown of SSE's payment of taxes into different categories by jurisdiction. This approach enables SSE to minimise its exposure to risk from future tightening of tax laws in line with public attitudes on corporate tax avoidance.

Providing affordable and inclusive service for all

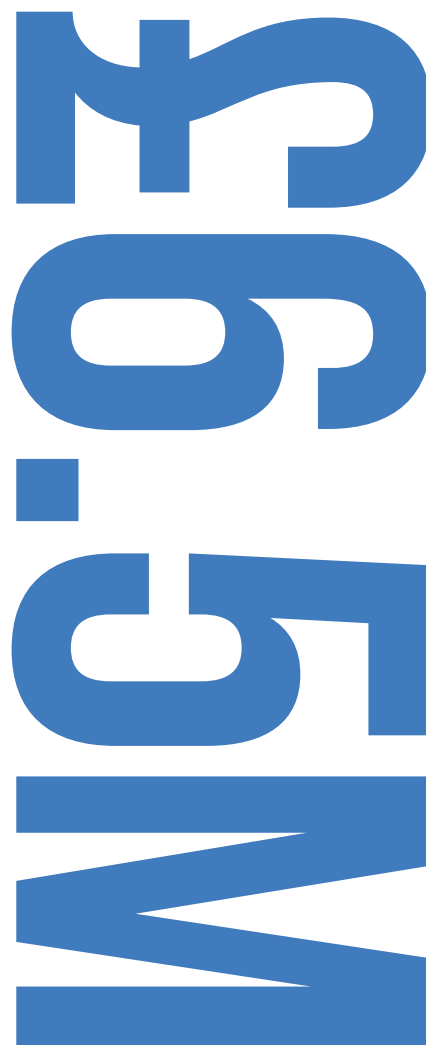
Energy is an essential product and SSE has a duty to provide its services to all customers in a responsible way. This means ensuring the energy provided by SSE is good value, both in terms of affordability and accessibility, which is particularly important for vulnerable customers. SSE has robust processes in place to provide additional support and ensure it provides truly inclusive service. SSE's Retail Risk Committee has oversight of the 'Energy Affordability' Group Principal Risk, and SSE's Customer Charter outlines how the company will support customers who are struggling to pay their bills. SSE works closely with its customers and third parties to create sustainable payment plans.

Demonstrating this commitment to supporting its customers, in 2017/18 both SSE's Networks business (SSEN) and Retail business achieved the BS 18477 Inclusive Service Provision standard. This is an independent standard for organisations that provide fair, flexible and inclusive service that responds appropriately to individual consumer needs. Providing additional support and service for the most vulnerable customers helps ensure excellent service is provided for all.

Sharing value with communities

Community engagement plays an important role in ensuring the success and longevity of SSE's projects and operations. SSE therefore has a policy of sharing the economic value of its wind farms with the communities close to them, in addition to creating wider community benefits through initiatives like

employee volunteering. In 2017/18, SSE provided over £6.5m to communities across the UK and Ireland. This contribution includes SSE's Community Investment Funds, Resilient Communities Fund, charitable donations and the financial value of employee volunteering. Further information around this investment in communities and the processes in place to distribute value fairly can be found in the Sustainability Report 2018 and within SSE's annual community investment reviews which are published on [sse.com/beingresponsible](https://www.sse.com/beingresponsible).



Investment in communities

DEVELOPING

**A CLEAR STRATEGY FOR
WORKFORCE DEVELOPMENT
AND EMPLOYEE ENGAGEMENT**

PEOPLE CONTINUED

SSE's human capital strategy is based on the premise that an engaging, supportive and fair place to work generates substantial long-term benefits for SSE and its stakeholders. This employment ethos, combined with the geographical diversity of SSE's business, allows SSE to generate inclusive economic growth and sustain skilled jobs across the UK and Ireland.

Performance summary

	Unit	2017/18	2016/17
Total employees	Headcount ¹ (% male/% female)	20,785 (68.9/31.1)	21,157 (68.6/31.4)
Executive Committee and direct reports ²	Headcount ³ (% male/% female)	47 (80.9/19.1)	55 (81.8/18.2)
Board of Directors	Headcount ⁴ (% male/% female)	10 (70/30)	9 (66.7/33.3)
Retention rate	%	86.3	85.7
Total recruitment	Number	2,583	3,227
Average age	Years	40.5	40
Average length of service	Years	9.5	9.3
Learning and development expenditure ⁵	£m	9.8	9.5
Average training per FTE	Hours	22	21
Investment in pipeline programmes ⁶	£m	15.4	9.4

1 As at 31 March in each financial year. Figures include all SSE UK and ROI employees, excludes contingent/agency staff.

2 The figures for the Executive Committee include the relevant members of the Committee in each financial year, as well as the Company Secretary and MD, Corporate Affairs, who attend all Committee meetings. Administration employees have not been included when calculating the direct reports to these individuals.

3 As at 31 March in each financial year. Figures are for the current SSE business. SSE's new gender balance targets (see page 81) are for the SSE business following completion of the planned SSE Energy Services transaction.

4 As at 31 March in each financial year. For more information see pages 106 to 107.

5 Total internal and external learning and development expenditure excluding pipeline programme investment. 2016/17 has been restated to remove pipeline programmes.

6 Total cost of apprentice, graduate, Technical Skills Trainee and other pipeline programmes, including salary costs.

Strategic challenges

The most material challenges and risks facing SSE's workforce remain consistent with last year: a skills gap in the energy sector in the 2020s and a stark lack of diversity within the industry. As such, talent development and the creation of a truly inclusive workplace at SSE continues to be the focus and backdrop of many Board, Nomination Committee and senior management discussions. SSE must be able to attract, develop and retain an appropriately skilled, diverse and sustainable workforce and leadership team. It will continue with its strategy to address these challenges – using skills gaps as an opportunity to become a more inclusive employer and grow sustainable careers across the UK and Ireland, maximising social value by recruiting from local areas. By broadening the potential talent pool and skills base, SSE believes this more diverse perspective will result in a higher quality of decision-making and improved company performance and productivity.

The principles of being a responsible employer are guiding SSE through its planned SSE Energy Services transaction and the challenges of change.

Throughout this process, and in preparation for the creation of a new, independent energy supply and services business, it has been a strategic objective to ensure that the interests of existing SSE employees are supported, particularly those who would transfer across to the new company.

Governance

SSE's Corporate Governance Framework has been carefully designed to support the company's values, standards and processes. It helps ensure SSE is a respectful and inclusive place to work where employees are treated fairly.

The Nomination Committee ensures the Board, its Committees and SSE's senior management have the right balance of skills, knowledge and experience, to ensure the long-term success of SSE. In particular, the Committee reviews SSE's succession planning and talent development, and aims to promote a culture at SSE which is inclusive and diverse by taking account of a wide range of perspectives. More detail can be found in the Nomination Committee Report on pages 105 to 108.

SSE's Chief Executive, Alistair Phillips-Davies, has specific responsibility for leading and supporting SSE's Human Resources function. The Group Governance, Culture and Controls Committee has oversight of the 'People and Culture' Group Principal Risk.

Fairness at work

SSE has a range of employment policies which clearly detail the standards, processes, expectations and responsibilities of its people and the organisation. These policies are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career at SSE, whether that means access to appropriate training, development opportunities or job progression.

SSE'S RESPONSIBLE EMPLOYER ETHOS

SSE has a well-established approach to being a responsible employer, based on a number of basic principles which help ensure value is created and retained for employees and the organisation. This ethos has been extended in 2017/18 to include creating an inclusive culture for all employees.

1. Progress employees from within

2. Preference for carrying out work in-house

3. Focus on the UK and Ireland

4. Create an inclusive culture

Underpinning SSE's responsible employer ethos is the fundamental principle that all SSE employees and those in its supply chain must be treated – and treat each other – with fairness and respect. Key to this is SSE's commitment to paying the real Living Wage.



More information about the principles of SSE's responsible employer ethos can be found within the Sustainability Report 2018.

Workforce disclosure

SSE is committed to demonstrating leadership in its reporting of workforce metrics and developing year-on-year improvement to both the quality and quantity of disclosure. It works with a number of external stakeholders to ensure the ongoing development of data reporting and understanding around employee issues. SSE does this because it believes that significant future value is created through the development and investment in its workforce. It actively seeks to disclose that approach to encourage scrutiny and engagement from both its shareholders and its stakeholders.

Workforce composition

Future workforce

Following completion of the planned SSE Energy Services transaction, SSE would retain its Networks, Enterprise and Wholesale businesses, in addition to corporate functions. Although this will reduce the size of SSE's workforce, SSE is committed to its responsible approach to employment remaining the same and it will continue to generate inclusive growth for the economies in the geographical locations where it operates. It will also continue its approach to positively engage with its trade union partners to ensure they are kept apprised of any key business changes.

Inclusion and diversity

Information on action taken and progress made against SSE's Inclusion Strategy 2017-2020 is reported in the Sustainability Report. This strategy was developed in 2017/18 with inclusion experts Equal Approach, who continue to provide guidance to assist SSE maximise value by becoming a truly inclusive company. SSE's UK gender pay gap reporting for 2016, 2017 and 2018 can also be found in the Sustainability Report, with detail on action taken against SSE's 'IN, ON, UP' strategy to encourage more women **in** to SSE, support women to stay **on** in the company, and help women to progress **up** in the organisation to the highest levels.

SSE's Board, Nomination Committee and Executive Committee are committed to making real progress in improving inclusion and diversity at SSE. Progress is actively reviewed by the Executive Committee quarterly at a minimum and by the Nomination Committee at least twice a year. Members of the Board, Executive Committee and other senior business leaders are also committed to working individually to achieve progress. Further information around the diversity of SSE's Board and the work that has been carried out in respect of inclusion can be found within the Nomination Committee Report on pages 107 to 108.

Stability

Developing talent

SSE faces a skills gap in the 2020s and must ensure it has a sustainable pipeline of talent coming into and succeeding through the business. This means making sure SSE is accessing a wide pool of diverse talent externally, as well as creating an inclusive environment where employees can move up in the organisation.

At entry-level, in 2017/18 there were 1,110 trainees on one of SSE's pipeline programmes – just over 5% of SSE's total workforce. SSE invested a total of £15.4m across these programmes, a substantial increase from £9.4m in 2016/17. The increase in pipeline spending in 2017/18 was primarily driven by a £5.8m investment in SMART metering apprentices. SSE's total investment in pipeline programmes over the last four years is £48.5m.

SSE recruited 2,583 people in 2017/18 and 1,316 vacancies were filled by internal candidates. SSE's ability to identify and accelerate talent at all levels is an important focus for the business. For more detail on the Board and Nomination Committee's focus around succession planning and activities to promote a sustainable pipeline of skills throughout SSE, see pages 106 to 107.

Setting ambitions for women in senior leadership

In line with its 'IN, ON and UP' strategy to improve inclusion and diversity, SSE has set the following initial gender balance targets for the 'NEW' SSE business, with the aim of achieving them within three financial years:

20% → **30%**

Executive Committee and Direct Reports to the Executive Committee*: from 20% women at present to 30% women by March 2021.

16% → **25%**

Membership of the Executive Committee and its sub Committees: from 16% women at present to 25% women by March 2021.

14% → **20%**

Roles at £70,000 (indexed from 31 December 2017) or above, commonly found in Organisational Level (OL) 19: from 14% women at present to 20% women by March 2021.

The setting of these ambitions was given careful consideration. They are designed to be realistic and credible for SSE given its starting point and the sectorial challenges it faces, whilst also being sufficiently ambitious to drive meaningful and visible change in the organisation. More information about what action SSE is taking to achieve these targets and take further action to be an inclusive employer can be found in the Sustainability Report 2018 and within SSE's full response to the Hampton-Alexander Review which can be found on sse.com/beingresponsible.

* The figures for the Executive Committee include the relevant members of the Committee in each financial year, as well as the Company Secretary and MD, Corporate Affairs, who attend all Committee meetings. Administration employees have not been included when calculating the direct reports to these individuals.

PEOPLE CONTINUED

Performance management

SSE has a well-established approach to performance management with a structured framework which assesses employee performance against individual agreed objectives as well as alignment to the company core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. Employees at all levels in the organisation are measured against the same framework, and performance review sessions are designed to allow employees to provide feedback and think about their opportunities for personal and professional development.

Health and safety

The safety and well-being of SSE's employees and contractors is its number one priority. Its aim is to make sure all employees get home safe and behave in line with SSE's Safety value: if it's not safe, we don't do it. Information on SSE's actions and performance on promoting a safe and healthy workplace can be found in its 'Safety and the Environment' Group Principal Risk and in the Safety, Health and Environment Advisory Committee Report on pages 118 to 119.

Skills and capabilities

Training and skills

In line with SSE's commitment to developing its talent from within, 210,295 training interventions were delivered across the business in 2017/18, with an average of 22 hours of training per full-time equivalent employee. SSE invested £9.8m in internal and external learning and development in 2017/18, bringing SSE's total investment in pipeline programmes and employee learning and development that year to £25.2m.

The structure of SSE's business means that employees have opportunities to learn and gain new skills as they move between SSE's different business areas and operations. This allows for a flexible workforce which can adapt over time to fit the needs of the company and the future energy market. SSE also undertook a review of its online training resources in 2017/18 through the Ethics and Compliance Awareness Review Group to ensure learning and communications are aligned and all content is consistent with SSE's high ethical business standards.

Quantifying human capital

In 2015, SSE first quantified the total value of the human capital – the skills, talents and capabilities – embodied within its employees. SSE has now recalculated that value and will publish its results later in 2018.

Employee engagement

Industrial relations

SSE believes in a positive and progressive approach to employee relations. The right of employees to join a trade union is recognised as a fundamental human right within SSE's Human Rights Policy. Furthermore, the freedom of association and right to collective bargaining is enshrined within the UN Global Compact, which SSE will become a signatory in 2018/19. SSE recognises four trade unions and a Joint Negotiating and Consultative Committee (JNCC), which covers 65% of all SSE employees, provides the structure by which industrial relations are conducted. In 2017/18, SSE successfully negotiated its Joint Agreement pay deal with its trade union partners, with the final agreement fully recommended by all unions and their senior representatives. SSE also looks to engage with its trade union partners on a wider range of issues and has had engagement sessions with senior managers and the Remuneration Committee Chair.

Great Place to Work

Engagement is a good indicator of how connected employees are to an organisation and how committed they are to helping it to achieve its goals. SSE measures employee engagement through its full Great Place to Work survey every two years with a shorter 'pulse' survey on every alternate second year. The last full Great Place to Work survey was conducted with ORC International in July 2017, with SSE achieving an employee engagement score of 73%. To promote transparency internally and externally around the results of the survey, in 2017/18 SSE published a short report on sse.com/beingresponsible with the results of the July 2017 survey and the company's action plan in response to its findings. This year's shorter 'pulse' survey will be carried out in July 2018 to check progress on engagement scores.

Moving to SSE Pension+

In 2017/18, SSE moved its employee pension scheme from its GPPP+ to a new Pension+ offering which provides improved value for employees and reduced management charges. 94% of employees chose to plan and save for their financial future with SSE in 2017/18.

Sharing success

SSE actively encourages its employees to be shareholders in the company. In 2017/18, 42% of employees participated in SSE's Sharesave scheme and 58% of employees participated in the Share Incentive Plan.

Enhanced benefits

Following on from the sector-leading parental pay and support benefits introduced on 1 April 2017, SSE introduced a series of further measures to benefit all employees and consolidated its existing benefits. New benefits include 'Nudge for SSE', an external financial education tool to help employees better understand and manage their personal finances, 'SSE Advantage' which offers savings and cashback deals, and 'Back to Health', a pilot programme with Nuffield Health to provide additional support and specialist care for employees with anxiety, depression, stress or musculoskeletal problems.

Further workforce disclosure can be found in SSE's Sustainability Report 2018 and within its specific Responsible Employer report which will be published later in 2018.

£25.2M

Investment in pipeline programmes and employee learning and development

Additional information available on sse.com/beingresponsible

Sustainability Report

Half-year Sustainability Statement

Valuing Difference Report

Gender pay gap reporting

Response to the Hampton Alexander Review

Great Place to Work employee survey results

Responsible Procurement Charter

Inclusion and Diversity Policy

Health and Safety Policy

CULTURE

REINFORCING

NURTURING A HEALTHY
BUSINESS CULTURE

CULTURE CONTINUED

For SSE, a healthy business culture goes beyond complying with legal requirements – it is about doing the right thing. Whether it is paying a fair share of tax, doing more to increase inclusion and diversity, having zero tolerance to bribery and corruption, or respecting the human rights of employees and those in its supply chain, SSE seeks to operate with transparency and integrity.

Performance summary

	Unit	2017/18	2016/17
Speak Up contacts made ¹	Number	105	92
Formal grievances raised	Number (Rate per 100 employees)	143 (0.69)	153 (0.72)
Formal disciplinary procedures instigated	Number (Rate per 100 employees)	234 (1.13)	254 (1.20)

1 Number of contacts made both through internal mechanisms and through SSE's externally hosted whistleblowing phone line. Figures are for calendar year.

Unethical behaviour is a risk to businesses

With increasing focus and scrutiny on corporate conduct, stakeholders rightly expect companies like SSE to demonstrate how they are embedding a responsible business culture within their organisations.

Unethical behaviour can result in significant loss in value to the business in terms of revenue but also reputational, legal and regulatory costs. However, the converse is also true: a healthy business culture can support value creation over the long-term. SSE made significant progress in 2017/18 to advance its approach to reinforcing an ethical business culture. An inability to maintain a healthy business culture is identified within the 'People and Culture' SSE Group Principal Risk. SSE seeks to ensure the right culture is nurtured within the company to mitigate this risk.

Reinforcing a healthy culture

SSE has a robust governance structure in place to support business ethics and a series of policies which detail its commitments and standards in this area. SSE's Speak Up (Whistleblowing) Policy outlines the procedures and processes for when and how to speak up about wrongdoing. SSE recognises that rules alone are not sufficient to ensure wrongdoing is avoided – a combination of rules and values is needed to help embed a healthy business culture.

SSE's approach is to set the tone of an ethical business culture from the top. Demonstrating commitment to the right values and behaviours at this level reinforces the beliefs and behaviours of all employees. This is reinforced by a values-led approach to communications intended to build a sense of collective responsibility for doing the right thing.

Regular training is provided for SSE employees across a series of subject matters and in 2017/18 a new Ethics and Compliance Awareness Review Group was established to oversee the roll out and implementation of a programme of targeted training interventions.

To support that programme of training, SSE deployed an extensive internal communications campaign in 2017/18 with a spotlight on encouraging employees to 'Speak Up' when they suspect wrongdoing. This included awareness around business ethics, and the launch of an internal *Bad Things Happen in Good Companies* mini-documentary which includes commentary from senior managers and the Chief Executive. The film promotes SSE's externally-hosted whistleblowing phone line and email service, SafeCall.

United Nations Global Compact

In 2018, SSE took the decision to become a signatory to the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative. The UNGC supports companies to take a sustainable approach to business and align their strategies and operations with ten universal principles on human rights, labour, environment and anti-corruption. Becoming a signatory to the Compact reinforces SSE's sustainability values and demonstrates its commitment to a responsible business approach to stakeholders.

Respecting human rights

SSE's Human Rights Policy is based on the guiding principles of the UNGC and outlines the standards SSE commits to for direct and supply chain employees to ensure human rights are respected and protected, and that any suspected cases are reported immediately.

SSE includes anti-slavery clauses in all standard forms for new contracts and its Responsible Procurement Charter details the expectations SSE has of its suppliers and standards it expects them to meet. The Charter contains information on a number of social issues, such as modern slavery, health and safety, and the Living Wage.

Concerns around human rights violations can be reported by SSE employees through both internal and independent mechanisms detailed in this section, and suppliers and contractors can report incidents through a dedicated email address. No human rights violations were reported in 2017/18.

Anti-bribery and anti-corruption

Bribery and corruption have no place in a healthy society and economy. SSE has zero tolerance of corruption, fraud and criminality (including financial crime), or the giving or receiving of bribes for any purpose.

SSE has tailor-made online training for anti-bribery, which all employees are required to complete on an annual basis. Detailed guidance is also provided to employees through SSE's *Doing the right thing* guide to ethical business conduct which was launched in 2016/17 following guidance and feedback from the Institute of Business Ethics. SSE's Anti-Bribery and Corruption Policy details definitions of corruption and bribery as well as how to report any cases of suspected wrongdoing. The standards around bribery that SSE expects its suppliers to meet are detailed in its Responsible Procurement Charter, along with how to report any cases of suspected violations.

Speaking Up at SSE

LISTEN



ACT



PROTECT



Creating a culture for employees to speak up

SSE's employees can report incidents of wrongdoing through both internal and external mechanisms. SSE has an independent 'Speak Up' phone line and email service, hosted externally by SafeCall, through which incidents can be reported. Employees can choose to remain anonymous when using the service.

In calendar year 2017, 16 Speak Up contacts were made internally and 89 were made through SafeCall, compared to 45 and 47 respectively in 2016. Almost a quarter of the contacts made last year were in relation to dishonest behaviour. These figures represent a significant increase in the number of Speak Up contacts made since the SafeCall service was introduced in 2015 when 45 contacts were made in total. SSE believes that the rise in the number of Speak Up contacts therefore represents an increase in employees having the confidence to do the right thing and report incidents, rather than an increase in unethical behaviour.

Responding when wrongdoing is reported

When incidents are reported, whether through internal or external mechanisms, they are passed to SSE's Group Security and Investigations team for investigation. SSE recognises that its whistleblowing channels have the potential to be abused, however all reports are treated in good faith and fully investigated.

Investigations are undertaken in a sensitive and discrete manner, to understand whether the reports can be substantiated or not. During these investigations interviews are undertaken and evidence is collated. Final reports of the investigations are submitted either internally for consideration of disciplinary action, or externally to law enforcement.

In calendar year 2017, there were four dismissals and six warnings issued as a result of investigations into reported incidents.

Supporting employees who speak up

When SSE's employees do the right thing by speaking up against instances of wrongdoing, it is crucial that the company also does the right thing and ensures that there are no repercussions for their actions. In 2017/18 SSE became one of the few companies to introduce an aftercare programme for employees who speak up. The programme consists of a questionnaire sent to individuals to understand if they were satisfied with how their complaint was dealt with and how they were treated, as well as questions around what areas of the process SSE can improve. Doing this helps SSE ensure its employees are treated fairly throughout the Speak Up process and provides feedback which is used to improve how it responds to reports of wrongdoing.

More detail of Speak Up contacts made and outcomes can be found in SSE's Sustainability Report 2018.

Addressing modern slavery

SSE has zero tolerance of modern slavery. To meet the requirements of the Modern Slavery Act 2015, SSE produces an annual Modern Slavery Statement which sets out steps taken to ensure modern slavery and human trafficking do not exist within its business or supply chain. SSE's 2018 Modern Slavery Statement can be found on sse.com.

In 2017/18, SSE strengthened the governance of its efforts to ensure modern slavery does not exist within its business or supply chain. The membership of its Human Rights Steering Group was expanded to include quality and human resource professionals, in addition to procurement and sustainability professionals. The Steering Group is accountable to the Group Governance, Culture and Controls Committee, which is a subcommittee of the SSE Executive Committee. Once a year, the SSE Board reviews and agrees the Modern Slavery Statement.

SSE's exposure to modern slavery risk was reviewed through analysis of its first-tier supply chain expenditure, which found that less than 1% of SSE supply chain expenditure was in a combination of high risk industries and product groups. Where risk is identified, it is managed through a combination of processes.

To ensure that modern slavery does not exist within its direct workforce, a right to work checklist outlines the documented right to work evidence that can be accepted when SSE employs a recruit and in what circumstance. In terms of managing the risk of modern slavery existing within its supply chain, there are a series of due diligence steps undertaken both at an industry level and within SSE's own contracts with its suppliers. To mitigate potential risk in SSE's supply chain, SSE's quality audit framework will include modern slavery, with this implemented in 2018/19.

The development of focused, face-to-face training for key personnel was a priority in 2017/18 and by the end of March 2018, 99% of current procurement professionals had received focused training to raise awareness of the Modern Slavery Act and highlight the obligations that procurement professionals must meet.

Whilst SSE's direct operations have a limited geographic focus on the UK and Ireland, there remains potential risk of modern slavery or human trafficking violations either directly or in its supply chain and ongoing vigilance is necessary.

Additional information available on sse.com/beingresponsible

Sustainability Report

Half-year Sustainability Statement

Doing the right thing: A guide to ethical business conduct for SSE employees

Modern Slavery Statement 2018

Responsible Procurement Charter

Human Rights Policy

Speak Up (Whistleblowing) Policy

Anti-Bribery and Corruption Policy

Group Compliance Policy

CORPORATE GOVERNANCE

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A photograph of two men in dark suits and blue ties standing on an industrial site, looking down at a tablet held by the man on the left. The background shows industrial structures and a fence. The image has a teal color cast.

LEADING



CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Dear Shareholder,

It has been another year in which the prevailing market and policy trends in the UK and Ireland energy sector have formed the backdrop to many of the Board's discussions, and in which the matters considered by the Board have been wide-ranging, interesting, and challenging at times. As highlighted within the Strategic Report, it has been a period of renewal for SSE, and a time in which the Board has maintained focus on the long-term priorities for the Group. Our strategic considerations have centred on SSE's core strengths and delivering against our firm commitment to create value for shareholders and society through the sustainable decisions we take. In line with our responsibilities as a Board, we also recognise the need to listen and adapt to the changing needs of stakeholders that SSE interacts and relies upon, and who are affected by its operations. In recognition of the importance of this area, we have endeavoured to further enhance our reporting surrounding the breadth of stakeholder engagement which currently takes place, and this, along with details of the issues which are recognised by the Board as material to each of SSE's key stakeholder groups, are covered on page 116.

In November 2017, we announced a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services), and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group. Following this transaction, the SSE Group of businesses will have a renewed focus on creating value through the development, ownership and operation of energy and related infrastructure and services. The Board recognises that these decisions will result in a period of change for SSE, however believes they remain consistent with the need to respond to the changing sector in order to best support all of our stakeholders. They also align with, and are a natural build on, SSE's core competencies – areas which were considered through the strategic agenda in respect of a platform for future growth. To ensure that all deliberations in respect of the above proposal were balanced and reflective of our purpose and values to maintain sustainable operations, appropriate time was spent understanding the potential impact, now and in the longer term, for those stakeholders who are likely to be affected by the decision.

This was achieved through a dedicated project team and considered reporting to the Board, as well as appropriate challenge and support from the Board. Further insight into some of these matters can be found in the dedicated Case Study on pages 100 to 101.

Whilst the planned SSE Energy Services transaction was a key decision during the period, focus on our primary role – to ensure the successful leadership of the Group and its current businesses – has remained central to the Board agenda. Through monitoring and assessing business performance, opportunities and challenges, within each of Wholesale, Networks, Retail and Enterprise, and considering progress in respect of SSE's established long-term capital investment programme, we have sought to ensure that each business is well positioned to prepare SSE for the future. Discussions have been cognisant of the need for balanced and sustainable operations, which will allow SSE to continue to serve in the public interest and remunerate the investment made by our shareholders. This commitment has been demonstrated in the year through efficient and disciplined capital investment of around £1.5bn, a large proportion of which was invested in regulated electricity networks infrastructure and renewable generation, and delivery of adjusted earnings per share ahead of expectations at the start of the year. More detail of specific Board activity and focus areas for 2017/18 are set out on pages 95 to 96.

Taking the right decisions and ensuring that SSE does the right thing by its shareholders, employees, customers and wider society are well recognised facets of SSE's culture, and attitudes which are supported through a firm commitment to high standards of corporate governance. During the year, we have continued to engage on cultural issues at all levels throughout the Group, in order to deepen our understanding of how the values, standards and processes agreed and demonstrated at a senior level are embedded and perceived by the greater workforce, and in turn drive employee behaviour. As always, direct engagement with employees from across all areas of the business and within a vast range of roles, is considered invaluable and one of the many highlights of the Board calendar. Insights gained from a number of these engagements can be found on pages 97, 98 and 104 of the report that follows.

In addition to the activities which allow us to personally observe and gauge the visible aspects of SSE's culture, the work of the Board Committees is central to ensuring that there is appropriate alignment between our culture, core values, purpose and strategy. During the year, the work of the Audit Committee has continued to provide assurance surrounding: the integrity of our financial reporting; the relationships with the External Auditor and Internal Audit function; and the risk management and internal control environment. A particularly positive report in 2017/18 was the continued and increased use of SSE's dedicated whistleblowing line, SafeCall. Further details of SSE's approach to, creating a culture in which employees feel able to speak up, responding to wrongdoing and supporting those who do the right thing is set out on page 85. In line with the processes that preserve the independence of the external audit relationship, we have also received updates in respect of the forward-looking work relating to the planned tender of this contract, which will be led by the Audit Committee in 2018/19.

The remit of the Safety, Health and Advisory Committee was reviewed during the year, and following agreement of the Board, will now provide sharper focus to SSE's commitment to being a responsible company, that makes good decisions for the long term, and a positive contribution to the communities and societies of which it is part. Details of this change can be found on pages 118 to 119.



THE UK CORPORATE GOVERNANCE CODE

Through the Listing Rules, the UK Corporate Governance Code (the 'Code') underpins the overarching Corporate Governance Framework for premium listed companies within the UK. The Code is published by the Financial Reporting Council (FRC) and is available to view on their website.

It contains principles and provisions which set out standards of good practice in relation to Board leadership, effectiveness, accountability, relations with shareholders and remuneration, and this Directors' Report is structured accordingly.

Each year, through this Directors' Report, we describe how we have applied the Main Principles of the Code and in line with its 'comply or explain' model we detail any departures from its specific provisions. For 2017/18 we are reporting against the 2016 version of the Code and confirm full compliance with its provisions.

During the year, the Board engaged with the FRC's public consultation surrounding the proposed revisions to the Code and is supportive of the approach to refresh the existing framework given the wide societal impact and greater corporate responsibility

of large organisations today. Many of the initiatives which have been considered by the FRC – including those in relation to: corporate culture; diversity; strengthening the stakeholder voice; and adopting appropriate remuneration structures – are areas in which the Board is already committed to providing focus and upholding high standards of corporate governance. We hope that this is evidenced through both the Directors' and Strategic Reports, and welcome the integration of relevant guiding standards into the Code's highly regarded framework.

The Remuneration Committee agenda continued to apply focus to the key matters of Company and individual Executive Director performance, and the consideration of appropriate targets for 2018 and beyond. Whilst specific engagement between the Committee Chair and a group of employee representatives, including trade unions, also took place in the period. Discussions covered a wide range of topics including the executive pay landscape, and will form a regular part of ongoing engagement with the wider workforce going forward. In recognition of the potential impact of the planned SSE Energy Services transaction on our current employee share plans, work was also initiated in respect of their review. Details of the above are set out in the Committee's respective report on pages 120 to 137.

Board culture is monitored on an ongoing basis, with high quality and transparent Board procedures being recognised as key to supporting effective performance. Formal assessment of which is conducted through our well-established annual evaluation process, which in 2017/18, was again internally-led. This will be followed by an external evaluation in 2018/19. As with previous years, we report against progress made in the period and provide details of actions agreed for the coming year, which can be found on pages 102 to 103.

In recognition of the many attributes of an effective Board, significant focus has also been given to our own composition and the diversity this represents. Through the annual evaluation process, the work of the Nomination Committee, and investor feedback, we have reviewed and challenged where appropriate: our succession plans; the skills and knowledge required by the Board; and relevant external developments,

including the recommendations of the Hampton-Alexander and Parker Reviews and the proposed revisions to the Code. Notable outputs from this work included a revised Board Diversity Policy and ambitions for female representation in senior roles, both of which are discussed within the Nomination Committee Report on pages 105 to 108.

Relevant findings have also been used to inform plans for future Board refreshment and to assess areas in which we may wish to enhance our capabilities. The potential benefits which increased sector experience would bring to our considerations was identified in the Board evaluation, and I am extremely pleased to confirm that we welcomed two new appointments to the Board in the year. Martin Pibworth joined us as an Executive Director on 1 September 2017 and Tony Cocker joined as a non-Executive Director on 1 May 2018. Both Martin and Tony possess a depth of operational knowledge and I'm sure they will bring excellent sector oversight and valuable perspectives to the Board. Full details of the process which was used for each of the above appointments can be found on page 106 within the Nomination Committee Report, and information surrounding the relevant induction programmes is set out on page 104.

In addition to these appointments, further changes to membership have taken place, with Katie Bickerstaffe having stepped down from the Board on 30 April 2018 following her appointment as Chief Executive Designate of the new combined independent retail company. As announced on 24 May 2018, Jeremy Beeton will also be stepping down as a non-Executive Director, and this will follow the conclusion of the AGM on 19 July 2018. Katie and Jeremy each have almost seven years of service, and on behalf of the Board, I would like to thank them both for their contribution to SSE

and wish them well in all future endeavours. As a result of the above, changes to Committee membership have also been agreed by the Board as follows. Sue Bruce became Chair of the Remuneration Committee on 1 May 2018, following her joining as a member on 1 December 2017, and Helen Mahy will become Chair of the Safety, Health and Environment Advisory Committee when Jeremy ceases in the role. All of the above changes were made upon the recommendation of the Nomination Committee.

I hope you find the information which follows in this Directors' Report informative and interesting.



Richard Gillingwater CBE
Chairman
24 May 2018

Documents available on sse.com

- SSE's Articles of Association
- Schedule of Matters Reserved for the Board
- Non-Executive Letters of Appointment
- Terms of Reference for the Board Committees
- Board Diversity Policy
- Non-Audit Services Policy

BOARD OF DIRECTORS



Richard Gillingwater CBE

Chairman

Richard has extensive and diverse leadership experience, having held the position of Chairman, Senior Independent Director and non-Executive Director across a number of private and public sector organisations, including Janus Henderson, the Shareholder Executive and CDC Group plc. Through these roles he brings expert knowledge of governance, including a sound understanding of the role of the Board. Through a career in the City which spanned more than 20 years, involving senior roles in investment banking and corporate finance, he also has a depth of knowledge surrounding financial matters, and of the trends and factors which impact upon the external environment in which SSE operates. This experience provides valuable insight in respect of strategic development and the long-term direction of the Company. Richard is committed to engaging with the business to observe how agreed strategy is delivered and to understand employee views, the feedback from which is instrumental in Board decision-making. Richard has a law degree and an MBA.

Date of appointment

Non-Executive Director since May 2007.

Appointed Deputy Chairman in January 2015 and has been Chairman since July 2015.

Key current appointments

Chairman of Henderson Group plc.

Senior Independent Director of Helical Bar plc (stepping down on 12 July 2018).

Pro-Chancellor of Open University.

Senior Independent Director of Whitbread plc (with effect from 27 June 2018).



Alistair Phillips-Davies

Chief Executive

Alistair has been with SSE since 1997, and possesses a detailed knowledge of the operations of each business area having held a number of senior roles throughout the Company. Prior to joining the Board in 2002 as Energy Supply Director, Alistair was Director of Corporate Finance and Business Development. In 2010, he became Generation and Supply Director, before Deputy Chief Executive in 2012, then Chief Executive in 2013. Alistair's career progression has supported the development of sound leadership skills and a detailed understanding of the energy markets in Great Britain and Ireland, including the implications of EU membership and the increasingly global context in which they operate. Through his role, Alistair has initiated significant focus on people development and efficient operations in order to develop SSE's capabilities for future growth. Alistair is a Chartered Accountant and prior to 1997 worked for HSBC and National Westminster Bank.

Date of appointment

Executive Director since January 2002 and Chief Executive from July 2013.

Key current appointments

Vice President of Eurelectric.

Member of Scottish Energy Advisory Board.

Member of the Accenture Global Energy Board.



Crawford Gillies

Senior Independent Director

Crawford has substantial international and cross-sector business experience which has been gained through a career of over 30 years. Through roles in both the private and public sector, including the areas of management consultancy, finance, risk, and trade and industry, he brings strong commercial and governance knowledge to the Board. This experience provides the Board and SSE's businesses with the benefit of extensive external insight and a breadth of outlook. Having served on the Board and Board Committees in a number of organisations, including in the position of Chair, Crawford has the oversight and understanding required of the Senior Independent Director and supports the Board and engages with SSE's stakeholders as required.

Date of appointment

Non-Executive Director since August 2015.

Key current appointments

Senior Independent Director of Barclays plc.

Chairman of The Edrington Group Ltd.



Dame Sue Bruce DBE

Non-Executive Director

Sue's extensive career in the public sector enhances the diversity of the Board; she held a variety of roles in local government in a career which spanned almost 40 years, including the position of Chief Executive at East Dumbartonshire Council, Aberdeen City Council, and latterly the City of Edinburgh Council. Her strategic and operational experience of leading organisations, with large numbers of employees, significant assets, construction projects and an important place in the community they serve, make her an excellent source of knowledge on these matters for the Board. Sue has also held a number of Board and Board Committee positions in organisations across the arts, education and charitable sectors.

Date of appointment

Non-Executive Director since September 2013.

Key current appointments

Convenor of Court of the University of Strathclyde.

Trustee of the Prince's Foundation.

Chair of the Royal Scottish National Orchestra.

Court Member of The Merchant Company of Edinburgh.

Electoral Commissioner, The Electoral Commission.

Governor of Erskine Stewart Melville School

Chair of Nominations Committee for National Trust Scotland.

Committee membership as at 31 March 2018

- | | |
|---|--|
| ● Nomination Committee | ● Remuneration Committee |
| ● Audit Committee | ● Committee Chair |
| ● Safety, Health and Environment Advisory Committee | |



Gregor Alexander
Finance Director

Gregor is a Chartered Accountant. He joined SSE in 1990 and since this time has worked in various finance roles within the Company, including Treasury and Tax, prior to joining the Board as Finance Director in 2002. During his career Gregor has been instrumental in a number of the major transactions and investments which define the Group. His extensive and long-standing knowledge of financial markets and experience of shareholder views, has supported the development of SSE's financial strategy and purpose to create value for shareholders and society, including through debt financing with the issuance of SSE's Green Bond, and the commitment to Fair Tax and the Living Wage. The Board also benefit from Gregor's regulatory insight through his role as Chair of the Scottish and Southern Energy Power Distribution Board and of Scotia Gas Networks; and his experience of operating within an evolving energy sector, including an understanding of the risks and opportunities which this can present, is highly valued. Prior to 1990 Gregor worked for Arthur Andersen.

Date of appointment

Finance Director since October 2002.

Key current appointments

Chairman of Scotia Gas Networks Ltd.

Non-Executive Director of Stagecoach Group plc.



Martin Pibworth
Wholesale Director

Martin joined SSE in 1998 as an energy trader and undertook a series of commercial roles in the Company, becoming Managing Director, Energy Portfolio Management, and a member of SSE's then Management Board, in 2012. In 2014, he was appointed Managing Director, Wholesale, and a member of SSE's Group Executive Committee, taking on responsibility for SSE's electricity generation portfolio and associated capital investment programme. During this time, Martin has overseen the development of SSE's diverse and flexible generation portfolio including its growing renewable fleet. In 2017, he was appointed to the Board as Wholesale Director, where he also has responsibility for the supply of energy and related services to industrial and commercial customers and SSE's businesses in Ireland. Martin brings significant knowledge of energy markets and experience of commercial, technical and operational matters to the Board, and his innovative approach to strategy, in seeking opportunities to create future value, is also important to his role. Prior to 1998 Martin worked for Eastern Power and Energy Trading, and Total Gas Marketing.

Date of appointment

Executive Director since September 2017.

Key current appointments

N/A



Peter Lynas
Non-Executive Director

Peter has over 30 years business experience spanning all areas of finance. As a Fellow of the Chartered Association of Certified Accountants and through his current role as Finance Director BAE Systems plc he brings recent and relevant financial experience to the Board. Peter was appointed BAE's Group Financial Director in 2011, prior to which he served as Director, Financial Control, Reporting and Treasury for a number of years. His early career involved roles within GEC Marconi, where in 1998 he was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger. He also has been Chairman of the trustee Board of a major pension scheme.

Date of appointment

Non-Executive Director since July 2014.

Key current appointments

Group Finance Director of BAE Systems plc.

Member of the BAE Systems Inc Board in the US.



Helen Mahy CBE
Non-Executive Director

Helen's depth of knowledge in relation to the energy sector brings a valuable external perspective to the Board. Through her previous role as Company Secretary and General Counsel at National Grid plc, she has a comprehensive understanding of the legal, compliance, governance and risk considerations relevant to SSE, and of the regulatory environment in which its businesses operate. She has significant public company board experience in a number of sectors in the UK and abroad, and brings a detailed knowledge of, and interest in, the areas of inclusion and diversity. Helen qualified as a Barrister and was an Associate of the Chartered Insurance Institute.

Date of appointment

Non-Executive Director since March 2016.

Key current appointments

Chairman of The Renewables Infrastructure Group Limited.

Non-Executive Director of Bonheur ASA.

Chairman of MediX Fund Limited.

BOARD OF DIRECTORS CONTINUED



Jeremy Beeton CB

Non-Executive Director

Jeremy is a fellow of the Institution of Civil Engineers, and with over 40 years experience of international project management, engineering and construction, brings extensive knowledge to the Board surrounding the planning and execution of large scale capital projects. This extends to considerations in respect of project governance, including safety, cost management, risk and control. He has worked with a wide range of organisations globally, including governments, and both private and public companies, and having served on various Boards has sound directorate experience.

Date of appointment

Jeremy joined the Board as a non-Executive Director in July 2011 and will step down from the role following conclusion of the AGM on 19 July 2018.

Key current appointments

Chairman of WYG plc.

Non-Executive Director of John Laing Group plc.

Non-Executive Director of OPG Power Ventures plc.

Member of Advisory Board of PwC.

Member of Court of the University of Strathclyde.



Katie Bickerstaffe

Non-Executive Director

Katie has substantive and diverse retail and brand experience gained through a variety of roles in different customer-facing retailers and fast changing markets. Her strong customer focus and understanding of customers' needs is a highly valuable attribute to the Board. Through her role as Chief Executive, UK and Ireland Dixons Carphone plc, and as an Executive Director on their Group Board, Katie has a strong understanding of commercial leadership and significant strategic experience, which combined with her knowledge of HR, marketing and business, provides the Board with relevant perspective.

Date of appointment

Katie joined the Board as a non-Executive Director in July 2011 and stepped down from the role on 30 April 2018.

Key current appointments

Chief Executive, UK and Ireland Dixons Carphone plc.



Tony Cocker

Non-Executive Director

Tony possesses extensive knowledge of the sector gained through a 20 year career with E.ON. He brings wide-ranging experience to the Board, including insight into technical and operational matters, and a comprehensive understanding of commodity markets, energy trading and risk. Latterly, as CEO and Chairman of E.ON UK plc, which comprised E.ON's main businesses in the UK, Tony oversaw the supply of energy to household customers, businesses and communities. This long-standing industry experience in combination with his current external appointments, enhances the Board's knowledge of trends relevant to SSE's operations and of utilities regulation. Tony has experience in strategic planning and development through early consultancy roles and has an MBA from IMD, Lausanne.

Date of appointment

Non-Executive Director since 1 May 2018.

Key current appointments

Chairman of Affinity Water Ltd.

Chairman of Infinis Energy Management Ltd.

Deputy Chairman and Governor of Warwick Independent Schools Foundation.

Board meeting attendance 2017/18

Members	Position	Member since	Attended/scheduled
Richard Gillingwater	Chairman	2007	7/7
Gregor Alexander	Finance Director	2002	7/7
Jeremy Beeton ¹	Non-Executive Director	2011	6/7
Katie Bickerstaffe ²	Non-Executive Director	2011	7/7
Sue Bruce	Non-Executive Director	2013	7/7
Crawford Gillies	Senior Independent Director	2015	7/7
Peter Lynas ³	Non-Executive Director	2014	6/7
Helen Mahy	Non-Executive Director	2016	7/7
Alistair Phillips-Davies	Chief Executive	2002	7/7
Martin Pibworth ⁴	Wholesale Director	2017	4/4

¹ Jeremy Beeton was unable to attend the Board meeting in March 2018 due to illness.

² Katie Bickerstaffe stepped down from the Board on 30 April 2018.

³ Peter Lynas was unable to attend the Board meeting in November 2017 due to a prior commitment.

⁴ Martin Pibworth joined the Board in September 2017.

Committee membership as at 31 March 2018

- Nomination Committee
- Audit Committee
- Safety, Health and Environment Advisory Committee
- Remuneration Committee
- Committee Chair

BOARD COMPOSITION AND ROLES

As at 31 March 2018, SSE's Board comprised the Chairman, six non-Executive Directors and three Executive Directors.

Individual details of career background, relevant skills, Committee membership, current tenure, and external appointments can be found in the respective Director biographies on pages 90 to 92.

The Chairman, Senior Independent Director and non-Executive Directors are appointed

for a fixed term of three years subject to annual re-election by shareholders. This term can be renewed by mutual agreement and the current letters of appointment are available for inspection on sse.com.

The composition of the Board is subject to continual review and appointments result from a combination of comprehensive succession planning, and formal and rigorous searches, which are responsibilities delegated to the Nomination Committee.

Further information on the work of the Nomination Committee can be found within its report on pages 105 to 108.

To ensure that the Board operates efficiently and effectively, each Director has certain responsibilities in line with their role. These are explained further below, with specific examples of how they are discharged in practice provided throughout the Directors' Report.

CHAIRMAN

- leadership, effective operation and governance of the Board;
- application of independent and objective judgement;
- setting agendas that support efficient and sound decision-making, and which allow for constructive discussion, challenge and debate;
- ensuring effective relationships exist between the non-Executive and Executive Directors;
- ensuring that the views of all stakeholders are understood and considered appropriately in Board discussions;
- overseeing the annual performance evaluation and identifying any action required; and
- leading initiatives to assess the culture of the Company and ensure that the Board leads by example.

SENIOR INDEPENDENT DIRECTOR¹

- providing a sounding board for the Chairman;
- leading the Chairman's performance evaluation;
- serving as an intermediary to other Directors when necessary; and
- being available to shareholders and other stakeholders if they have any concerns which are unable to be resolved through normal channels, or if contact through these channels is deemed inappropriate.

NON-EXECUTIVE DIRECTORS

- scrutinising, measuring and reviewing the performance of management;
- constructively challenging and assisting in the development of strategy;
- providing independent insight and support based on relevant experience;
- reviewing Group financial information, ensuring systems of internal control and risk management are appropriate and effective;
- reviewing the succession plans for the Board and key members of senior management;
- engaging with internal and external stakeholders and feeding back insights as to their views, including in relation to employees and the culture of the Company; and
- serving on various Committees of the Board.

CHIEF EXECUTIVE

- proposing and delivering strategy as agreed by the Board;
- facilitating an effective link between the business and the Board in support of effective communication;
- leading the Group Executive Committee, which oversees operational and financial performance and any issues facing the Group;
- leading and supporting each of SSE's businesses and the functions of: HR; Strategy and Development; and Corporate Affairs and Sustainability; and
- representing SSE externally to stakeholders, including shareholders, employees, government and regulators, energy customers, NGOs and civil society, and suppliers and contractors.

FINANCE DIRECTOR

- deputising for the Chief Executive;
- leading the finance management teams;
- overseeing and reporting on SSE's regulated business activities, and leading on agreed M&A transactions;
- leading and supporting the functions of: Procurement and Logistics; Risk and Assurance; Investor Relations and Company Secretarial; Corporate Business Services; and IT;
- overseeing SSE's relationships with the investment community; and
- representing SSE externally to stakeholders, including shareholders, employees, government and regulators, energy customers, NGOs and civil society, and suppliers and contractors.

WHOLESALE DIRECTOR

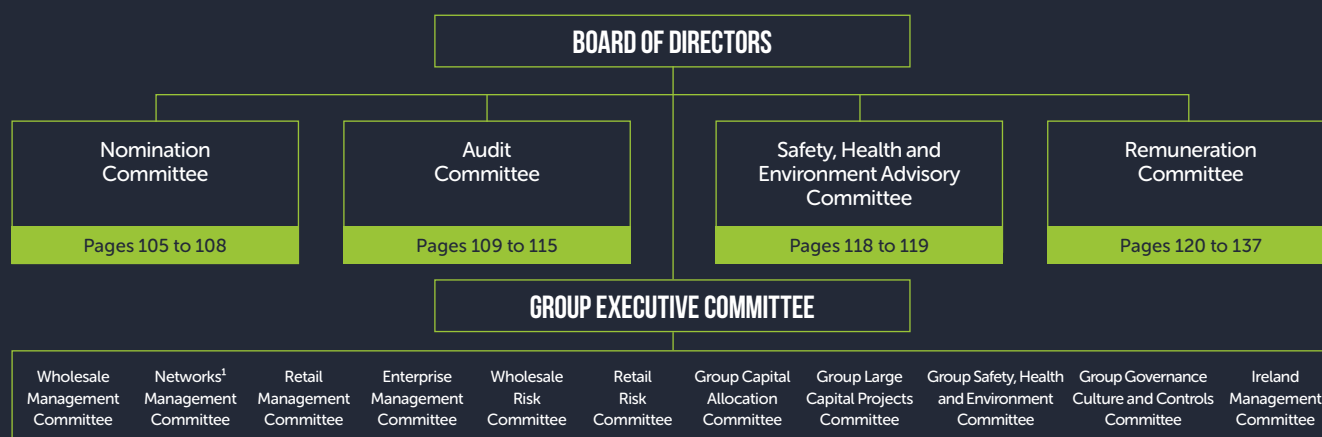
- supporting the work of the Chief Executive and Finance Director;
- leading the Wholesale businesses comprising energy portfolio management, electricity generation, gas production, gas storage and energy supply and related services for industrial and commercial customers;
- responsibility for SSE's businesses in Ireland; and
- representing SSE externally to stakeholders, including shareholders, employees, government and regulators, energy customers, NGOs and civil society, and suppliers and contractors.

COMPANY SECRETARY

- compliance with Board procedures and providing support to the Chairman;
- ensuring the Board has high quality information, adequate time and appropriate resources in order to function effectively and efficiently;
- advising and keeping the Board updated on corporate governance developments;
- considering Board effectiveness in conjunction with the Chairman;
- facilitating the Directors' induction programmes and assisting with professional development; and
- providing advice, services and support to all Directors as and when required.

¹ The Board appoints one of the non-Executive Directors to be the Senior Independent Director, who in addition to the responsibilities of non-Executive Director has specific roles as outlined above.

LEADERSHIP OF THE COMPANY



1 The Networks Management Committee has dual reporting lines, reporting to the Group Executive Committee and Scottish and Southern Energy Power Distribution Board, which has oversight of the Networks business.

The Board

The Board's role is to ensure the long term success of SSE and this is achieved through responsible and effective governance, and by taking decisions that create value for both shareholders and society. At Board level, this includes agreeing a sustainable strategy which is set within the context of the external operating environment, and creating and overseeing a framework to support its delivery. The leadership of the Company in this way is supported by SSE's Articles of Association, the Schedule of Matters Reserved for the Board, SSE's Corporate Governance Framework and the statutory duties of a Director. Both SSE's Articles of Association and the Schedule of Matters Reserved for the Board can be found on SSE's website, sse.com.

The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills which they possess. These ensure that leadership and decision-making is focused and balanced, and is approached with independent thought and judgement. With the relationship between the Directors being one of trust and mutual respect, open and frank conversations ensure that even the most challenging decisions are taken for the benefit of the Company with due consideration for those that it may also affect.

As outlined on page 93, at the head of the Board and executive management, the Chairman and Chief Executive have separate roles and clearly defined responsibilities. To allow these responsibilities to be discharged effectively, regular contact is maintained out with the boardroom, which ensures that there is an effective flow of information, and that any external or internal developments are communicated in a timely manner.

The non-Executive Directors have direct access at all times to the senior management teams within SSE. Contact with the business is encouraged and provides the opportunity

to develop a deeper understanding of the Company's operations or to request information about specific areas. The development of these relationships with management strengthen both the role of the non-Executive Directors and their ability to constructively challenge, offer guidance and provide counsel on strategic decision making.

The integrity of the Board is well recognised and respected, and to ensure that this is maintained, and that the effectiveness of the Board continues to develop, separate meetings between the Chairman and the non-Executive Directors, individually and collectively, without the Executive Directors present take place throughout the year. These meetings provide an additional opportunity to discuss matters relevant to the operation of the Board and the Company.

SSE's Corporate Governance Framework

The Board is supported in its role by SSE's Corporate Governance Framework, which is set out above and comprises the Board, the Group Executive Committee and their respective sub-Committees. The Corporate Governance Framework is carefully designed to ensure that through the delegation of authority, strategy can be implemented effectively and is supported by transparent, well informed and balanced decision-making. This is achieved by ensuring that the correct competencies are present at each level within the Corporate Governance Framework and that there are appropriate mechanisms to allow knowledge and experience to be shared. The close working relationship between the Board and senior management is central to achieving this. Board oversight is further retained through an ongoing dialogue, and upwards flow of information within the Corporate Governance Framework, which includes regular reporting from key individuals and the provision of minutes from all Board Committees and Group Executive Committee meetings.

The four sub-Committees of the Board provide detailed focus to different areas of the Board's work, with their specific responsibilities and authority set out in their Terms of Reference. The nature of the support they provide is broad ranging, and may involve a recommendation being made to the Board, or if within their level of delegated authority, a final decision being taken on behalf of the Board.

Committee membership is determined by the Board, based on the recommendation of the Nomination Committee, in consultation with the relevant Committee Chairman. Prior to making a recommendation, the Nomination Committee will consider the subject matter of the Committee's work so that any refreshment of membership addresses the Committee's needs. Decisions will often assess technical skills, knowledge and experience whilst appreciating the benefits associated with diversity.

The Board regularly reviews the remit, authority, composition and Terms of Reference of each Committee, which are available on the SSE website, sse.com. The Corporate Governance Framework is also subject to periodic review to ensure that all matters relevant to the Group's operations continue to be identified and receive adequate consideration.

Group Executive Committee

The Group Executive Committee comprises the Chief Executive, the Finance Director, the Wholesale Director and the Managing Director, Networks – all of whom are persons discharging managerial responsibilities. The Company Secretary is Secretary to the Group Executive Committee and the Managing Director, Corporate Affairs is also invited to attend meetings. Delivery of the agreed strategy through the operational management of SSE's businesses is the collective responsibility of the Group Executive Committee.

BOARD MEETINGS AND ACTIVITY IN 2017/18

In line with the agreed meeting schedule, the Board held seven meetings in 2017/18 and details of individual Director attendance can be found on page 92.

In the months where no full Board meeting was due to be held, an update call was arranged; these calls covered key business developments and provided the chance to discuss emerging issues and opportunities. Arrangements were also in place should a Board decision or approval have been required outwith the above times.

In support of effective Board practice, scheduled meetings follow an agreed format with agendas being developed from the Board's annual plan of business. In the weeks prior to any Board meeting, the Chairman, Chief Executive and Company Secretary discuss and carefully design the final meeting agenda, to ensure that all matters receive adequate focus, and are being brought to the Board at the appropriate time. In doing so, consideration is given to: the reporting and financial calendar; the agreed strategic priorities of the Group; the status of relevant

external developments; the location of the meeting; and relevant stakeholder feedback. This process ensures an element of flexibility, which in turn enhances the effectiveness of the Board, as any new or impending matters can be dealt with as they arise. Details of some of the areas considered by the Board in 2017/18 are set out below.

Activities/discussion

Board considerations and focus areas

CAPITAL INVESTMENT, BUSINESS PERFORMANCE AND STRATEGIC DEVELOPMENTS

Decision to demerge SSE Energy Services and combine with npower.	– See Case Study on pages 100 to 101.
Reports on asset performance from each business area.	<ul style="list-style-type: none"> – Safety performance, the impact of weather, generation plant output and availability, and the impact of market conditions on all asset classes. – Consideration of electricity network reliability for customers, and performance during storm events. – Culture and morale through Board visits to operational sites.
Investment proposals including: the Keadby 2 CCGT power station; and the Fort Augustus to Fort William re-conductoring project.	– Technology advances, energy markets, supply chain, security of supply, SSE's energy mix, financial returns, the regulatory framework, and any internal or external communications.
Updates on the delivery of large capital projects and developments, including: the Caithness Moray transmission link; and the Beatrice and Doggerbank offshore windfarm joint ventures.	– Safety performance, delivery against plan, the impact of weather, sub-contractor performance and issues arising in the supply chain.
Updates on a wide range of opportunities in the businesses that make up the Enterprise division.	– The relative scale of the opportunities and implications of being successful in contract bids, including resourcing and potential required skill sets of employees and contractors.
Assessment of performance against agreed targets for Smart Metering and the associated risks in respect of delivery.	<ul style="list-style-type: none"> – Customer engagement and communication strategy. – Customer focus and cost efficiency. – Implications of the next generation of technology for meters and challenges relating to infrastructure and customer demand.
Updates on IT strategy and infrastructure, and data management.	<ul style="list-style-type: none"> – The potential benefits from data analytics. – Implications of and the plan to comply with new legislation (the General Data Protection Regulation: GDPR).

GOVERNANCE, COMPLIANCE AND RISK

Board oversight through feedback from sub-Committees including in respect of delegated matters, and those requiring Board consideration.	
Audit Committee included (see pages 109 to 115): the review of effectiveness of Internal Audit and the External Auditors; an update in respect of whistleblowing; and recommended changes to the Audit Committee Terms of Reference and Non-Audit Services Policy.	<ul style="list-style-type: none"> – The findings of the reviews of Internal and External Audit on resourcing and audit plans. – Whistleblowing trends and what they might indicate about SSE's corporate culture. – Legislative developments impacting the Audit Committee Terms of Reference and Non-Audit Services Policy.
Nomination Committee included (see pages 105 to 108): recommended appointments to the Board; conflicts of interest; Director independence; and recommended changes to sub-Committee membership.	– The Nomination Committee horizon scanning work.
SHEAC included (see pages 118 to 119): recommended changes to the Terms of Reference in respect of an enhanced remit surrounding health and climate change.	– The evolution of oversight and reporting in this area.
Review and approval of the Board Charter which comprises the 24 Group Policies; the Terms of Reference for each of the Board's sub-Committees and other key documents including the Board Diversity Policy.	– External developments in best practice and legislation, for example GDPR and the SSE Data Protection Policy.

BOARD MEETINGS AND ACTIVITY IN 2017/18 CONTINUED

Activities/discussion	Board considerations and focus areas
GOVERNANCE, COMPLIANCE AND RISK CONTINUED	
Approval of the Modern Slavery Statement for 2017/18.	– Work carried out in the year to analyse and judge the areas of risk, together with steps taken to remove the risk of modern slavery within SSE's business activities.
Consideration of the outcomes of the annual Board evaluation including progress against objectives for 2017/18 and agreement of actions for 2018/19.	– See Annual Evaluation on pages 102 to 103.
Update on cyber security.	– Updates on recommendations from an internal audit review of the cyber security programme.
Approval of the Group Principal Risks.	– The risk assessment undertaken through the Group Executive Committee and its sub-Committees. See Risk Report on pages 28 to 32.
FINANCE	
Approval of the Group budget and monitoring of the financial performance of the Company and of each of SSE's businesses.	– Key assumptions, inputs and risks to the budget. – Performance against the approved budget and explanations for variances including the impact of market conditions, plant performance and weather.
Consideration of SSE's funding position and credit rating.	– Likely financing requirements, updates on discussions with the Credit Rating agencies, and approval for debt issuance in the year including SSE's first Green Bond.
Approval of the 2016/17 full year financial statements and the Annual Report and the interim financial statements for the six months to 30 September 2017.	– Audit Committee feedback was considered and the Board judged: – that the Annual Report and Accounts provided a fair, balanced and understandable view agreeing Significant Financial Judgements and Exceptional Items; – that it was appropriate to adopt the going concern basis of accounting; and – the appropriate time period for which the viability statement should be considered. – Financial performance and related communications were also assessed against market expectations.
Recommendation of the final dividend for 2016/17 and approval of the interim dividend for 2017/18.	– SSE's dividend policy, financial position and forecast financial performance.
PEOPLE AND CULTURE	
Assessment of SHE performance and culture, and approval of initiatives.	– The performance and trend in SSE's Total Recordable Injury Rate. – Details of serious occurrences or near misses and any action taken to reduce the risk of repeat incidents. – Communication of key messages. – Feedback from Board member site visits.
Leadership and composition of the Board, including the approval of recommendations made by the Nomination Committee.	– The Nomination Committee horizon scanning work (see page 106). – Shareholder views on Board composition.
Consideration of the results from the Great Place to Work survey which was carried out in summer 2017, and of the culture generally within SSE.	– See Culture on pages 98 to 99.
STAKEHOLDERS AND SOCIETY	
Consideration of what is most likely to promote the success of the Company for the benefit of its members as a whole, with regard to other stakeholders.	– See Stakeholder and Shareholder Engagement on pages 116 to 117.
EXTERNAL AND SECTOR CONTEXT	
Regulatory updates.	– Regulatory performance in Networks and Ofgem published data, preparation for RIIO-T2, and the extension of the PPM price cap mechanism in the GB Energy Supply market. – SSE responses to Ofgem consultations.
Consideration of political developments.	– General Election 2017, Brexit, political intervention and SVT price cap (impact on customers and the role of SVT), the risk to the network ownership model, findings of the independent review into the cost of energy (the Helm Review).
Commodity markets and carbon price.	– Trends and developments in wholesale energy markets and the potential implications for SSE's short, medium and long term strategy.

Board agenda in action

Scheduled meetings of the Board adopt a number of signature practices and follow an agreed format. These are exemplified below for the January 2018 meeting.

Board agenda

In order to facilitate broader employee engagement at both senior management and operational level, and to allow the Board to gain deeper insight into the operations and culture of SSE's different business areas, Board meetings take place at different SSE locations throughout the year. In January 2018, this included the site in Perth, and details of the specific agenda for this meeting are set out below.

Employee engagement

In the day prior to the full Board meeting, a number of the Directors participated in an employee engagement session at the Perth Training School. This involved a site tour, followed by roundtable sessions with a selection of graduates, apprentices and technical staff trainees from across SSE. In groups, the graduates, apprentices and trainees provided feedback on specific questions in relation to: the trainee programmes, including the support provided; future aspirations; and their views on what it's like to work for SSE. The Directors in turn were invited to share their own personal career experiences and provide relevant insights of programmes run by other organisations to the Group. The learnings from the session were captured and will be used to inform actions and future workstreams in

relation to the Graduate Programme and training framework.

Non-Executive Director meeting

Prior to the Board dinner, the non-Executive Directors met without the Chairman and Executive Directors present to consider the performance of the Chairman. This was conducted in consideration of feedback which had been received previously from the Executive Directors and formed part of the annual Board evaluation process. In addition to this meeting, the non-Executive Directors and the Chairman met twice without the Executive Directors present in the reporting period. As outlined in the findings of the Board evaluation in 2016/17, the Directors recognise the benefits of informal time in strengthening board relations and therefore this continues to be built into the annual plan of business.

Board working dinner

As part of the iterative strategy development and review process and in order to inform the dedicated Board strategy session which takes place annually, the Board engage in deep dives of each of SSE's business areas during the year. At the January Board dinner this involved a review of the Networks business. The MD, Networks and members of the Networks leadership team joined the Board to lead a session which focused on longer term strategy, business performance and short to medium term priorities. An overview was also provided on political and regulatory developments which could impact

upon current strategic priorities. Breakout sessions facilitated by future leaders, provided further insight into areas of current focus for the Networks business, which included transformation and customer service change programmes. The time spent focusing on one area of the business allows the Board to consider more strategically the needs and views of different stakeholders, particularly customers, employees and the Regulator in a fast changing energy sector.

Board meeting

As with each full Board meeting, the agenda opened by reflecting upon safety performance, followed by Director feedback on any site visits that had been conducted in the period (see page 104). Standing updates included reports from the Chief Executive; Finance Director; Managing Directors of each business; and key support functions, followed by the items as agreed by the Chairman, Chief Executive and Company Secretary through the agenda setting process. At the January meeting, 16 individuals from across the Group presented to the Board.

Post meeting

After the Board meeting, the Company Secretary provides further information as requested by the Board, and prepares the minutes and matters arising for review and feedback by the Directors. Any comments from the Board on the administrative or operational aspects of the meeting are used to improve the workings of the Board going forward.



Members of the Board receive a site tour of the Perth Training School as part of the January 2018 meeting agenda.

BOARD MEETINGS AND ACTIVITY IN 2017/18 CONTINUED

Strategy session

Value creation and sustainable growth are underpinned by a firm commitment to the Company's core purpose – to responsibly provide the energy and services that people and society need; and are evidenced through the delivery of the Company's financial objectives, including the remuneration of shareholders' investment through the payment of dividends. The successful achievement of the above is the focus of the strategic agenda, which ensures that there is appropriate oversight of the challenges facing SSE's businesses and an understanding of the changes which must be managed in order to secure opportunities for future growth. The annual Board strategy session forms an important part of this agenda, which for this reporting period, spanned two days in July 2017.

As pre-reading for the 2017 session, the Board was provided with: a comprehensive analysis of the external operating environment; details of relevant macro and sectoral developments; and an overview of ongoing strategy-related activity at Group level. This information was prepared by the Group Strategy team, in consultation with key senior managers across the Company, and formed the backdrop for constructive discussion surrounding the implications for previously agreed priorities and current progress. The two-day event itself was structured across five focused sessions, which were attended by the Managing Directors, for Wholesale, Networks, Retail and Enterprise, and a number of subject matter experts. Each of SSE's businesses presented the key strategic themes for their area, along with an overview of the issues which they currently faced and a summary of priorities for growth. These presentations built on insights gained previously through business area deep dives conducted during the period. External guests from a variety of backgrounds were also invited to attend and provide perspectives on the principal economic, environmental, social, and political issues likely to affect the energy sector and UK listed companies in the medium to long term.

Having reviewed the current external trends and acknowledging the volatility and speed of change within the sector, the Board identified those factors which were of current strategic importance to the priorities and operations of the Group. The impact of these on existing Group-wide and business-level plans was then assessed, prior to providing support and feedback in respect of future plans and next steps. Specific consideration was also given to SSE's existing core competencies and expertise, and the ways in which these may need to develop to support further changes in the external environment. All outcomes from the session would be factored in to considerations at Board and executive level going forward and progress on agreed actions tracked.

An overview of SSE's agreed strategy is set out on pages 14 to 15 of the Strategic Report.

Culture

The Board recognise that the creation of value for both shareholders and society in a responsible, efficient and sustainable way, requires a healthy business culture. A key requirement for which is common understanding of agreed values, which in turn have the ability to drive and underpin a framework to provide guidance and support to employees. Explicit Board focus on culture therefore continued in 2017/18.

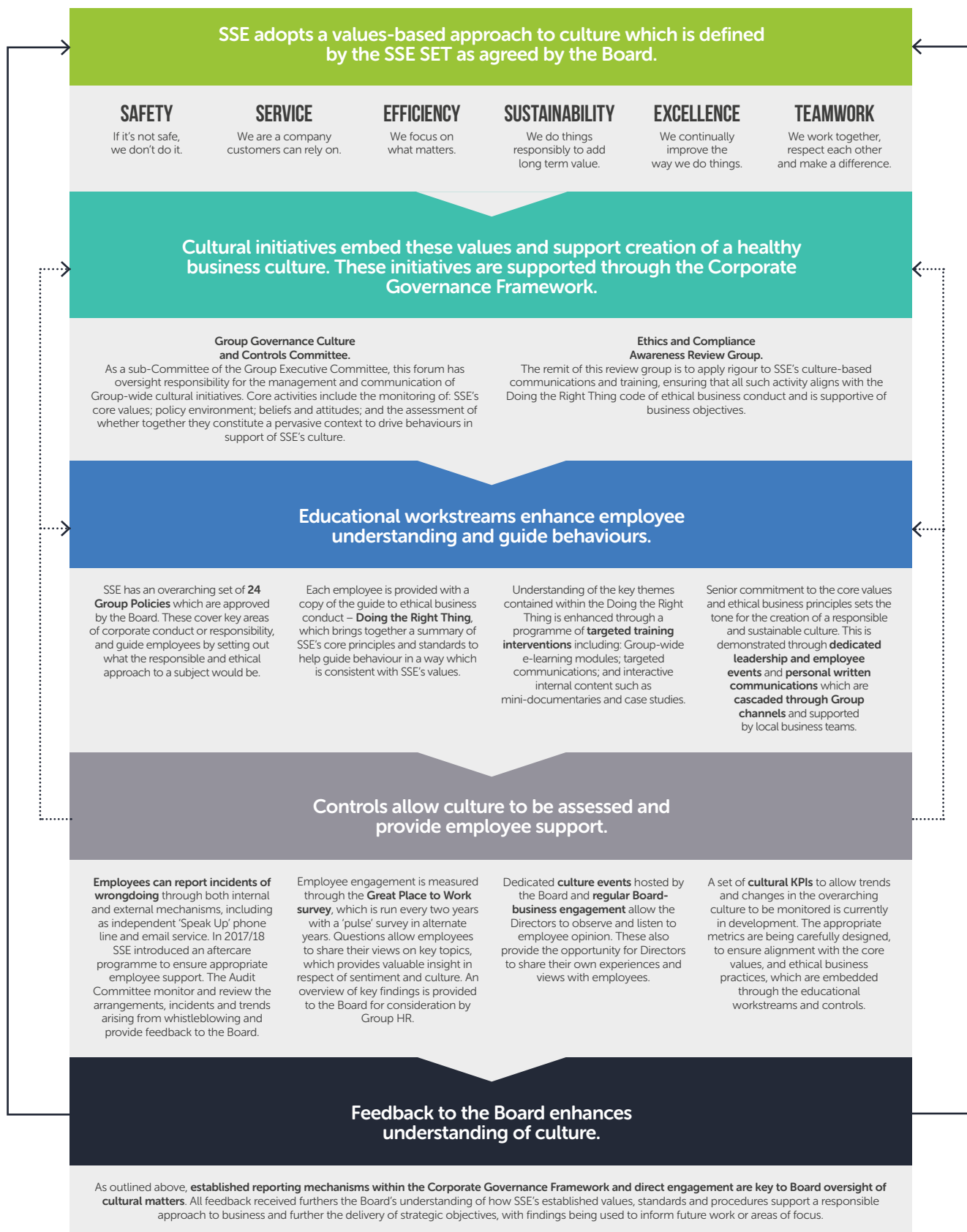
At the heart of SSE's culture is a closely held set of values – the SSE SET; these values embody the principles by which the Board operates, and having been first established over ten years ago, were reviewed again during the reporting year to ensure that they remain relevant to the Group and the operating environment.

These values underpin the ethical, respectful, and inclusive ways of working which are explicit and implicit within day to day activities across SSE, and further guide decision-making and the interactions with all stakeholders. This values-based approach is set out in SSE's guide to ethical business conduct for employees, 'Doing the right thing', which outlines principles and standards to help employees in a wide range of situations, including: how to identify and deal with suspected wrongdoing, fraud or malpractice in the workplace; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgement when taking decisions.

In order to support and understand the effectiveness of this approach in nurturing a healthy culture, a number of initiatives, educational workstreams, controls and feedback mechanisms are in place. These are depicted opposite and allow the Board to understand the extent to which the SSE SET is embedded throughout the Group, and how employee beliefs and behaviours are supported by these values.

As outlined opposite, one of the ways in which the Board furthers its understanding of the existing culture is through engagement with employees, and in November 2017 the Board participated in a dedicated culture session at SSE's site in Reading. Centred on the results of the Great Place to Work survey (see page 82), the Board along with a cross section of employees from each business area, considered both the most positive and most challenging areas as revealed by employee survey scores and discussed whether the outcomes were in line with expectations. The direct involvement of employee representatives allowed the Board to understand first-hand the key issues in relation to culture, and provided both the Board and employees with the opportunity to ask questions and feedback relevant insights. The findings from the session would be used to inform future workstreams and areas of focus for the Board going forward, and would be used by Group HR to ensure that local business-level plans were consistent with the feedback received, with any new perspectives being integrated as appropriate.

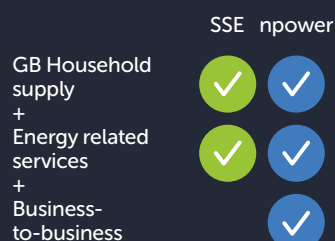
Reinforcing a healthy business culture



CASE STUDY: DECISION TO DEMERGE SSE ENERGY SERVICES

<p>PRIOR TO NOVEMBER 2017</p>	<p>Monitoring sector change and evaluation of future options</p> <p>Through the Board's ongoing review of the strategic positioning of SSE, and in line with the commitment to embrace and reflect change fully in all operational, investment and strategic decisions, the Board concluded that a separation of SSE's household energy and services business in Great Britain (now named SSE Energy Services) was the right response to the current trends in GB energy supply, and the decision necessary to secure the right outcomes for customers and shareholders. Further details of the strategic context can be found throughout the Strategic Report. As options were assessed and progressed, regular meetings of the Group Disclosure Committee – who oversee the framework for control and release of Inside Information – considered the status of potential developments and the ongoing ability to maintain confidentiality.</p>
<p>6 NOVEMBER 2017</p>	<p>Responding to sector change – merger talks and Board delegated authority</p> <p>At their evening meeting, the Board received presentations from senior management, SSE's legal adviser, Freshfields, and SSE's broker and financial adviser, Credit Suisse, covering: a summary of ongoing negotiations with innogy; due diligence; key terms of the proposed transaction, including structure and risks; timetable and next steps; and the stakeholder and investor communication plan. In line with the statutory duty to act in the best interests of the Company, appropriate focus and time was given to understanding the potential impact on SSE's relevant stakeholder groups. An overview of some of the outcomes which were assessed by the Board are set out opposite. After careful consideration of the aforementioned, and following review of drafts of the necessary transaction documents, the Board delegated authority to two Executive Directors to conclude negotiations and enter into the transaction on behalf of the Company.</p>
<p>7 NOVEMBER 2017</p>	<p>Responding to external commentary</p> <p>In response to increasing media and analyst commentary, both SSE and innogy released an announcement to the market on 7 November 2017. SSE's statement was made following a meeting of the Group Disclosure Committee, which was convened at the same time as a Board meeting was in session. The Finance Director chaired the meeting, and with input from the external advisers agreed that there was reason to doubt that the confidentiality surrounding ongoing negotiations had been maintained. The announcement was released as soon as possible and confirmed that the Board had been in discussions with innogy about the potential creation of a new independent energy supply company. The uncertainty and concern of both customers and employees as a result of the above was acknowledged and it was advised that any outcome would be disclosed once discussions had concluded.</p>
<p>8 NOVEMBER 2017</p>	<p>Proposed transaction confirmed</p> <p>The Board made a further announcement at 7am on 8 November 2017, outlining the proposed demerger of SSE Energy Services and combination with the household and business energy supply and services business in Great Britain, of innogy's subsidiary npower. The proposed transaction would form a new independent UK incorporated company (the independent company), whose shares would be admitted to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange.</p>
<p>PRE-DEMERGER</p>	<p>External approvals and next steps</p> <p>At the time of the announcement, SSE Energy Services and npower collectively provided energy and related services to around 11.5 million customer accounts throughout Great Britain. Completion of the proposed transaction remains subject to necessary shareholder and regulatory approvals. The demerger of SSE Energy Services is to be implemented by declaring a dividend in specie to SSE shareholders, whereby each shareholder will receive one share in the independent company for every existing SSE plc share they hold at the relevant record date. Shareholder approval will be sought at a General Meeting on 19 July 2018. Should SSE not obtain the approval of its shareholders in respect of the transaction, a break fee of £60m could be payable by SSE to innogy. A shareholder circular setting out full details of the transaction, along with the resolutions for shareholder consideration, will be issued, following approval by the Board.</p> <p>As it is intended to seek admission of the shares in the independent company to the Official List of the UK Listing Authority with a premium listing, and to trading on the Main Market of the London Stock Exchange, a Prospectus is required. This will be published in accordance with the Prospectus Rules of the FCA, and it is anticipated this will be shortly prior to admission, which is expected in the last quarter of 2018 or the first quarter of 2019.</p> <p>The Board continue to receive regular updates on progress and developments. In a commitment to keep employees fully informed as to what's happening, when and why, a dedicated internal website containing key information and support will be continually updated.</p> <p>Until the new independent company is formed, both SSE Energy Services and npower will continue to operate and compete as suppliers of household energy and related services. During this time, the focus of the Board and executive team in respect of SSE's retail business will remain previously agreed strategic priorities, including: equipping the core business for the future; stabilising and strengthening market share; building capacity to grow in a way that allows smarter engagement and value creation for customers; and responding to changing customer expectations.</p>

WHAT IS BEING COMBINED TO FORM THE INDEPENDENT COMPANY?



WHY CREATE A NEW COMPANY?

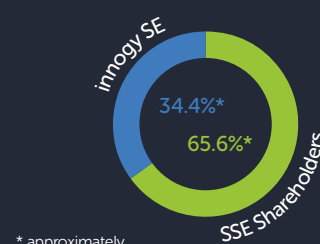
Combining resources of two established suppliers

Focus and agility of an independent supplier

Capable of realising significant synergies

Focus on the changing needs of energy customers

WHO WILL OWN THE INDEPENDENT COMPANY?



	POST-DEMERGER SSE	INDEPENDENT RETAIL COMPANY
Governance	The Board of SSE will continue to lead the Company for the longer term, and will be able to provide enhanced focus to the remaining business areas of Wholesale, Networks and Enterprise. Balance, efficiency and disciplined investment will remain key strategic aims, along with a renewed emphasis on SSE's core competencies to identify and secure growth opportunities which are consistent with the changing energy landscape.	It is intended that the composition of the Board will comply with the provisions of the Code, with the Chairman, Chief Executive Officer and Chief Financial Officer being appointed jointly by SSE and innogy. The appointment of the other Directors will follow and be subject to re-appointment by the shareholders of the independent company at the first AGM. The formation of a dedicated Board, will allow the independent company's decision-making to be more closely aligned with strategy, and facilitate the delivery of greater benefits to all stakeholders going forward.
Customer	Customers will continue to be at the heart of SSE's decision-making and operations. The re-focused portfolio will increase SSE's agility and responsiveness, and support customers in the transition to a lower carbon future. This will be delivered through continued visibility and understanding of the whole energy value chain and the changing needs of society.	A new market model will be created following combination of the resources and experience of SSE and npower with the focus and agility of an independent supplier. Significant synergies are anticipated from operational cost efficiencies and capital expenditure savings, which are expected to enable the independent company to be competitive in its markets.
Employees	The number of employees in the post-demerged SSE will be around 12,000. Employees remaining will have the opportunity to be part of a business which is focused on assets, infrastructure and activities which support the transition to a lower carbon future and a business which is more agile and responsive with the possibility to export competencies to relevant adjacent markets.	Around 8,800 employees will transfer from SSE, and combine with those individuals transferring from npower, to form the workforce for the independent company. The opportunity to be part of a new independent energy supplier is viewed as consistent with the longer term interests of, and is therefore for the overall benefit of, employees. To the extent that anticipated synergies result in any changes for employees, the Board note that any decisions will be made following appropriate consultation with employee representative bodies.
Strategic	SSE will maintain a balanced range of related businesses, creating value through developing, owning and operating energy and related infrastructure and services in a sustainable way that supports the transition to a lower carbon future. It will continue to supply energy and provide energy and infrastructure services to business customers throughout the UK and Ireland, and to household customers in Northern Ireland and the Republic of Ireland.	SSE and npower bring distinct, complementary strengths: SSE has a broad range of energy-related services in the home, including broadband, fixed-line telephone, boiler cover and electrical wiring. npower brings the expertise through innovation in areas such as electric vehicle charging, in-home and in-business energy management devices and services.
Financial/Dividend	The Board of SSE will remain committed to remunerating shareholders' investment through the payment of dividends. It will continue to target an annual increase of at least RPI inflation for 2018/19. Thereafter, SSE's dividend and dividend policy will reflect the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook. Further information on SSE's dividend plans which were agreed by the Board in May 2018, can be found on page 44.	Underpinned by access to its own capital, the independent company will be able to respond more effectively to the rapidly evolving competitive landscape as well as meeting the changing expectations of customers, regulators and other stakeholders. In line with its independent status, any dividend policy will be determined by its Board.

ANNUAL EVALUATION

Evaluation process

The performance and effectiveness of the Board and its Committees is monitored on an ongoing basis, and is subject to formal review through the annual evaluation process. As with the previous reporting period, the Board and Committee evaluations were internally led in 2017/18. This is ahead of the three yearly external evaluation which is scheduled to take place next year.

Stage 1. Review, plan and design

At the start of the evaluation process, the Chairman with the support of the Company Secretary considered the design and approach to be adopted. A comprehensive questionnaire was developed for the Board and for each Committee, with questions structured to capture feedback on: previously agreed actions; areas for further improvement; and any additional observations. In setting the questions, particular consideration was given to developments in the reporting period which could impact upon the work and focus of the Board and its Committee going forward.

Stage 2. Issue questionnaire

The relevant questionnaires were issued to each of the Directors for consideration and comment, and appropriate time provided for completion.

Stage 3. Compilation of responses and report back

The Company Secretary compiled the individual Director responses, and following analysis of the comments provided a report to the Chairman for consideration. A paper setting out the findings, including any progress made in the year, along with proposed actions, was put to the Board for review.

Stage 4. Agree actions and monitor progress

Following discussion, the Board agreed objectives for its own performance and that of its Committees for the next 12 months. The Chairman and Company Secretary agreed to monitor and facilitate the implementation of any actions as required.

Evaluation findings

Board

As with previous years, the annual evaluation process highlighted areas in which the Board was operating well and identified areas of focus for the coming year. Overall, it was the collective view of the Directors that the Board is effective in discharging its responsibilities, something which is supported by good working relations. Non-Executive Directors' insight and experience is always welcomed and challenge continues to be encouraged.

The Board recognises that it does have to adapt to the changing environment in which SSE operates, and a number of areas for improvement going forward were therefore identified. Details of some of the priorities for 2018/19 are set out opposite, alongside an overview of progress against the actions agreed for 2017/18.

Board Committees

There continues to be an effective relationship between the Board and its Committees, and further details of the findings from each of the individual Committee evaluations are set out in their respective reports that follow.

Individual Director

During the year each Director participated in a detailed review of individual performance which was carried out by the Chairman. The process for evaluating the Chairman was managed by the Senior Independent Director, which involved a separate meeting with the non-Executive Directors and included feedback from the Executive Directors.

The above were carried out in consideration of the conflicts of interest and independence review as detailed on page 108, which confirmed the continuing independence of each non-Executive Director.

Through the review, the effective and positive contribution which each Director continued to make to the Board was confirmed, and individual objectives were agreed for each Director as required and will be reviewed throughout the year. One specific action, was the agreement to introduce a Chairman's Report to the standing Board agenda.

Evaluation progress

Following the agreement of actions for 2018/19, a number of workstreams were initiated which have resulted in progress having been achieved within the period. In respect of initiatives to drive positive change in the area of diversity, the Nomination Committee and Board approved the ambitions which were developed to support an increase in female representation across senior roles, and also SSE's response to the Hampton-Alexander Review (see pages 81 and 107). When considering Board refreshment and succession planning, the benefits of having a non-Executive Director with executive experience from the sector, was one of the objective criteria considered in the process which resulted in the appointment of Tony Cocker (see page 106).

Actions agreed for 2017/2018

ENHANCING BOARD ENGAGEMENT AND STRATEGY

- Continue to assess the opportunities to enhance strategic discussion and debate throughout the year.
- Continue to build both dedicated non-Executive Director and Board engagement time into the formal meeting calendar.

ENGAGING IN BOARD DEVELOPMENT

- Opportunities for further Board development, both SSE specific and more generally, will be monitored and progressed as appropriate in 2017/18.

CONSIDERING SUCCESSION PLANNING AND INCLUSION AND DIVERSITY

- Receive feedback on planned engagement between the Nomination Committee and HR and consider ways in which the visibility of the talent pipeline can be increased.
- Continue to challenge and strengthen the work on inclusion and diversity.

GOVERNANCE AND CORPORATE CULTURE

- Explicitly support culture through the reporting and monitoring of a number of existing and new initiatives, including relevant supporting data.

Progress made and Board observations

Actions agreed for 2018/19

- The continual importance of the strategy session as an opportunity to engage and provide uninterrupted focus to strategic matters was highlighted. It was noted that significant progress has been made in linking agenda items and matters that are brought for Board consideration, to the outcomes of the strategy session and the agreed strategic aims. The overall quality and content of strategic discussions was agreed to have improved as a result.
- Formal time for the non-Executive Directors and Chairman was built into the calendar for the year, with full Board engagement having been facilitated by the standing Board dinners and additional sessions such as: the culture event in Forbury, see page 98; the dedicated strategy session, see page 98; and site visits, see page 104.
- The Board noted the importance of creating opportunities for stakeholder engagement and the insights that such meetings have provided over the year.

- Seek to continually improve the strategy development process and introduce the use of key tools which proactively monitor progress against agreed plans.
- Increase the engagement and use of external speakers in relation to key themes relevant to the Board's strategic considerations.
- Continue to seek and identify opportunities for the Board to engage with internal and external stakeholders, and to enhance employee understanding of the role of the Board and its sub-Committees.

- The Board have continued to seek further information in areas where they believe that further detail or understanding is required, and further information of the activities to support Director development can be found on page 104.

- No specific actions have been identified for 2018/19, as the Board recognise the development process to be well established and as continuing to work effectively.

- The Board agreed that oversight of HR strategy has increased positively at both Board and Nomination Committee level throughout the year, and has been supported by initiatives which have increased visibility of succession plans and the internal talent pipeline.
- Board and Nomination Committee focus on inclusion and diversity at Director and Group level has heightened throughout the year. There is recognition and support of the benefits that diversity brings, and acknowledgment of the work that is required in this area.

- Continue to monitor the diversity of the Board, senior management and internal talent pipeline, providing support to the Nomination Committee as required.
- As appropriate, consider initiatives to drive positive change in the area of diversity, whilst giving regard to their ability to support enhanced performance and culture.
- Apply challenge to ensure that any long-term succession plans support agreed objectives in respect of diversity.
- Consider a non-Executive Director appointment with executive experience from the sector – see Evaluation progress opposite in respect of this action.

- The requirement to ensure that cultural considerations are embedded within all of the Board's work is well recognised, as significant efforts have been made to understand the culture, thoughts and views from different cross sections of the workforce and business.
- New initiatives including the culture event at Forbury, see page 98 and existing engagements such as site visits, see pages 97 and 104, continue to provide relevant insights and are highly valued by the Board.

- The breadth of site visits completed to date should be assessed, in order to identify whether there are any gaps in Board oversight and whether a systematic approach to these engagements should be developed.
- Feedback on relevant observations and any comments provided by employees should continue to be captured, with the Board driving any future actions as they deem necessary.
- Consider an external assessment of corporate culture.

BOARD KNOWLEDGE

Board induction

On joining the Board, all Directors receive a tailored induction programme designed to suit their individual needs. This takes into account any existing experience, and the responsibilities of their position on the Board and any Committees as appropriate. The comprehensive programme is facilitated by the Chairman and Company Secretary, and can involve meetings with key personnel; technical briefings; site visits; and dedicated courses. During the induction programme, each Director is invited to identify areas in which they would like additional information or further meetings, which the Company Secretary will then arrange. The induction for Martin Pibworth which took place following his appointment as Executive Director is set out below.

Previous experience

Martin has over 20 years' sector experience and has been with SSE since 1998. As a member of SSE's Management Board and then Group Executive Committee since 2012, he has a sound understanding of: SSE's Group structure and its different business areas; the elements within the five related frameworks which make up SSE's System of Internal Control (see page 114); and the operating and regulatory environment.

Induction programme

Governance

An externally facilitated Board update covered the role, duties and legal responsibilities of a Director, and provided an overview of relevant

corporate governance developments and the evolving landscape in this area.

Legislative update

SSE's legal advisers provided a briefing on the UK Listing Regime and other relevant legal and regulatory obligations, including an overview of upcoming and current developments relevant to UK Listed Companies.

Board insights

Through the Board meeting and engagement calendar, time was spent getting to know each of the non-Executive Directors and gathering insights into the operations of the Board.

External view of SSE

A meeting with SSE's broker, Morgan Stanley, was arranged to provide an up-to-date view of investor, shareholder and market sentiment, and an overview of the broker-shareholder relationship.

The role of the External Auditor

The lead audit partner provided a session on the role and duties of the External Auditor, KPMG, including the relationship with the Audit Committee and the Board.

Future meetings

Further engagements which are due to take place include: a meeting with SSE's broker Credit Suisse; and a one-to-one meeting with the Senior Independent Director, Crawford Gillies.

Director development

Throughout the reporting year, the Directors participate in a range of engagements outside of the Boardroom and formal meeting calendar. These include visits to SSE's operational sites in both Great Britain and Ireland; briefing sessions from specialists or technical experts; and attendance and participation at internal conferences, forums and round-table sessions. Spending time in the business allows the Directors to learn, observe and listen to the thoughts and views of different teams and individuals from across SSE. It also enhances understanding of culture and the day to day business operations, and allows the Directors to see first-hand how these support the execution of strategy.

The above engagements can originate from the annual evaluation process as an identified training requirement, or may be a specific request or an area of interest to a Director or the full Board. Feedback from all site visits and engagements is always provided at the next full Board meeting, and details of some of that provided throughout the year is set out below.

Directors are further encouraged to request additional information and support at any time and the necessary resources will be made available to them.

Engagement	Visit covered	Insights or support provided	
WHOLESALE	Thermal site regeneration: Ferrybridge	<ul style="list-style-type: none">the different activities currently being carried out on site, including: the decommissioning of Ferrybridge C; the operations of Ferrybridge Multifuel 1 (FMEL 1); and the construction of Ferrybridge Multifuel 2 (FMEL 2).an overview of challenges faced.	<ul style="list-style-type: none">the options post-decommissioning including relevant security and safety considerations.the operations of FMEL 1.importance of the relationship with contractors and the learnings that can be gained by both parties.
	Gas storage: Aldborough and Atwick	<ul style="list-style-type: none">meetings with operational leaders and staff.an overview of key performance drivers and safety considerations.	<ul style="list-style-type: none">impressive attention to safety.the differences between sites including both layout and their role in the market.
	Business energy: Perth	<ul style="list-style-type: none">changes in the management team and future talent.an overview of strategy implementation.	<ul style="list-style-type: none">non-Executive Director input on: wider market trends and responses in other industries; and organisational change and leadership.
NETWORKS	Electricity networks operations: Portsmouth	<ul style="list-style-type: none">meetings with the operational teams within the Networks Management Centre and Networks Control Room.a briefing on the regulatory, compliance and assurance framework.	<ul style="list-style-type: none">understanding of: the interface between the business and customers; how the Network responds to exceptional events; and the delivery of efficient operations.
RETAIL	Operations and performance: Belfast and Dublin	<ul style="list-style-type: none">a tour of operations including sales, customer service and metering.an update on the operating environment and energy landscape, including future developments.	<ul style="list-style-type: none">understanding of the commitment to customer experience.the business dynamics of operations in Ireland.
ENTERPRISE	Utility infrastructure and energy networks: Riverdale and Victoria Nova	<ul style="list-style-type: none">an overview of: the portfolio of district heat and cooling networks; the role of low-carbon multi-utility solutions; and future opportunities in this area.a meeting with one of the operational delivery teams.	<ul style="list-style-type: none">key considerations in the management and delivery of large work programmes.the opportunities for future growth.

NOMINATION COMMITTEE REPORT

Dear Shareholder,

During 2017/18 the Nomination Committee has continued to provide dedicated focus to people matters, with consideration of both Board-level plans to ensure orderly refreshment of membership, and longer-term talent strategy to ensure the development of a skilled workforce which will support SSE in the future. The integration of initiatives to build an inclusive and diverse workplace has also been prominent on the agenda, and considered within many of the Committee's discussions. The importance of all of the above in nurturing and supporting a sustainable culture is well recognised by the Committee and as such the broader and longer-term context underpins many of our considerations.

The Committee met five times in the year, and our work in respect of succession planning has supported a number of changes to Board membership during the period. On 1 September 2017, Martin Pibworth joined the Board in an executive capacity as Wholesale Director, and we announced on 29 March 2018 that Tony Cocker would be appointed non-Executive Director from 1 May 2018. Katie Bickerstaffe stepped down from the Board on 30 April 2018 and Jeremy Beeton will step down following conclusion of the 2018 AGM – both Katie and Jeremy joined as non-Executive Directors in 2011.

Following the changes outlined above, the Board will comprise the Chairman, Senior Independent Director, four non-Executive Directors and three Executive Directors.

In respect of Committee membership, Sue Bruce joined the Remuneration Committee on 1 December 2017 and assumed the position of Chair on 1 May 2018 following

Katie's stepping down from the Board, and Helen Mahy will become Chair of the Safety, Health and Advisory Committee when Jeremy leaves the role. The membership position across all Board Committees is currently under review, and any resultant recommendations for further change will be made in compliance with the Code and other relevant guidance, with due regard for the work that they each carry out.

Diversity in its widest sense has been considered in detail by the Committee, and has involved analysis of relevant metrics and strategic plans to encourage and support progress in this area going forward. As outlined in the report that follows, we note that female representation at Board level will be 22% following the changes outlined above, and we commit to keeping this position under review when assessing options for future Board membership. Our objectives and ambitions in relation to inclusion and diversity have been further communicated in the year, through the publication of a revised Board Diversity Policy and our response to the Hampton-Alexander Review, details of which are also provided in the following pages.

Throughout 2018/19 we will continue to assess the suitability of our agreed plans, and monitor their integration with the Group's wider people strategy, in order to build on the progress which has been made to date in relation to people development. I hope that you find the report that follows interesting and reflective of these efforts.



Richard Gillingwater CBE
Chairman of the Nomination Committee
24 May 2018

The role of the Nomination Committee

The Nomination Committee is responsible for ensuring that the Board, its Committees and SSE's senior management have the correct balance of skills, knowledge and experience, to effectively lead the Company both now and in the longer term. This is achieved through effective succession planning and talent development, and an understanding of the changing competencies required to support the Company's strategy, purpose, culture and values. The Committee also plays a key role in supporting inclusion and diversity throughout the whole of SSE, which at Board level involves reviewing and monitoring the range of perspectives and attributes, to ensure that they remain appropriate and continue to promote an open and cohesive culture. The full responsibilities of the Nomination Committee are set out in its Terms of Reference which are available on the SSE website, sse.com

Nomination Committee activities in 2017/18

Board succession

Throughout the reporting period, the Committee continued to focus on the succession pipeline for the Board and senior management, with areas of particular consideration being, the experience and knowledge of the evolving operating environment, and the capabilities which would best support the renewed focus of SSE's group of businesses following the planned SSE Energy Services transaction. Considerations were further informed by shareholder feedback received during the year, and the findings of the annual Board and individual Director evaluations which highlighted that increased relevant operational experience would be a strong addition to the Board.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Richard Gillingwater (Committee Chairman)	N/A	2008	5/5
Jeremy Beeton ¹	Yes	2014	4/5
Katie Bickerstaffe ²	Yes	2011	5/5
Sue Bruce	Yes	2014	5/5
Crawford Gillies	Yes	2015	5/5
Peter Lynas ³	Yes	2014	4/5
Helen Mahy	Yes	2016	5/5

The Company Secretary is Secretary to the Nomination Committee.

¹ Jeremy Beeton was unable to attend the Committee meeting in March 2018 due to illness.

² Katie Bickerstaffe stepped down from the Nomination Committee in line with her stepping down from the Board on 30 April 2018.

³ Peter Lynas was unable to attend the Committee meeting in November 2017 due to a prior commitment.



NOMINATION COMMITTEE REPORT CONTINUED

In line with the continuous and pro-active nature of succession planning, the Company has contingency, medium and long-term arrangements in place to ensure that change to the Board is well-managed and effective. This includes talent development plans to build future capability, which during the year allowed the Committee to consider the internal appointment of an additional Executive Director. Through engagement with the leadership consultancy Wickland Westcott, who has no other connection with SSE, the Committee initiated a comprehensive review process which involved assessment against an agreed Executive Director role profile. The role profile considered both the current and likely future skills that would be required of an Executive Director of SSE, and gave due consideration to the challenges and demands of the future operating environment and likely opportunities for growth. Assessment against the role profile confirmed that Martin Pibworth would be a valuable addition to the Board as Wholesale Director, and following consideration, the Nomination Committee recommended and the Board approved his appointment from 1 November 2017.

Full details of Martin's experience within SSE following his joining of the Company in 1998, are set out in his biography on page 91, and information surrounding his tailored Board induction programme can be found on page 104.

Through ongoing review of current non-Executive Director tenure, the Committee can monitor and assess any likely short to medium-term changes in the skill set, diversity and independence of the Board, and ensure that Board refreshment is progressive and planned. In 2017/18, this tenure review was conducted as part of a wider horizon scanning exercise, which considered relevant external developments and their potential impact on Board composition. This included the proposed changes to the Code, and the recommendations of the Hampton-Alexander and Parker Review's in relation to gender and ethnic diversity. The outcome of this tenure and horizon scanning review, was the agreement to build on the appointment of Martin as a new

Executive Director, and to progress the search for a new non-Executive Director.

The Zygus Partnership (Zygus), who have no other connection with the Company, was engaged to support the Committee in the identification of potential candidates for the role. In line with the commitment made in the SSE Board Diversity Policy, Zygus is accredited under the Enhanced Code of Conduct for Executive Search firms.

The objective criteria against which potential candidates should be assessed was agreed by the Committee and provided to Zygus. These centred on relevant sector experience and a comprehensive understanding of the external environment in which SSE operates. Based on this remit, a shortlist of individuals was provided to the Committee for consideration, and was supported by a detailed benchmarking exercise. In-depth discussions surrounding what candidates would bring to the Board then followed, and meetings between each Board member and the preferred individual were arranged. Feedback from each Director signified by unanimous consent that Tony Cocker was the best candidate for the role. Following confirmation of the time commitment required and a review of existing engagements for any actual or potential conflicts of interest, a recommendation was made to the Board, and on 29 March 2018, it was announced that Tony Cocker would join SSE as a non-Executive Director on 1 May 2018. Tony has 20 years' experience of senior roles in the energy sector, and will bring invaluable objective and independent insight to the Board's deliberations. A suitable induction programme is currently being developed and options for Board Committee membership are under review.

At the beginning of April 2018, SSE was notified by Katie Bickerstaffe of her intention to step down from the role of non-Executive Director with effect from 30 April 2018. This followed Katie's successful appointment as Chief Executive Designate of the new independent energy supply and services company which SSE and innogy have agreed

to form. Katie will take up her new appointment later this year and will lead the preparatory work for the formation and listing of the new company. During this time, her role will not include any involvement in the leadership or management of either existing organisation.

As announced on 24 May 2018, Jeremy Beeton will also step down from the Board, following seven years of service, at the conclusion of the AGM on 19 July 2018.

The outcomes of the succession planning outlined above have ensured that the Board is well placed to deal with these changes.

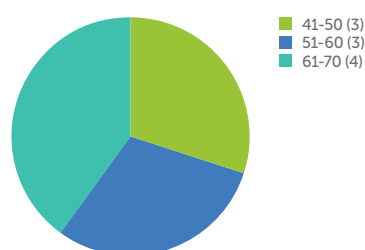
Changes to senior management

Having completed five years' service with the company, Will Morris stepped down as MD, Retail at the end of September 2017 in order to pursue new opportunities. To ensure continuity in the leadership and operation of this business area, the responsibilities of Managing Director were shared between two new co-Heads, who stepped into expanded roles – Stephen Forbes was appointed Chief Commercial Officer and Tony Keeling, Chief Operating Officer. The Committee remained advised of all related considerations as they progressed, and Board oversight of the Retail business has been retained through continued engagement in line with the agreed Board agenda.

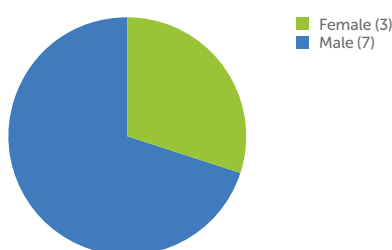
Talent development

Internal talent development, and the ability to attract, retain and progress skilled individuals within an inclusive environment is an area which has continued to receive Committee focus in the period. This has been facilitated through enhanced engagement with HR, and by spending time reviewing the ways in which the broader people strategy supports the development of the internal talent pipeline and ensures access to a diverse and inclusive external talent pool. Some key discussion points have included the ability to identify, harness and accelerate the development of talent at lower levels, and the assessment of successor readiness in respect of senior positions.

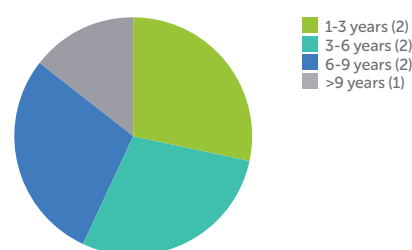
Director age range as at 31 March 2018



Director gender split as at 31 March 2018



Non-Executive tenure as at 31 March 2018



In order to further understand the existing capabilities at a senior level, benchmarking and role specific talent assessments were conducted by two external leadership consultancies. This process has developed future focused role profiles for key roles, and assessed potential future candidates against these roles providing both a market benchmark and a readiness assessment. This allows consideration of the strength of the internal bench and also the specific development experiences necessary to make internal candidates more ready for future roles. The output from this key process has been managed through the existing performance management framework and the results used to advance and re-focus the talent agenda where required. The Committee has also agreed that going forward, it will use this process to assess several individuals against key roles each year.

In the area of emerging talent, the Committee has also overseen SSE's training and development team's partnership with another third party consultancy, to assess and develop future talent and high potential leaders, with 30 successful applicants now benefiting from interventions to increase their experience, exposure and education in order to enhance their leadership and business capability. A key component of this process is active business sponsorship by MD's and this development programme is being run again in 2018/19.

In the area of longer term talent, members of the Committee were involved in an engagement session with a cross section of current graduates, technical staff trainees and apprentices, further details of which are set out on page 97. This session allowed Committee members to hear first hand how these key succession programmes are progressing, and to engage in discussion on the structure of the programmes, the candidate experience and the impact of the Company focus around securing an increasingly diverse candidate base.

Additional oversight of the talent pipeline has been further provided through a large number of site visits and leadership events which the Directors have attended, and through inviting individuals from within the business to present at Board meetings and strategy sessions. Through these engagements the Directors have interacted with a large number of employees from across the business divisions and central functions in 2017/18.

The risks presented by ineffective human capital and talent management processes, are recognised by the Board and Nomination Committee through the People and Culture Principal Risk which is explained in detail on page 32.

Additional information on the strategic development plans to further people development across the Group can be found on page 81.

Inclusion and diversity

The aim of making SSE a truly inclusive workplace, has formed the backdrop for the many discussions held during the year surrounding diversity, where the Committee has considered difference in its broadest sense, and at all levels within the Group.

Within the Board, the Committee has reflected upon the current composition and membership, and considered how the different perspectives and characteristics amongst the Directors support the furtherance of strategic objectives, and complement the Company's culture and values. With female representation reducing from 30% to 22% following the Board changes outlined previously – careful consideration has been given to the use of targets and ambitions in this area. This also extends to ethnic diversity where the current composition of the Board is all white British.

Additional measures which are used to assess the diversity of the Board, are set out below and opposite.

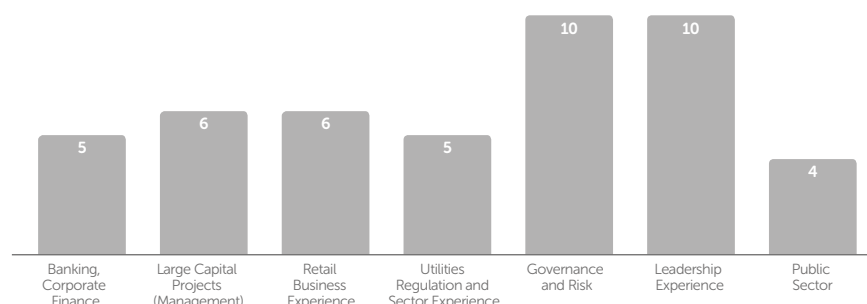
Although no targets have been set at present, the benefits that diversity brings to the Board

are wholly recognised by the Committee and is evidenced through the commitments made in the Board Diversity Policy. The objectives of which, are to ensure that Board membership remains appropriately balanced and relevant to the Company's operations, and that measures are adopted to support and embrace difference within the context of an inclusive culture. In line with various external initiatives and recommendations, including those made within the Hampton-Alexander Review, Parker Review and proposed revisions to the Code, this Policy was reviewed and updated during the year to ensure that it remained relevant and stretching. The full Board Diversity Policy is available to view on sse.com.

When considering new appointments to the Board, the Committee always apply the principles set out within the Board Diversity Policy, which ensure that appointments are made on merit, but require processes to be employed such that a diverse pool of candidates can be identified and considered. It also ensures that a thorough understanding of SSE's needs is at the heart of any recruitment process. At present, work is currently ongoing to develop options for future Board member refreshment in recognition of the recent changes to SSE's Board composition, with due regard being given to the above and relevant external recommendations.

At senior management level, the talent development processes described previously have been enhanced throughout the year to support the recommendations of the Hampton-Alexander Review. This work was led by Group HR to ensure alignment with existing strategy, and has been reviewed and approved by the Committee. Full details of the initiatives and workstreams which were agreed to support the effective acceleration of diversity within senior management, are explained in the formal response to the Hampton-Alexander Review which was published on sse.com, and details of the targets which were agreed can be found on page 81.

Number of Directors with experience in key sectors and areas relevant to the Board's work, as at 31 March 2018



NOMINATION COMMITTEE REPORT CONTINUED

Group-wide initiatives have been deployed through SSE's inclusion and diversity strategy since 2014, and the positive progress made has been recognised through a number of external accreditations and relevant index listings. The effectiveness of strategic plans in achieving the agreed objectives is subject to constant review, and in 2017/18 the Committee considered revisions to SSE's inclusion strategy following completion of a review by the independent inclusion specialist Equal Approach; which recommended that SSE would gain most impact by widening its focus to the development of an action plan that sought to maximise SSE as an inclusive employer. With the reshaping of the plan, the Committee has now engaged in discussions surrounding how SSE uses this new wider approach to accelerate its impact and create visible representation of change across the business, and as this work continues into 2018/19, the Committee will continue to monitor and report on progress. Further details of the insight gained from this work along with details of SSE's approach as a Responsible Employer can be found on pages 76 to 85 and in SSE's Sustainability Report.

Board and Committee tenure

In May 2017, the Committee recommended the re-appointment of Katie Bickerstaffe, Peter Lynas and Jeremy Beeton to the Board for a further three year term, subject to annual re-election by shareholders. This followed confirmation of their continuing and effective contribution to the Board, for which each individual abstained from their own review. At this time, the re-appointment of Peter Lynas and Sue Bruce to the Audit Committee for a further three year term was also confirmed.

Changes to Remuneration Committee membership also occurred during the period, with Sue Bruce becoming a member on 1 December 2017. This appointment was made following the horizon-scanning review outlined above, and a discussion of evolving best practice, which recommends that the Chair of the Remuneration Committee should have suitable prior experience. It was recognised that this appointment would provide the Committee with flexibility in respect of this position going forward.

Through her other roles, Sue has served on the Remuneration Committee of a number of organisations including within the educational and charitable sectors, and therefore holds recent and relevant experience in respect of remuneration matters. To facilitate her induction, meetings were also arranged with a number of external bodies in order to discuss current trends and issues in the areas relevant to the Remuneration Committee's work. In light of the above, the Nomination Committee believed that Sue was an excellent candidate to succeed Katie Bickerstaffe as Chair of the Remuneration Committee following her stepping down from the Board, and this recommendation was put forward for consideration. Following Board agreement, Sue was appointed to chair the Remuneration Committee with effect from 1 May 2018.

The Committee further recommended the appointment of Helen Mahy to the position of Chair of the Safety, Health and Environment Advisory Committee, when Jeremy ceases in the role at the conclusion of the AGM. Having served on the Safety, Health and Environment Advisory Committee since 2016, Helen possesses a firm understanding of, and commitment to, the areas of the Committee's work, which was noted by the Board when endorsing this recommendation.

Any further changes to the membership of the Board Committees, in light of recent directorate changes, is currently under review. All recommendations made will ensure continuing compliance with the Code and consider additional relevant guidance.

Director conflicts and independence

In January 2018, the Committee conducted its annual review of individual director conflict authorisations as recorded in the Conflicts of Interest Register. The Conflicts of Interest Register is maintained by the Company Secretary, and sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties. In order to form a view surrounding Director independence, when reviewing the above conflict authorisations, consideration was also given to other appointments held by each Director as well as the relevant outcomes of the annual individual Director and Board evaluations.

The Committee recognises the circumstances set out in the Code which could compromise a Director's position and this is also taken into account as appropriate. Each Director abstained from authorising and confirming his or her own position.

Following review, the Committee recommended to the Board that each conflict authorisation remained appropriate and that any new actual or potential conflict situations be approved. The continuing independence of each non-Executive Director was also confirmed.

Performance of the Nomination Committee

The performance of the Committee was considered through the annual Board evaluation process, in which members were requested to provide specific feedback using a tailored questionnaire. From the responses provided, it was confirmed that the Committee continued to operate effectively and that progress had been made in the year, however, a number of actions for further improvement were also agreed. Going forward, focus will continue in respect of inclusion and diversity at all levels, with areas such as shortlisting of candidates and objectives at senior level to receive further consideration. The visibility and engagement between the Committee and the HR function which has been strengthened over the last 12 months will also be built on, with updates on talent development and internal progression to be provided and monitored throughout 2018/19.

AUDIT COMMITTEE REPORT

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present our report for financial year 2017/18.

The Committee has continued to play a key role within the Corporate Governance Framework to support the Board in matters relating to: the integrity of Financial Reporting; the relationship with the External Auditor; the effectiveness of the Internal Audit function; and the effectiveness of the System of Internal Control and Risk Management Framework. Over the following pages we provide insight into the workings and activity of the Committee throughout the year.

The Committee held four meetings during the year and has met once since the end of the financial year. I would like to thank the members of the Committee, the management team and KPMG for the open discussions that take place at our meetings and the importance they all attach to its work. The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

The Committee continued to exercise its responsibility for ensuring the integrity of SSE's financial statements by challenging the

critical judgements and estimates made by management and details of these are provided on page 112. In addition, the Committee has reviewed the work undertaken in preparation for the change in revenue recognition under IFRS 15. Management has been pro-active in analysing the effect of this new standard, and we will report on this in the 2018 Half Year Results.

Looking ahead, the Committee will focus on the tender of the external audit contract in accordance with the timeline set out on page 113, and for ensuring there is a smooth and orderly transition to the new independent external auditor. Shareholders will be invited to approve the appointment of the new external auditor at the AGM in 2019. Over the next 12 months, the Committee will also be focusing on some significant accounting issues, including monitoring the impact of IFRS 9 (Financial Instruments), IFRS 16 (Leases) and the resultant disclosures.



Peter Lynas
Chairman of the Audit Committee
24 May 2018

Audit Committee responsibilities

The Committee's Terms of Reference, which were updated in November 2017, are available on sse.com. The responsibilities of the Committee are explained in this report and fell under the following areas.

Financial reporting

- review the integrity of the interim and annual financial statements;
- review the appropriateness of accounting policies and practices;
- review the significant issues and judgements considered in relation to the financial statements, including how each was addressed; and
- review the content of the Annual Report and Accounts and advise the Board on whether taken as a whole, it is fair, balanced and understandable.

External Audit

- review and monitor the objectivity and independence of the External Auditor, including the policy to govern the provision of non-audit services;
- review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor; and
- review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the External Auditor.

Internal Audit

- review and monitor the effectiveness of the Internal Audit function, including approval of the annual audit plan.

Risk management and internal control

- review and monitor the effectiveness of the management of risk and overall System of Internal Control;
- review the framework and analysis to support both the going concern and the long-term viability statement; and
- oversee appropriate whistleblowing and fraud prevention arrangements.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Peter Lynas ¹ (Committee Chairman)	Yes	2014	4/4
Sue Bruce	Yes	2014	4/4
Crawford Gillies	Yes	2015	4/4
Helen Mahy ²	Yes	2016	4/4

The Deputy Company Secretary is Secretary to the Audit Committee.

- Recent and relevant financial experience as the current Group Finance Director of BAE Systems plc and a Fellow of the Chartered Association of Certified Accountants.
- Energy sector experience through previous role as Company Secretary and General Counsel of National Grid plc.



AUDIT COMMITTEE REPORT CONTINUED

Meetings and activities in 2017/18

Meetings of the Committee are scheduled at key times in the Group's financial reporting and audit calendar, and take place in advance of Board meetings to allow the Committee Chairman to provide a timely update to the Board. The matters considered at each meeting are aligned to the financial and audit calendars, and informed by a forward plan of business which is designed to ensure the Committee is able to discharge its responsibilities in line with its Terms of Reference. The forward plan is regularly

reviewed and developed to meet the changing needs of the Group. A summary of the key matters considered at each meeting is provided below.

Meetings of the Committee are also routinely attended by the: Company Chairman; Finance Director; Director of Risk, Audit and Insurance; the External Auditor; and the Deputy Company Secretary who is Secretary to the Committee. The Committee invited other senior finance and business managers to attend certain meetings to provide a deeper

level of insight into particular items of business. Outwith the cycle of scheduled meetings, the Committee Chairman meets separately with the Finance Director, Director of Risk, Audit and Insurance and KPMG to ensure the work of the Committee is focused on key and emerging issues.

During the course of the year, the timely circulation of reports and information, together with ongoing challenge, debate and engagement, has enabled the Committee to discharge its responsibilities in full.

Key matters considered by the Committee during the year

MAY 2017	
– Considered the appropriateness of the accounting in relation to the Significant Financial Judgements and Exceptional Items in 2016/17.	Financial Reporting
– Reviewed the Preliminary Results and 2017 Annual Report, including alternative performance measures, viability statement and going concern.	
– Received a report on the Group's tax position, ongoing HMRC enquiries, areas of potential tax exposure and tax reporting, including SSE's Fair Tax Mark accreditation.	
– Received reports on the status of various accounting projects including: IFRS 15 (Revenue Recognition) and IFRS 9 (Financial Instruments).	
– Reviewed letters of representation issued to KPMG for the full year results prior to them being agreed by the Board.	
– Considered the accounting, financial control and audit issues from KPMG's report on the 2016/17 audit.	External Audit
– Reviewed the effectiveness of the external audit process.	
– Reviewed the independence of KPMG.	
– Monitored the level of non-audit fees and approved any new non-audit engagements.	
– Held a private meeting with KPMG.	
– Reviewed the effectiveness of the Internal Audit function.	Internal Audit
– Received a report on delivery of the 2016/17 Internal Audit plan and progress with the 2017/18 Internal Audit plan.	
– Reviewed Treasury operations, including the funding plan, liquidity and going concern.	Risk management and internal control
– Reviewed the procedures and outputs for the identification, assessment and reporting of Principal Risks.	
– Received an update on fraud and corruption risk governance, and considered progress with the fraud risk audit plan.	
– Reviewed the effectiveness of the System of Internal Control and made a recommendation to the Board.	
– Received a report on the disclosure of information to KPMG.	Governance
– Received a report on the Fair, Balanced and Understandable Assurance Framework.	
– Agreed the narrative of the 2016/17 Audit Committee Report.	
SEPTEMBER 2017	
– Agreed the project plan to streamline and simplify the corporate structure.	Financial Reporting
– Agreed the external audit strategy and scope for 2017/18.	External Audit
– Agreed the external audit engagement and audit fee for 2017/18.	
– Discussed the Financial Reporting Council's latest Audit Quality Review on KPMG.	
– Agreed revisions to the Non-Audit Services Policy.	
– Monitored the independence, level of non-audit fees and approved any new non-audit engagements.	
– Received an update on progress with the 2017/18 Internal Audit plan.	Internal Audit
– Received an update on the work of the Group Compliance function.	Risk management and internal control
– Reviewed the arrangements, incidents and trends arising from whistleblowing (further details on page 85).	
– Considered changes to the Audit Committee Terms of Reference and made a recommendation to the Board.	Governance
NOVEMBER 2017	
– Considered the Key Accounting Judgements and the Interim Financial Results.	Financial Reporting
– Reviewed letters of representation issued to KPMG for the half year results prior to them being agreed by the Board.	
– Considered the accounting, financial control and audit issues from KPMG's report on the 2017/18 half year audit.	External Audit
– Reviewed the independence of KPMG.	
– Monitored the level of non-audit fees and approved any new non-audit engagements.	
– Held a private meeting with KPMG.	

<ul style="list-style-type: none"> Received an update on progress with the 2017/18 Internal Audit plan. Approved the Internal Audit Charter setting out the independence, authority and responsibilities of the Internal Audit function. 	Internal Audit
<ul style="list-style-type: none"> Reviewed Treasury operations, including the funding plan, liquidity and going concern. Received an update on an exercise to test SSE's defences against cyber security threats. Reviewed the procedures and outputs for the identification, assessment and reporting of risk. Received an update on the Group-level fraud risks and progress against the fraud risk audit plan. 	Risk management and internal control
<ul style="list-style-type: none"> Approved the Audit Committee forward plan of business. 	Governance
MARCH 2018	
<ul style="list-style-type: none"> Received an update on accounting projects, including the adoption of IFRS 15 (Revenue Recognition) and business separation. 	Financial Reporting
<ul style="list-style-type: none"> Considered KPMG's controls report. Monitored the level of non-audit fees and approved any new non-audit engagements. 	External Audit
<ul style="list-style-type: none"> Received an update on progress with the 2017/18 Internal Audit plan. Agreed the Internal Audit Plan for 2018/19. 	Internal Audit
<ul style="list-style-type: none"> Received an update on the work of the Group Compliance function. Considered a report on the key risks and controls arising from operations within Energy Portfolio Management. Considered the scenario stress testing to support the long-term viability statement. 	Risk management and internal control
<ul style="list-style-type: none"> Discussed the first iteration of the Audit Committee Report. Agreed an update to the policy on employing former auditors. 	Governance
MAY 2018	
<ul style="list-style-type: none"> Considered the appropriateness of the accounting in relation to the Significant Financial Judgements and Exceptional Items in 2017/18. Reviewed the Preliminary Results and 2018 Annual Report, including alternative performance measures, viability statement and going concern. Received reports on the status of various accounting projects including: IFRS 15 (Revenue Recognition); IFRS 9 (Financial Instruments) and IFRS 16 (Leases). Received a report on the Group's tax position, ongoing HMRC enquiries, areas of potential tax exposure and tax reporting. Reviewed letters of representation issued to KPMG for the full year results prior to them being agreed by the Board. 	Financial Reporting
<ul style="list-style-type: none"> Considered the accounting, financial control and audit issues from KPMG's report on the 2017/18 audit. Reviewed the effectiveness of the external audit process. Reviewed the independence of KPMG. Monitored the level of non-audit fees and approved any new non-audit engagements. Assessed the plan for the re-tender of the external audit contract. Held a private meeting with KPMG. 	External Audit
<ul style="list-style-type: none"> Reviewed the effectiveness of the Internal Audit function. Received an update on delivery of the 2017/18 Internal Audit plan and progress with the 2018/19 Internal Audit plan. 	Internal Audit
<ul style="list-style-type: none"> Reviewed Treasury operations, including the funding plan, liquidity and going concern. Reviewed the viability statement and supporting analysis. Reviewed the effectiveness of the System of Internal Control and made a recommendation to the Board. Received an update on SSE's preparation for the implementation of the General Data Protection Regulation. 	Risk management and internal control
<ul style="list-style-type: none"> Received a report on the disclosure of information to KPMG. Received a report on the Fair, Balanced and Understandable Assurance Framework. Agreed the narrative of the 2017/18 Audit Committee Report. 	Governance

Financial reporting and significant financial judgements

Financial reporting

The Annual Report and Accounts seek to provide the information necessary to enable an assessment of the Company's position and performance, business model and strategy. The Committee assists the Board with the effective discharge of its responsibilities for financial reporting, and for ensuring that appropriate accounting policies have been adopted and that management has made appropriate estimates and judgements. During the year, the FRC carried out a review of the 2017 Annual Report and Accounts. There were no questions or queries the FRC wished to raise with SSE, however the FRC made several suggestions which have been addressed in the 2018 Annual Report and Accounts. The FRC noted that its review provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Significant financial judgements

In preparing the Financial Statements for 2018, there are a number of areas requiring the exercise by management of judgement or a high degree of estimation. Throughout the year, the Finance team has worked closely with KPMG to ensure SSE provides the required level of disclosure. This section outlines the significant areas of judgement that have been considered by the Committee – through discussion and detailed reporting by both management and KPMG – to ensure appropriate rigour has been applied.

AUDIT COMMITTEE REPORT CONTINUED

Significant financial judgements for the year ended 31 March 2018

How the Audit Committee addressed these significant financial judgements

Carrying value of certain non-currents assets: The carrying value of certain non-current assets in the Group – including power generation plants and goodwill – are assessed by reference to the recoverable value (value-in-use or fair value less costs to sell) of the asset or the associated Cash Generating Unit. An annual valuation/impairment exercise is carried out. The assumptions applied in this exercise require judgements on the economic factors associated with the assets under review. Further details are provided in Notes 4.1 (i) and Note 15 to the Financial Statements.

The basis and outcome of this review is presented to the Committee by management, and includes a description of the assumptions applied in deriving the recoverable values. The Committee reviewed and challenged the assumptions and projections and also considered the findings of KPMG. Following this review, the Committee supported the recommendation to recognise exceptional charges of £213.3m in relation to certain assets in the financial year.

Accounting for estimated revenue: Revenue from energy sales in the Retail division include estimates of the value of electricity and gas supplied to customers between the date of the last meter reading and the financial year end. These are based on estimates and assumptions in relation to the consumption and valuation of that consumption. Further details are provided in Notes 4.1 (ii) and Note 18 to the Financial Statements.

The Committee reviewed the practical process issues and assumptions applied in determining the basis of recognition of 'unbilled' debtors, with particular reference to domestic electricity and gas. The Committee also considered the findings of KPMG. Following this review, the Committee supported this judgement.

Accounting for Group pension obligations: The assumptions in relation to the cost to the Group of providing future post retirement benefits are set after consultation with independent actuaries and can have a significant material impact on the financial position of the Group. Further details are provided in Notes 4.1 (iii) and Note 23 to the Financial Statements.

The assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Committee was updated on the schemes' valuation and also considered the findings of KPMG in relation to the scheme's key assumptions relative to market practice. Following this review, the Committee supported these judgements.

Going concern and Viability Statement

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future (12 months). The Financial Statements are therefore prepared on a going concern basis. Further details of the Group's liquidity position and going concern review are provided in A6.3 Accompanying Information to the Financial Statements. The Directors' statement of longer term viability (3 years) can be found on page 29.

- reporting by the External Auditor of any material inconsistencies; and
- comprehensive review by the Directors and the senior management team.

The Committee and Board received confirmation from management that the assurance framework had been adhered to for the preparation of the 2018 Annual Report.

External Audit

KPMG were appointed as the External Auditor in 1999. At the 2017 AGM, shareholders re-appointed KPMG as the External Auditor of the Company for the year ended 31 March 2018, and authorised the Committee to fix their remuneration. The current lead Audit Engagement Partner, Bill Meredith, is in the fourth year of his term.

Independence and objectivity

The Committee's assessment of the independence and objectivity of KPMG is achieved through: the assurances provided on the safeguards in place to maintain independence; the implementation of a robust non-audit services policy; the implementation of a policy on employing former auditors; and from its review of the effectiveness of the External Auditor. It is also based on the Committee's experience of the External Auditor gained in meetings through constructive challenge and professional scepticism. Collectively, this provides the Committee with an insight into the culture, quality and mind-set of the External Auditor.

During the year, the Committee was briefed on the arrangements the External Auditor has in place to maintain an independent and objective approach to the audit process. KPMG provided specific assurance to the Committee on compliance with FRC Auditing and Ethical Standards in relation to the audit engagement. The Committee also oversees policies and receives reports on employing former auditors and the supply of non-audit services.

Non-Audit Services Policy

The Non-Audit Services Policy governs the engagement of the External Auditor to provide non-audit services and was revised during the year. For the purposes of approval, non-audit services are divided into 3 categories:

- Audit-Related Services, where the type of work is usually pre-approved by the Committee as part of their approval of the total annual audit fee;
- Permitted Non-Audit Services, where the Committee has approved the use of the External Auditor for the type of work subject to the following limits: the Finance Director up to £50,000; the Committee Chair up to £100,000; and the Committee above this amount; and
- Prohibited Non-Audit Services, where the External Auditor is not permitted to deliver the type of work as it could compromise independence.

Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the 2018 Annual Report and Accounts to assist the Directors discharge their requirement to state they are fair, balanced and understandable provide the information necessary for shareholders to assess the company's performance, business model and strategy is described in this section.

- comprehensive guidance issued to contributors, including the FRC Letter, 'Summary of key developments for 2017 annual reports', which was issued to the Audit Committee Chairman and Finance Director in October 2017;
- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by senior management in Finance and Regulation to consider messaging and balance;
- comprehensive reviews undertaken by the Company's brokers to ensure consistency and balance;

The Committee reviews a report at each meeting on the services being provided by KPMG. Fees for Audit and Audit-Related Services incurred during the year amounted to £1.3m and £0.8m for Permitted Non-Audit Services. Fees paid to KPMG during the year are made in Note 6 to the Financial Statements.

With the exception of the appointment of KPMG to provide services in relation to the planned SSE Energy Services transaction (as explained in the Strategic Report and also in the Case Study on page 100), KPMG were not instructed to provide any significant new non-audit services for the Group in 2017/18. Aside from the de-merger related services, £0.2m of Permitted Non-Audit Fees incurred in 2017/18 principally related to a review of various regulatory returns and information validation requests arising in Networks and Retail. The Committee was satisfied that the work was best handled by KPMG because of their knowledge of the Group and the skills and expertise brought to the assignments.

The Committee determined that it was appropriate for KPMG to provide the required due diligence and reporting accountant services in respect of the de-merger. The appointment was also subject to an ethics review by KPMG, which concluded that the proposed services were consistent with the FRC's Revised Ethical Standards 2016 and that there were appropriate safeguards in place to preserve KPMG's independence as External Auditor. The estimated fee for this work is around £1.43m, and £0.5m of this was paid during the year and is included within the total reported £0.8m for Permitted Non-Audit Services.

Effectiveness

The effectiveness of the External Auditor is considered on an ongoing basis. In addition to the structured framework described below, discussions with KPMG have focused on maintaining audit quality in the period leading up to the tender and rotation of the External Auditor. The Committee recognises the contribution of management in being fully engaged, and thereby enhancing the effectiveness of, the external audit process. The practice of briefing management on their obligations in relation to the provision of information to the External Auditor has continued and the Committee received assurance that such obligations had been discharged. During the year, the Committee reviewed:

- the quality of audit planning covering the approach, scope, and level of fees for the audit;
- delivery and execution of the agreed external audit process for 2017/18;
- quality, knowledge and expertise of the KPMG audit engagement team;
- the FRC's Audit Quality Review of KPMG and progress to address the matters raised;
- the competence with which KPMG handled and communicated the key accounting and audit judgements;
- the communication and engagement between management, KPMG and the Committee; and
- the output from a questionnaire completed by senior management seeking views on KPMG's capability and performance in providing external audit services.

Re-appointment of the External Auditor

With insight gained from the matters above, supported by further discussions with KPMG and management separately, the Committee concluded that it is satisfied with the objectivity and independence of the External Auditor, and that the effectiveness of the external audit process remained robust. The Committee proposed to the Board that it seek shareholder approval for the re-appointment of KPMG for the financial year ending 31 March 2019.

Tendering of external audit contract

While the Committee has continued to keep under review all aspects of the relationship with the External Auditor, no formal tender of the external audit contract has been carried out since KPMG's appointment in 1999.

The Committee keeps under review the timing of the external audit contract tender and considers the quality, stability and continuity provided by the relationship with the current External Auditor; the audit tendering recommendations set out previously in the UK Corporate Governance Code and the requirements of the CMA Audit Order, EU Audit Regulation and EU Audit Directive; and the lead time required to ensure potential audit firms are not restricted in their ability to tender for the external audit contract arising from existing contracts for non-audit work.

As reported in the SSE Annual Report since 2014, the Board believes it is in the best interests of the Company and shareholders to tender the audit contract in line with the timeline set out below.

The Committee has initiated a tender process for the external audit contract for the year ending 31 March 2020. Given the length of their current engagement, KPMG will not be invited to join the tender process.

The expected timeline for the external audit tendering process during 2018/2019:



The five year rotation of the current lead Audit Partner will end on completion of the audit for the financial year ending 31 March 2019. The tender timeline above complies with the provisions set out in The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. There are no contractual obligations with a third party which restrict the choice of external auditor, and the tender process will be based on a clear selection and assessment criteria.

AUDIT COMMITTEE REPORT CONTINUED

Internal Control and Risk Management

The five related frameworks which, combined, comprise SSE's System of Internal Control are set out in the diagram below.

The Board has delegated responsibility for reviewing the effectiveness of SSE's System of Internal Control to the Audit Committee. This covers all material controls including financial, operational and compliance controls. To inform the Committee's review, the different elements of each of the frameworks – Corporate Governance, Strategic, Risk Management, Assurance and Standards and Quality – that make up the System of Internal Control have been evaluated by relevant key stakeholders. These evaluations have in turn been assessed by the Finance Director who has provided a letter to the Committee summarising the work conducted in the year to improve the control environment, together with a recommendation on the overall effectiveness of the System of Internal Control.

When undertaking the review of effectiveness of the System of Internal Control, the Committee also considers the Assurance Evaluations undertaken annually by the Managing Directors of each of SSE's operating

divisions. These evaluations provide assurance in respect of 10 key management areas and include planned improvements to enhance controls where necessary. These improvements are tracked, with updates reported to the Chief Executive on a regular basis.

The Group's Risk Management Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the year, the Board has carried out a robust assessment of the Principal Risks facing the Group (as set out on pages 28 to 32), being those that could threaten its business model, future performance, solvency or liquidity.

The Committee has reviewed and the Board has agreed the continued effectiveness of SSE's System of Internal Control, including risk management, in accordance with the requirements of the FRC Guidance on Risk Management, Internal Control and related Financial and Business Reporting. The Board confirms that no significant failings or weaknesses were identified during the year and up to the date of this Annual Report. Where areas for improvement have been

identified, processes are in place to ensure that necessary action is taken and that progress is monitored.

Internal Audit

Internal Audit plays an important role in SSE, helping the organisation to deliver its objectives by bringing a risk-based, independent and objective approach to evaluating and in turn improving the effectiveness of risk management, internal control and governance processes.

The Director of Risk, Audit and Insurance has management responsibility for the Internal Audit function. In addition to the normal corporate reporting structure, he has the right of direct access to the Audit Committee, Chief Executive, and Company Chairman.

The annual Internal Audit Plan is structured to align with SSE's strategic priorities and key risks and is developed by Internal Audit with input from senior management. An integrated assurance mapping and planning process is undertaken each year to ensure that all Internal Audit work is appropriately aligned to, and co-ordinated with, the activities of other relevant assurance providers across the Group. The Internal Audit Plan comprises both fixed and flexible elements to ensure

System of Internal Control

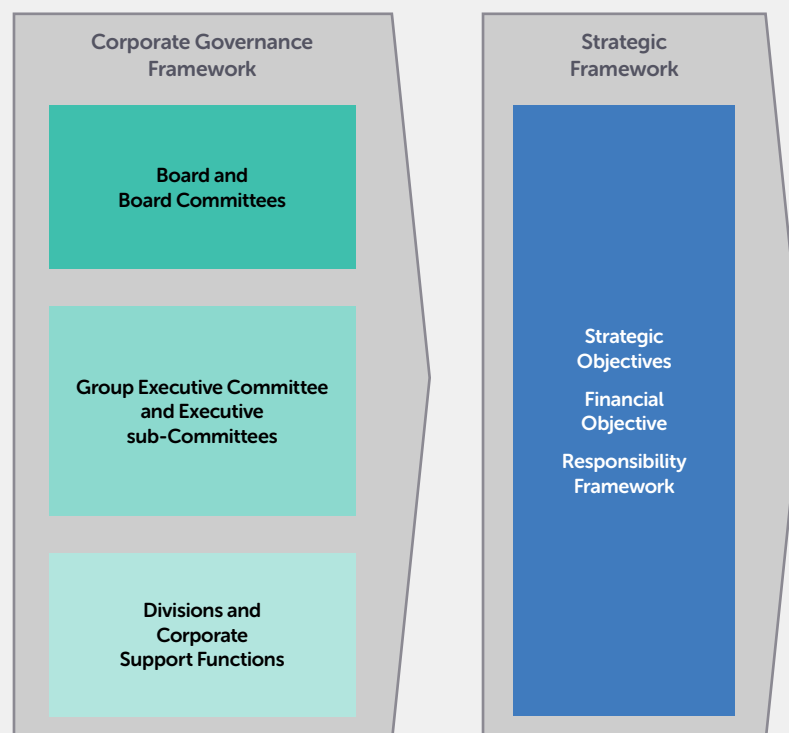
The Corporate Governance Framework is designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see page 94 of the Directors' Report.

The Strategic Framework comprises the Group's strategic objectives, financial objective and responsibility framework. For further details please see pages 12 to 27 of the Strategic Report. The Strategic Framework forms the basis for all activity within the Risk Management Framework.

The Risk Management Framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk. The Risk Management Framework supports each Division in managing its risks and helps to ensure that the Board is able to meet its obligations.

The Assurance Framework. Group Audit, Group Compliance, Group Safety, Health and Environment and Large Capital Projects Services work together to provide an integrated programme of audit and assurance activity that is independent of the day to day operations of the Divisions and Corporate Functions.

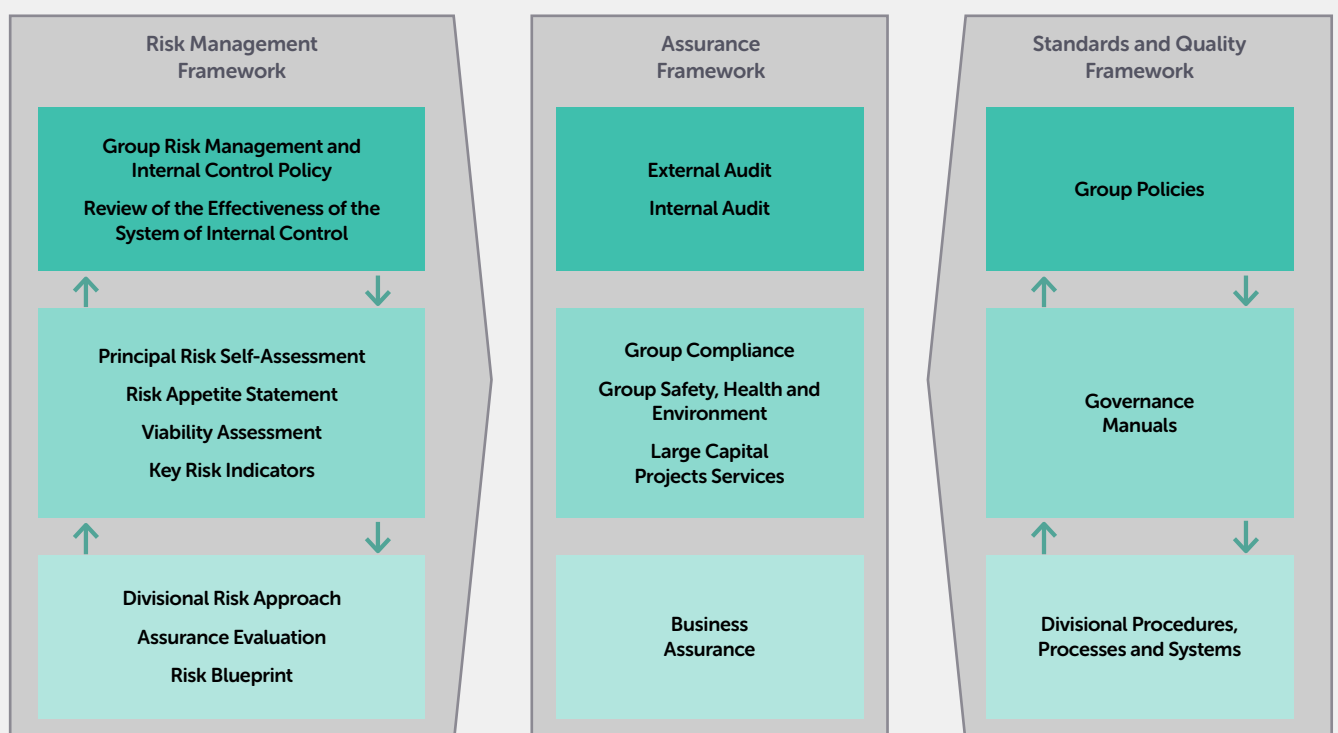
The Standards and Quality Framework sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



flexibility to respond to changing priorities and requirements and, in addition to considering SSE's principal risks, will typically include audits of key transformational programmes, financial control and areas relating to responsible behaviour and non-financial risk.

At each meeting, the Committee reviewed the progress of the 2017/18 Internal Audit Plan, including significant findings and the tracking of agreed remedial actions. The Committee also tracked the number of overdue actions which remains a key performance indicator and an area of continuing management focus.

The Committee assessed the Internal Audit function using the framework illustrated and concluded that it is satisfied with its overall effectiveness. An external review of SSE's Internal Audit function was last carried out in the 2015/16 financial year and in accordance with best practice standards, an external review of the Internal Audit function should be carried out every 3 years. An external assessment of the function will therefore be carried out during the 2018/19 financial year.



STAKEHOLDER AND SHAREHOLDER ENGAGEMENT

SSE's success depends on its ability to engage effectively and work constructively with the six key stakeholder groups described in the Strategic Report.

In support of responsible and effective governance and decision-making, the Board recognises the importance of engaging with all stakeholders at different levels and in different ways throughout the Group, at the same time it understands the Board's duty to promote the success of the Company as a whole, as set out in Section 172 of the Companies Act. The table opposite provides some insight into the key stakeholder engagement undertaken by the Board in 2017/18, as well as material issues of interest identified for each stakeholder group through this engagement. As outlined in the table, the Board was also kept up to date with material issues of interest both through direct engagement and through third parties and subject matter experts within SSE.

More information about how SSE works with and for its stakeholders is found on pages 20 to 21 of the Annual Report and within SSE's Sustainability Report 2018.

Key stakeholder engagement interventions in 2017/18:

SHAREHOLDERS



EMPLOYEES



GOVERNMENT AND REGULATORS



ENERGY CUSTOMERS



NGOS AND CIVIL SOCIETY; AND SUPPLIERS AND CONTRACTORS



MATERIAL ISSUES	BOARD ENGAGEMENT	
Long-term financial performance; capital allocation; decarbonisation targets; succession planning; Board composition; strategy; policy and regulation; and Directors' remuneration.	<ul style="list-style-type: none"> – Board approval of the half year and full year results statements and Chairman attended results presentations. – Board approval of the Annual Report. – Full Board member attendance at the 2017 AGM. – Investor meetings (Executive and non-Executive Directors undertook around 250 investor engagements in the year, including group meetings). – Shareholders provided some context for the Board strategy session. 	<ul style="list-style-type: none"> – Investor feedback independently gathered and presented to the Board. – Ad hoc shareholder advisory meetings with non-Executive Directors. – SSE's Brokers, Morgan Stanley and Credit Suisse provided updates to the Board throughout the year. – The Board approved the issuance of a Green Bond and the Finance Director engaged directly with investors pre issuance.
Great Place to Work Survey; Government and opposition party policies; training and graduate programmes; implications from the planned SSE Energy Services transaction; share price movements; and Directors' remuneration.	<ul style="list-style-type: none"> – Board members attended a corporate culture session with employees incorporating feedback from the Great Place to Work survey. – Site visits including the new Reading office where Board members discussed their new work environment with employees. – Board member attendance at internal conferences e.g. SSE's Safety Conference. – Internal blogs from both Executive and non-Executive Directors. 	<ul style="list-style-type: none"> – Board members met trainees at the SSE Perth Training School. – The Chairman hosted a lunch meeting for graduate trainees. – The Remuneration Committee Chair met trade union officials. – Group Executive Committee meeting briefing issued to senior leaders each month. – Chief Executive webchats regularly held. – "Skype with the FD" session held for all finance employees.
Energy market developments; Brexit; regulatory framework; customer service; customer engagement; energy affordability; and decarbonisation targets.	<ul style="list-style-type: none"> – Third party expert provided policy reflections as context for the Board strategy session. – Board members had ad hoc meetings with government officials and regulators both in the UK and Ireland and provided feedback to the Board. – The Board received updates on consultations and SSE's responses to them. 	<ul style="list-style-type: none"> – SSE Corporate Affairs and Regulation teams provided regular updates to the Board. – Board members received one-one briefings from the SSE Corporate Affairs team.
Energy affordability; inclusive and quality customer service; smart meters; SSE's approach to being a responsible business; and impact of the planned SSE Energy Services transaction.	<ul style="list-style-type: none"> – The annual dinner for customer forum chairs was attended by the SSE Chairman and Chief Executive. – Board approval of updated Treating Customers Fairly priorities reflecting customer feedback. – AGM: 'Customer-Shareholders' had the opportunity to ask questions of Board members. – Customer service performance was regularly reported to the Board. 	<ul style="list-style-type: none"> – The Chief Executive attended the Customer Forum in July 2017. – The Chief Executive attended a stakeholder dinner covering implications of the SSE Energy Services demerger announcement.
Tax policies; economic contribution; skills investments; environmental protection and decarbonisation; and inclusive job growth.	<ul style="list-style-type: none"> – Board member site visits (including meeting contractors). – The Board is updated on SSE's position on the Citizens' Advice Bureau league table. – Finance Director attended regular Accounting for Sustainability (A4S) meetings in the year. – Finance Director attended the Fair Tax dinner. 	<ul style="list-style-type: none"> – The Board approves the 24 SSE Group Policies and the SSE Modern Slavery Statement. – The Chief Executive is the vice president of Eurelectric. In 2017 Eurelectric announced a new long-term vision for the electricity industry in Europe to accelerate the clean energy transition.

SAFETY, HEALTH AND ENVIRONMENT ADVISORY COMMITTEE REPORT

Dear Shareholder,

On behalf of the Board, I am pleased to present the report from the Safety, Health and Environment Advisory Committee (SHEAC).

SSE seeks to be an efficient operator of assets, putting safety first and being a company that energy customers and users can rely on. We operate in a hazardous industry with unique challenges and risks facing each of SSE's business areas relating to safety, health and the environment (SHE). To be successful over the long term, SSE must operate responsibly and is dependent on the shared talent, skills and values of the people within the organisation. For this reason, SSE operates under a set of core values known as the SSE SET and promotes a strong safety culture through the Safety value: if it's not safe, we don't do it. It aims to make sure all employees behave in line with the Safety value and get home safe. During the year, we made good progress in refreshing the communication strategy around the Safety value helping to make it relevant and understood for SSE and its contractors. Further details are included in the Case Study in this report.

During the year, members of the SHEAC have visited various operational sites, allowing them to meet a number of employees and gain an understanding of the safety, health and environment practices and culture across SSE. The insights gained from these visits have informed the work and considerations of the SHEAC.

Helen Mahy will take over as Chair of the SHEAC when I stand down from the Board of SSE following the AGM on 19 July 2018. Over the years, I have been impressed by the commitment and importance that everyone in SSE attaches to ensuring that its business operations are carried out with safety, health and the environment at front of mind, and I'm confident that Helen will continue to drive this forward.

I hope that you find the report which follows, an interesting explanation of both our work and of SHE performance during the year.



Jeremy Beeton CB
Chairman of the SHEAC
24 May 2018

Role

The SHEAC advises the Board on matters relating to safety, health and the environment. The remit of the SHEAC is set out in its Terms of Reference which were reviewed by the SHEAC in November 2017 and were approved by the Board in January 2018. The SHEAC is responsible for:

- overseeing relevant Group Policies, namely: the Safety Health and Environment Policy; the Environment and Climate Change Policy and the Corporate Responsibility and Sustainability Policy;
- monitoring the level of resource, competence and commitment applied to the management of safety, health and the environment issues, to ensure that a culture of continuous improvement is embedded across the Group;
- reviewing feedback from a range of stakeholder engagement activities on matters relating to safety, health and the environment;
- receiving reports on the safety, health and environment audits planned for the forthcoming year, and periodic updates on any significant matters arising from the audits carried out across the Group;
- reviewing the effectiveness of the Group's strategy, initiatives, training and targets in relation to the environment, the safety of employees and contractors, and also the occupational health and well-being of employees and contractors;
- reviewing reports on environmental, occupational health and safety performance, which cover: performance against targets; incident trends; high potential incidents; significant risks; mitigations and plans; and other key emerging issues arising from operations and projects across the Group; and
- supporting SSE's general commitment to being a responsible company that makes a positive contribution to the communities and societies of which it is part.

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Jeremy Beeton (Committee Chairman) ¹	Yes	2011	2/3
Sue Bruce	Yes	2013	3/3
Helen Mahy	Yes	2016	3/3
Colin Nicol	N/A ²	2016	3/3
Jim Smith	N/A ²	2016	3/3
Mark Patterson	N/A ²	2013	3/3

The Deputy Company Secretary is Secretary to the SHEAC.

- 1 Jeremy Beeton was unable to attend the Committee meeting in March 2018 due to illness, for which meeting Helen Mahy held the seat of Chair.
- 2 Senior Executive from within the business.



Composition

The membership of the SHEAC currently comprises three non-Executive Directors, two Senior Managers with significant operational responsibilities in Wholesale and Networks, and the Group Safety, Health and Environment Manager. Members of the SHEAC are appointed by the Board following recommendation by the Nomination Committee. There were no changes to the composition of the Committee during the year. The Chief Executive routinely attends meetings and the Deputy Company Secretary is Secretary to the SHEAC.

The SHEAC provides a leadership forum for the non-Executive Directors to share their knowledge and expertise with senior management. Jeremy Beeton brings a depth of experience from his background in engineering and major construction projects. Sue Bruce provides valuable insights from various senior roles in the public sector. Helen Mahy brings a wealth of knowledge from her career in the energy industry.

Meetings and activities in 2017/18

During the year, the SHEAC had three meetings. The SHEAC has an annual work plan designed around the Enduring Goals, with standing items covering safety, health and environmental: performance; incidents and trends; risks; and priorities.

Other matters which the SHEAC has focused on during the year include: the launch of the 50by20 strategy, whereby the goal of achieving a 50% reduction in the volume of total reportable injury rate by the year 2020 was formally established; contractor safety; decommissioning and demolition; awareness of mental health; and SHE-related training.

The Board and Committee evaluation process which was carried out during the year confirmed that the SHEAC continued to operate effectively.

The Group Safety, Health and Environment Committee (GSHEC) supported the strategy of the SHEAC, in the continual improvement of SHE management and performance, by establishing eight Enduring Goal Subgroups which sit under the GSHEC, these are as follows:

- 50by20 Subgroups – these four groups are in place to deliver a transformation in SSE's approach to: Contractor Safety; Safety Family; Occupational Health and Wellbeing; and Operational Safety.
- Enduring Goal Subgroups – these four groups are in place to deliver a continuous improvement and to share best practice across SSE in: Process Safety; Driving; Environment; and Crisis Management.

Performance in 2017/18

SSE's safety value provides the foundation from which SSE's operational performance is judged. In recent years, SSE's safety performance in terms of its injury rate was low and stable, however, incidents and accidents still occur. It is the SHEAC's firm belief that all accidents are preventable, and a new '50by20' strategy for safety improvement was implemented across the Group in 2017/18. The first step in that programme was the roll-out of extensive influencing behaviours training to thousands of SSE employees. This new training was supported by a framing of the way in which SSE communicates with its employees, specifically to simplify the messaging and ensure it is wholly employee focused.

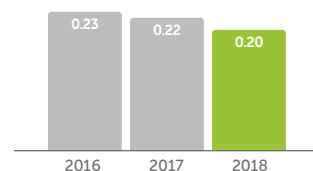
In relation to health and well-being, the SHEAC focused on ensuring that support for mental-health has parity of esteem with physical health. Alongside a corporate commitment to the national 'Time for Change' initiative, a training programme was delivered to more than 2,700 managers in mental health awareness and support in 2017/18 across the SSE Group.

The primary focus for the SHEAC on environmental issues, is to ensure SSE's business units mitigate the risk of environmental damage occurring because of their operations. The implementation of ISO14001 through a number of key business units, ensures appropriate management

systems are in place to prevent environmental wrong-doing. Recognising that SSE has a role in ensuring environmental improvements occur, a review of the Environment and Climate Change Policy resulted in a strengthening of the policy in favour of more practical environment improvement plans.

More information on SSE's safety, health and environment performance in 2017/18 can be found in the Sustainability Report 2018.

SSE's Total Recordable Injury Rate for employees and contractors combined in 2017/18 was 0.20 per 100,000 hours worked (down from 0.22 in 2016/17).



CASE STUDY:

REFRAMING THE SAFETY FAMILY

Recognising the static nature of SSE's safety performance in recent years, a comprehensive review was undertaken of all safety communications across the SSE Group in 2017/18. Detailed focus groups were held with front line employees with a clear communications strategy emerging. The re-focused tone centres on straightforward messages, positive story-telling, and avoiding language around rules or procedures. The core of this safety message is SSE's safety licence: **If it's not safe, we don't do it.**

Underpinning this licence are four guiding principles of SSE's Safety Family culture:

1. We take care of ourselves and each other.
2. We take pride in our work and our workplace.
3. We plan, scan and adapt.
4. We see it, sort it, report it.

With the starting point of the Safety Family being the SSE licence: **If it's not safe, we don't do it**, the end point is: **We all get home safe.**

REMUNERATION COMMITTEE REPORT

IN THIS SECTION:

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Dear Shareholder,

Having joined the Remuneration Committee in December last year and recently taken on the role of chair I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2018. On behalf of the Board, I would like to thank Katie Bickerstaffe for her significant contribution as a member of the Committee from 2011 and as Committee chair since 2015.

The objective of the Directors' Remuneration Report for 2017/18 is to set out in a simple and transparent way how SSE pays its Directors (both Executive and non-Executive); the decisions made on their pay and how much they received in relation to 2017/18. The report also describes how this links to the Company's purpose and strategy; how the Remuneration Committee works, and how it has taken into account the perspectives of SSE's stakeholders.

Linking Executive Directors' remuneration with SSE's purpose and strategy

Our remuneration policy is designed to be **sustainable** and **simple** and is facilitated by diligent and effective **stewardship** that is vital to the delivery of SSE's core purpose of responsibly providing energy and related services and our strategy of creating value for shareholders and society.

A **sustainable** approach to executive pay that is consistent with SSE's wider commitment to being a responsible employer is central to the remuneration policy. Fairness is a central pillar of the policy – fairness to Executive Directors in recognition of the extent of their responsibilities, and fairness relative to the rest of the SSE team whose shared talent, skills and values contribute to SSE's success.

As the Chairman mentions in his introduction to this Annual Report, SSE is committed to

being transparent in the way it does business. To this end, and mindful of ongoing public debate about executive pay, the Committee strives to keep remuneration arrangements clear, consistent and **simple** to enable effective stakeholder scrutiny. The extent of their responsibilities means Executive Directors are well paid but the remuneration policy is designed to, among other things, ensure they are not overpaid.

The provision of energy and related services needed now and in the future is, by definition, a long-term commitment that requires long-term **stewardship**. A remuneration policy that offers fair reward for the leadership, expertise and strategic decision-making required in a challenging market is critical to SSE's future success. Equally, Executive Directors are expected to demonstrate commitment by building and maintaining a personal shareholding in the business.

SSE seeks to create lasting value for all of its **stakeholders** from developing, operating and owning energy and related infrastructure and services in a sustainable way. As noted above, delivery of this is wholly dependent on the shared talent, skills and values of people throughout SSE. It is the Committee's belief that those skills and values are best fostered by the stewardship made possible by an effective remuneration policy.

As part of our commitment to transparency, we have again voluntarily disclosed a Chief Executive pay ratio (see page 131) and have provided detailed disclosure on the gender pay gap (see our Sustainability Report) and the measures we are taking as a Company to address this issue over the long-term. In keeping with previous practice, as Committee chair, I will continue to meet with representatives of SSE's recognised trade unions. Meetings held by my predecessor have covered a range of business issues including executive pay and how the

Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Katie Bickerstaffe (Committee Chairman) ¹	Yes	2011	3/3
Jeremy Beeton ²	Yes	2014	2/3
Sue Bruce ³	Yes	2018	1/1
Crawford Gillies	Yes	2015	3/3
Richard Gillingwater	N/A	2007	3/3

The Company Secretary is Secretary to the Remuneration Committee.

- 1 Katie Bickerstaffe stepped down as Chair of the Remuneration Committee on 30 April 2018 in line with her stepping down from the Board.
- 2 Jeremy Beeton was unable to attend the Committee meeting in March 2018 due to illness.
- 3 Sue Bruce became a member of the Remuneration Committee on 1 December 2017 and assumed the position of Chair on 1 May 2018 when Katie Bickerstaffe stepped down from the role.



Committee operates, such discussions will continue in the foreseeable future and the feedback will inform the thinking of the Committee and the approach it takes. Using these additional reference points in a broader view of pay and employment conditions is as important to us, as is the use of external benchmark data when setting executive pay levels.

As part of its responsibilities, the Committee continues to review the remuneration policy to ensure it remains appropriate for the business and is at the forefront of developments in good corporate governance. With this in mind, the Committee undertook a risk assessment exercise during the year to identify and evaluate the risks inherent in our Directors' Remuneration Policy (see page 136 for details).

In December last year the previous Chair and I held discussions with the Investment Association to discuss SSE's approach to pay in line with their own particular guidance. The Committee has also been following the wide range of investor guidance that has been released in the last 12 months and the consultation process for the UK Government's Green Paper on Corporate Governance. We accept that this may have an impact on UK market practice over time. We will seek to implement a number of the suggestions that we believe have merit. The Committee does not however believe it is appropriate to make material changes to the policy at this stage. The Committee will consider the policy later this year against a backdrop of changes to the organisation, and will consult with shareholders thereafter, well in advance of the policy vote at next year's AGM.

Performance related pay out-turns in 2017/18

SSE delivered against its key metrics with dividend per share, annual earnings per share, customer performance and cashflow all at or ahead of target.

- Annual Incentive Plan (AIP): The out-turn under the Annual Incentive Plan (AIP) was determined against a set of financial, strategic and personal targets set at the beginning of the year. This resulted in an outcome of 78% of the maximum opportunity. We have set out details of SSE's performance against the AIP measures and targets on page 125.
- Performance Share Plan (PSP): For PSP awards granted in 2015, which are due to vest following the end of the 2017/18 financial period, measurement of performance over the three-year period resulted in an out-turn of 30% of the maximum opportunity.

Implementation of pay policy 2018/19

The Committee agreed to base salary increases for the Executive Directors of 3% which are in line with, or just below, those provided to the wider SSE workforce.

Looking ahead

In light of SSE's strategy, and its focus on creating value for shareholders and society, and the proposed changes in the SSE Group, the Committee intends to spend time during 2018/19 considering how we can operate remuneration policy more effectively, taking account of the current debates and guidance on executive pay.

Delivery of SSE's strategy is dependent upon the shared talent, skills and values of people throughout SSE and remuneration policy must reflect that. It must also support SSE's desire to be a company for which people want to work, in which people want to invest, from which people want to buy and with which people want to partner.

I look forward to consulting with our largest shareholders on our new Directors' Remuneration Policy. In the meantime, I would welcome any feedback or comments on this Report. We will continue to endeavour to report remuneration matters with clarity and transparency and would welcome any suggestions on how we can add to those qualities in the future.



Dame Sue Bruce DBE

Chairman of the Remuneration Committee
24 May 2018

SUMMARY OF THE COMMITTEE'S ACTIVITIES DURING THE YEAR

- Review of Executive Directors' performance
- Review of Committee advisor's performance
- Analysis of UK regulatory and market practice
- Board engagement with SSE employees and recognised trade unions
- Appointment of new Executive Director
- De-merger share plan considerations
- Risk assessment in respect of remuneration policy
- Setting performance metrics and targets for 2018/19

A SNAPSHOT OF SSE'S APPROACH TO PAY

Remuneration principles and strategy



A summary of our pay policy in action

SSE's performance in 2017/18

	Element	Max	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Fixed pay	Salary	Set with reference to pay increases for the wider employee base	Salary paid					
	Benefits	Market competitive	Benefits paid					
	Pension	Final salary and top up	Pension accrual					
Variable pay – at risk	Annual Incentive Plan (AIP)	CEO 150% of salary FD and WD 130% of salary 67% cash/33% career shares		AIP cash paid				
				AIP career share award granted			Award vests	
	Performance Share Plan (PSP)	CEO 200% of salary FD and WD 175% of salary 2 Year holding period	PSP awards granted			PSP awards vest		Holding period ends
Additional governance	Share ownership requirement	200% of salary	Share ownership requirement					
	Recovery and withholding	All incentives	Clawback: misstatement, serious misconduct, error in calculation Malus: misstatement, misconduct, serious reputational damage, error in calculation					
	Post-employment	Career shares	Holding requirement for career shares until one year after cessation of employment					

Adjusted EPS
121.1P

Adjusted PBT
£1,453.2M

Investment and capital expenditure
£1,503.0M

Meeting our objectives

- SSE achieved its first financial objective of a recommended annual dividend increase of at least RPI inflation.
- SSE's financial performance as measured by adjusted earnings per share was ahead of expectations at the start of the financial year.
- SSE continued to make good progress in its programme of capital investment, focused mainly on electricity networks and additional new renewable energy.
- SSE demonstrated effective financial management, including the issue of its inaugural Green Bond in September 2017.
- SSE adopted a new Safety value definition – *If it's not safe, we don't do it* – as a prelude to a sustained programme of employee engagement and focus around safety.
- SSE demonstrated strategic decision-making with the plan to demerge the SSE Energy Services business and focus the Group on energy assets and related infrastructure and services, subject to approvals.

DPS
94.7P

Contribution to UK economy
£8.6BN

Total Recordable Injury Rate
0.2 PER 100,000 HOURS WORKED

Total carbon emissions
21,609,000 TONNES

Networks Regulated Asset Value
£8.3BN

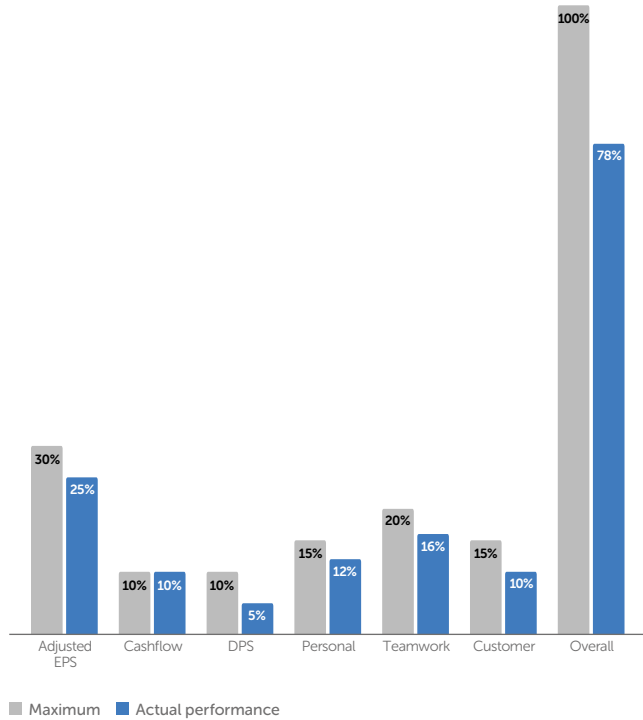
Total Renewable Energy Capacity
3,826MW

See performance against our strategy on pages 26 and 27.

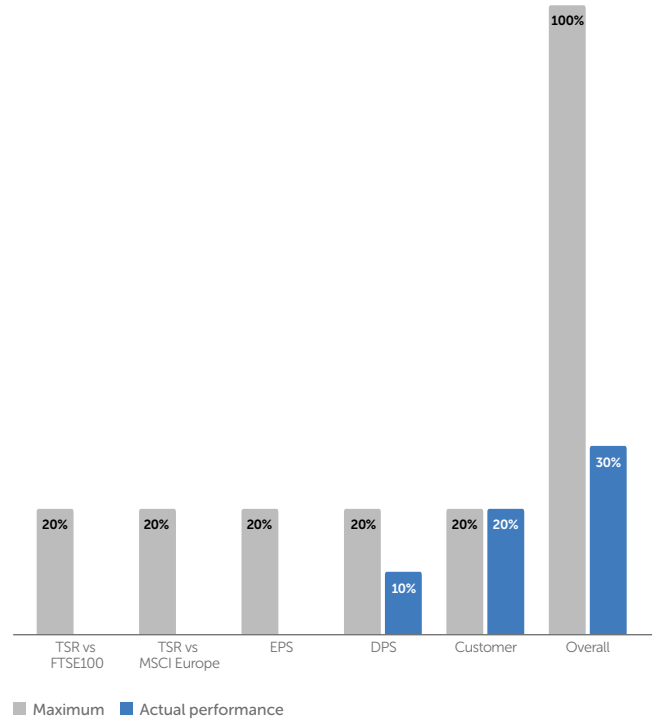
PERFORMANCE OUTCOMES

Summary of AIP and PSP performance

Annual Incentive Plan (AIP) performance

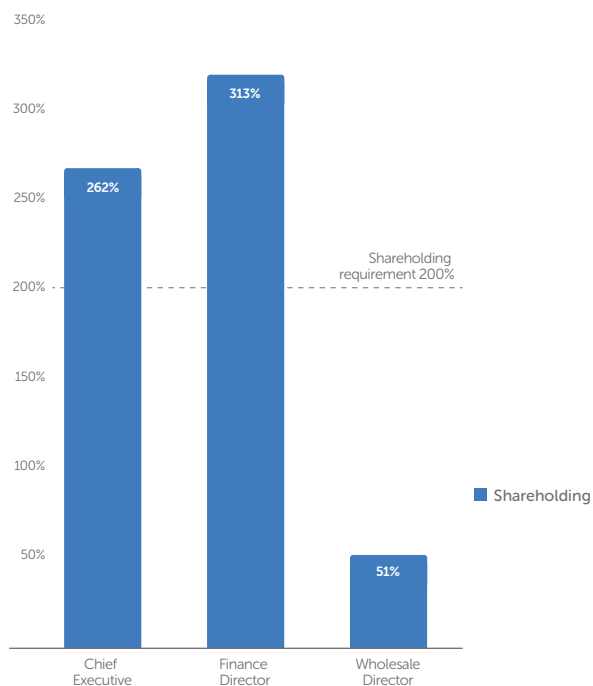


Performance Share Plan (PSP) performance

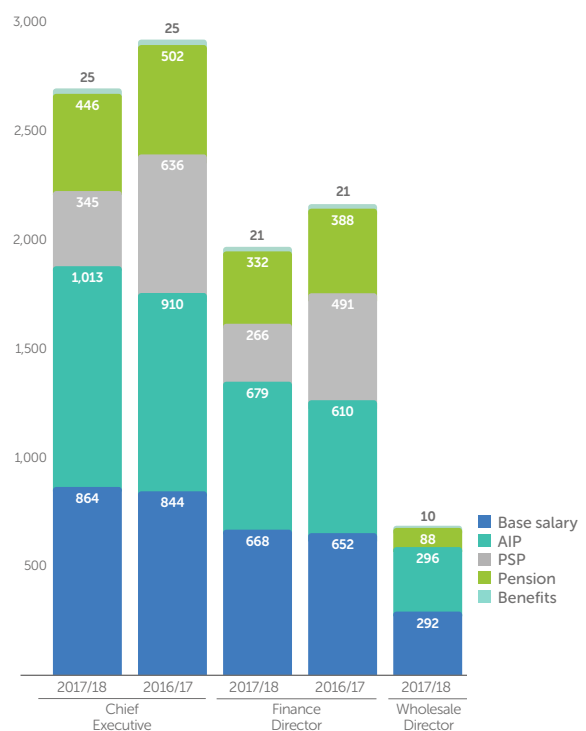


Remuneration outcomes

Shareholding requirement



Single total figure of remuneration (£000s)



ANNUAL REPORT ON REMUNERATION

1. Single total figure of remuneration (audited)

The table below shows the single total figure of remuneration for each director for financial years ending 31 March 2017 and 2018:

		Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth ⁷	Total	
		2017/18 £000s	2016/17 £000s	2017/18 £000s	2016/17 £000s	2017/18 £000s	2017/18 £000s	2016/17 £000s
Fixed Pay	Base salary ¹	864	844	668	652	292		
	Benefits ²	25	25	21	21	10		
	Pension ³	446	502	332	388	88		
Variable Pay	AIP ⁴	1,013	910	679	610	296		
	PSP ⁵	345	636	266	491	0		
Totals ⁶		2,693	2,917	1,966	2,162	686	5,344	5,079

- SSE offers all employees a range of voluntary benefits some of which operate under a salary sacrifice arrangement. The salaries shown above are reported before any such adjustments are made.
- Benefits relate to company car, Share Incentive Plan company contributions and medical benefits. These benefits are non-pensionable.
- The pension value represents the cash value of the award accrued over one year x a multiple of 20 (less director contributions) in line with statutory reporting requirements.
- The AIP figures above show the full value of the award before 33% was deferred in shares.
- The PSP figures for 2017 have been readjusted in line with statutory reporting requirements, following last year's report to show the actual value upon vesting. The estimated value shown in the table for 2018 is based on the average share price in the three months to 31 March 2018 of 1,253.88p, as required by the reporting regulations. The award remains subject to service until May 2018 and so the prior year comparative will be restated in next year's report to show the actual value on vesting, as is required by the regulations.
- Directors have not received any other items in the nature of remuneration other than as disclosed in the table.
- Martin Pibworth was appointed to the Board on 1 September 2017 on a salary of £500,000. The figures above show his remuneration pro-rata from this date, including his AIP but excluding his PSP award granted in 2015 which vests on the same basis as the other Executive Directors and is worth £121,964.

Rationale for 2018 single total figure of remuneration

As indicated on page 127 and shown in specific detail in the following sections, failure to meet the threshold performance conditions for relative total shareholder return measures has resulted in a reduced out-turn of the Performance Share Plan (PSP). Therefore, there is a year-on-year decrease for the Chief Executive and Finance Director in the above table. In this context, the Committee is satisfied that the total single figure outcomes are appropriate.

Base salary

The salaries shown in the table reflect a 2017/18 salary, effective from 1 April 2017 to 31 March 2018, of £864,362 for the Chief Executive and £668,082 for the Finance Director. This represented an increase of 2.4% from the previous year, which was in line with the average performance-based salary increase for the wider SSE employee population.

The Wholesale Director was appointed to the Board on a salary of £500,000 on 1 September 2017, a level which the Committee felt was appropriate relative to the other Executive Directors and in line with our below market philosophy.

Benefits

Benefits are provided at an appropriate level taking into account market practice at similar sized companies and the level of benefits provided for other employees in the Company. Core benefits include car allowance, private medical insurance and health screening. The Executive Directors participate in the Company's all-employee share schemes on the same terms as other employees.

Pension

The Chief Executive and Finance Director are members of the Southern Electric Pension Scheme and the Scottish Hydro Electric Pension Scheme respectively, and their plan membership predates their Board appointments. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60. In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned had they not been subject to the salary cap. From 1 April 2017 pensionable earnings increases were capped at RPI +1%. These are legacy arrangements and would not be used for any new external appointments.

The Chief Executive and Finance Director, in common with all other employees who joined at the same time, have the following pension provisions relating to leaving the Company: for retirement through ill-health an unreduced pension based on service to expected retirement is paid; in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50; and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension on an unreduced basis.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation will limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and will be calculated on what was judged to be a cost neutral basis to SSE.

The Wholesale Director, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary and this remains unchanged. His arrangements are consistent with the approach used for other members of the Group Executive Committee, who have elected to receive a cash allowance in lieu of accruing future pension benefits. Prior to the cash allowance arrangement he was a member of the Scottish Hydro Electric Pension Scheme although he stopped accruing any further pension on 1 April 2016.

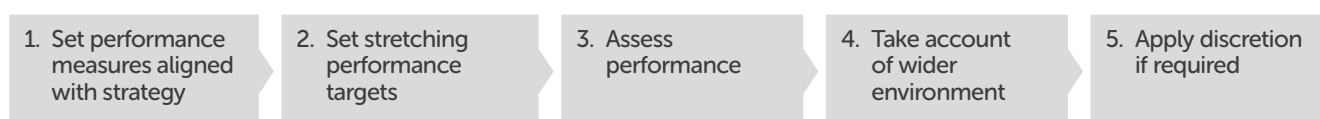
The table below details pension accrued for each of the Executive Directors as at 31 March 2018 and 2017.

	Accrued pension as at 31 March 2018 £000s	Accrued pension as at 31 March 2017 £000s
Alistair Phillips-Davies	408	381
Gregor Alexander	377	356
Martin Pibworth ¹	0	0

¹ Martin Pibworth receives an allowance in lieu of a pension contribution of 30% of salary.

Annual Incentive Plan and Performance Share Plan

In setting targets and assessing performance, the following process is used for both the AIP and PSP:

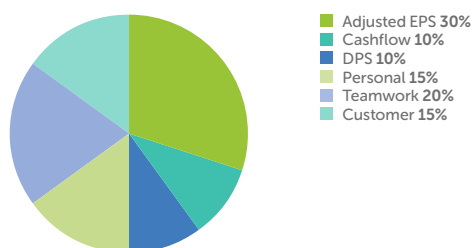


2017/18 Annual Incentive Plan

1. Set performance measures aligned with strategy

AIP requires broad performance across a number of financial metrics (Adjusted EPS, DPS Growth and Cashflow) and non-financial metrics (Customer, Teamworking and Personal) weighted as shown below:

AIP performance measures



2. Set stretching performance targets

The financial performance targets were set at the start of the financial year taking into account internal financial plans, external consensus where it exists and the expected impact of identified opportunities and threats to the business in the context of wider economic conditions. The performance target range is set on a realistic basis but requiring true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average AIP payout over the previous five years of 66%.

3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

AIP	Performance measure						TOTAL
	ADJUSTED EPS	CASHFLOW	DPS	PERSONAL	TEAMWORK	CUSTOMER	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	
Rationale	Underlying measure of financial performance	Retained cashflow/net debt	Return on investment through payment of dividends	To reflect those activities which go beyond the normal responsibilities of the role	Reflects the culture of the business to value colleagues and enjoy working together	Meeting customers' needs is at the core of the business	
Weighting	30%	10%	10%	15%	20%	15%	
Threshold	112p	13%	RPI				
Max	126p	14%	RPI+2%				
Outcome	121.1p	16.5%	94.7p		See next section		
Performance	84%	100%	50%	80%	81%	65%	
Out-turn (% of max)	25%	10%	5%	12%	16%	10%	78%

ANNUAL REPORT ON REMUNERATION CONTINUED

3. Assess performance *continued*

When setting non-financial measures and targets, the Committee ensures they are specific, measurable, attainable, relevant and timely ("SMART" objectives). By their nature, some objectives require a more subjective assessment than others and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate. The Committee is committed to providing as much retrospective detail of the measures as possible, setting out clearly the decision making process and the levels of attainment achieved, but mindful that any information which could be considered commercially sensitive cannot be disclosed.

The tables below provide detail on each of the non-financial measures and the assessment of performance against each one.

MEASURE	FACTORS TO BE ASSESSED		SUMMARY PERFORMANCE EVIDENCE	ASSESSMENT	OUTCOME (% OF MAX)
Personal	Chief Executive	Safety, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Good financial performance with EPS ahead of expectations, strategic plan developed and agreed by Board.	✓✓	80%
	Finance Director	Safety, Financial, People Development, Transformation, Corporate Function Performance, Succession	Good financial performance with EPS ahead of expectations, delivery of 2-year efficiency programme, excellent fundraising drive.	✓✓	80%
	Wholesale Director	Safety, Financial, People Development, Succession, Business Development, Asset Management	Good financial performance with EPS ahead of expectations, construction and project delivery ahead of budget.	✓✓	80%
MEASURE	FACTORS TO BE ASSESSED		SUMMARY PERFORMANCE EVIDENCE	ASSESSMENT	OUTCOME (% OF MAX)
Customer	Retail – A range of measures including customer complaints and satisfaction		Leading the large energy suppliers for complaints in the Citizens Advice Supplier Rating and a leading performer in the wider supplier group of 28. Second among the leading suppliers in the uSwitch survey.	✓✓	75%
	Networks – A range of measures including customer interruptions and customer minutes lost		Year-on-year improvements across most metrics and average ranking position maintained.	✓	55%
				Total	65%
Teamwork	Safety – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR)		TRIR and AFR improved by 5% and 10% respectively.	✓✓	80%
	Service – Various external Retail ranking surveys and Networks customer performance measures		See Customer table above.	✓✓	65%
	Efficiency – Controllable costs		Significant efficiency gains incorporated into business budgets with controllable costs also below the budget agreed by the Board. Ratio of retained cashflow to debt 16.5%	✓✓✓	85%
	Sustainability – Performance in various indices		Ranked top in FTSE 350 for ‘inclusive job growth’ by the Good Economy and 4th most influential company on climate policy out of 250 largest listed industrial companies by Influence Map. Improved MSCI ESG Rating to AAA and launched UK’s largest ever green bond. Ranked 8th in the FTSE 100 for sustainability reporting performance by Carbon Clear.	✓✓✓	90%
	Excellence – Progress of key capital projects, gender diversity		Strong progress on major construction projects in Wholesale. External awards for Innovation in Networks. Adoption of plans and goals for increasing proportion of women in leadership roles in SSE. Ranked highest in the utilities industry in the FTSE Women on Boards Leadership Index Series. Compliance with the BS 18477 Inclusive Service Provision standard achieved by SSEN and SSE’s Retail business.	✓✓	80%
	Teamworking – Employee Engagement		SSE named in the Bloomberg Gender-Equality Index and ranked top in the FTSE in the Good Economy Job Ratings Index which measures the creation of sustainable jobs. Excellent Teamwork displayed during exceptionally adverse weather in March with strong discretionary commitment from a wide range of employees, working in challenging conditions to ensure both restoration of customers’ supply, maintaining customer service communication lines and support for vulnerable customers.	✓✓✓	85%
			Total	81%	

x= Below expectation

✓= Met expectation

✓✓= Exceeded expectation

✓✓✓= Far exceeded expectation

AIP earned for each of the Executive Directors is shown in the table below. The total award is made up of 67% cash and 33% which is deferred into shares for three years which are then retained until a year after stepping down from the Board.

	Maximum potential (% of salary)	AIP earned	AIP cash ²	AIP deferred ²
Alistair Phillips-Davies	150%	1,013,248	£678,876	£334,372
Gregor Alexander	130%	678,738	£454,754	£223,984
Martin Pibworth ¹	130%	296,319	£198,534	£97,785

1 Martin Pibworth was eligible for the AIP for the period of time he served as an Executive Director. His AIP payment is pro-rata to reflect the seven months since his appointment to the Board. He was eligible for a separate bonus arrangement for the five months he served as a member of the company's Group Executive Committee.

2 Both the cash and deferred element are subject to clawback provisions.

4. Take account of wider environment

The Remuneration Committee believes that the range of measures used in the AIP ensures that performance is assessed using a balanced approach, without undue focus on a single metric which could be achieved at the expense of wider initiatives. Given the performance noted above and wider operational achievements noted in the Strategic Report on pages 26 and 27 the Committee is comfortable that the AIP outcomes represent a fair reward for performance delivered.

5. Apply discretion if required

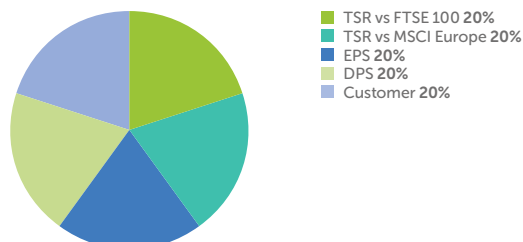
In 2016/17, the Remuneration Committee applied its discretion and made a downward adjustment to the Executive Directors' AIP award after taking into account overall performance during the year. For 2017/18, no adjustment has been made.

2017/18 Performance Share Plan

1. Set performance measures aligned with strategy

PSP performance measures encourage strong financial, customer, share price and dividend performance over a three year performance period. The measures and their weightings are shown below:

PSP



2. Set stretching performance targets

The performance target range for PSP are set each year to ensure they are stretching and represent value creation for shareholders.

3. Assess performance

The vesting of shares under the PSP is subject to the performance measures and targets shown in the table below which also details the actual out-turn for the 2015 PSP award vesting this year.

PSP	Performance measure					TOTAL
	TSR V FTSE 100	TSR V MSCI EUROPE	EPS GROWTH	DPS GROWTH	CUSTOMER FUTURES RANKING	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of financial performance	Relative measure of financial performance	Underlying measure of financial performance	Return on investment through payment of dividends	Meeting customers needs is at core of our business	
Weighting	20%	20%	20%	20%	20%	
Threshold	50th percentile	50th percentile	RPI	RPI	Rank 2	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	
Outcome	Below threshold	Below threshold	Below threshold	RPI	Rank 1	
Performance	0%	0%	0%	50%	100%	
Out-turn (% of max)	0%	0%	0%	10%	20%	30%

ANNUAL REPORT ON REMUNERATION CONTINUED

4. Take account of wider environment

The performance outcomes noted on the previous page are in line with strong customer and dividend performance over the three year performance period. Relative TSR performance, reflecting in part the share price performance over the period, is below median when compared with both the FTSE 100 and the MSCI European utilities comparator group. Adjusted EPS was also below RPI. Based on the outcomes noted above, the value attributed to each Executive Director in respect of PSP is set out in the table below:

	Awards available (% of salary)	Awards available (number of shares)	Additional awards in respect of accrued dividends	Total number of shares vesting	Estimated value of awards vesting ¹
Alistair Phillips-Davies	150%	76,138	15,502	27,492	344,717
Gregor Alexander	150%	58,848	11,981	21,249	266,433

1 The estimated value of the awards vesting has been calculated on the same basis as the PSP value in the single figure table on page 124.

5. Apply discretion if required

The Committee is satisfied that the level of vesting is fair reward for the performance delivered.

Other remuneration disclosures

Fees paid to non-Executive Directors during 2017/18 were as follows:

Non-Executive Directors	Fees £000s	
	2017/18	2016/17
Jeremy Beeton	80	74
Katie Bickerstaffe	85	78
Sue Bruce	68	63
Crawford Gillies	85	76
Richard Gillingwater CBE	377	369
Peter Lynas	85	79
Helen Mahy	68	63
Totals	848	802

Share interests and share awards (audited)

Directors' share interests

The table below shows the share interests of the Executive and non-Executive Directors at 31 March 2018.

Director	*Shareholding as a % of salary (Actual/% met)	Number of shares			Number of options		Shares owned outright at 31 March 2017
		Shares owned outright at 31 March 2018	Interests in shares, awarded without performance conditions at 31 March 2018	Interests in shares, awarded subject to performance conditions at 31 March 2018	Interests in share options, awarded without performance conditions at 31 March 2018	Interests in share options, awarded subject to performance conditions at 31 March 2018	
Alistair Phillips-Davies	262% (200% – met)	177,768	34,859	295,698	2,458	–	150,239
Gregor Alexander	313% (200% – met)	163,928	24,874	207,337	2,399	–	142,277
Martin Pibworth ¹	51% (200% below requirement)	20,132	39,426	68,885	2,458	–	–
Jeremy Beeton		4,534	–	–	–	–	4,240
Katie Bickerstaffe		6,433	–	–	–	–	6,433
Sue Bruce		2,484	–	–	–	–	2,484
Crawford Gillies		5,000	–	–	–	–	5,000
Richard Gillingwater		2,000	–	–	–	–	2,000
Peter Lynas		2,000	–	–	–	–	2,000
Helen Mahy		2,027	–	–	–	–	2,027

* Shareholding requirement: Executive Directors – 200% of salary, non-Executive Directors – minimum 2,000 shares.

¹ Martin Pibworth was appointed to the Board on 1 September 2017 and will build up his shareholding in the short to medium term. Price used to calculate shareholding requirement as % of salary as at 29/03/18 £12.76.

Directors' Long-term Incentive Plan interests

Awards granted in the year

The tables below detail deferred bonus and PSP awards granted to Executive Directors during 2017.

Deferred Bonus awards granted 27 July 2017

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	26/06/17	20,068	£15.07	£302,425
Gregor Alexander	Conditional award	26/06/17	13,442	£15.07	£202,571

The Deferred Bonus granted in 2017 is equal to 25% of the AIP earned in 2016/17. It is also subject to continued employment to the third anniversary of the date of grant. There is a further holding requirement until one year after cessation of employment.

PSP awards granted in 2017

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	26/06/2017	115,479	£15.07	£1,740,269
Gregor Alexander	Conditional award	26/06/2017	78,099	£15.07	£1,176,952

Alistair Phillips-Davies was granted an award equal to 200% of base salary.

Gregor Alexander was granted an award equal to 175% of base salary.

Performance is measured over three years to 31/03/20 subject to the performance conditions as described on page 136.

ANNUAL REPORT ON REMUNERATION CONTINUED

Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2017	Option exercise price	Additional shares awarded during the year	No. of shares lapsed during the year	No. of shares realised during the year	No. of shares under award at 31 March 2018
Alistair Phillips-Davies	DBP 2006 ²	26/06/2014	26/06/2017	7,330				7,330 ⁶	
	DBP 2006 ²	25/06/2015	25/06/2018	7,931					7,931
	DBP 2016 ²	27/07/2016	27/07/2019	6,860					6,860
	DBP 2016 ²	26/06/2017	26/06/2020			20,068 ⁵			20,068
	PSP ¹	26/06/2014	26/06/2017	78,155			42,564	35,591 ⁶	
	PSP ¹	25/06/2015	25/06/2018	76,138					76,138
	PSP ¹	27/07/2016	27/07/2019	104,081					104,081
	PSP ¹	26/06/2017	26/06/2020			115,479 ⁵			115,479
	Sharesave	29/06/2012	01/10/2017–31/03/18	1,408	1,065p		1,408		
	Sharesave	02/07/14	01/10/2019–31/03/20	1,202	1,247p				1,202
Gregor Alexander	DBP 2006 ²	26/06/2014	26/06/2017	5,992				5,992 ⁶	
	DBP 2006 ²	25/06/2015	25/06/2018	6,130					6,130
	DBP 2016 ²	27/07/2016	27/07/2019	5,302					5,302
	DBP 2016 ²	26/06/2017	26/06/2020			13,442 ⁵			13,442
	PSP ¹	26/06/2014	26/06/2017	60,408			32,899	27,510 ⁶	
	PSP ¹	25/06/2015	25/06/2018	58,848					58,848
	PSP ¹	27/07/2016	27/07/2019	70,390					70,390
	PSP ¹	26/06/2017	26/06/2020			78,099 ⁵			78,099
	Sharesave	02/07/2014	01/10/2019–31/03/20	2,213	1,247p				2,213
	Sharesave	03/07/2015	01/10/20–31/03/21	186	1,288p				186
Martin Pibworth	DBP 2006 ²	25/06/2015	25/06/2018	4,328					4,328
	DBP 2006 ²	27/07/2016	27/07/2019	4,383					4,383
	DBP 2016 ²	26/06/2017	26/06/2020			5,715 ⁵			5,715
	PSP ¹	25/06/2015	25/06/2018	26,940					26,940
	LSP ³	27/07/2016	27/07/2019	18,534					18,534
	LSP ³	26/06/2017	26/06/2020			23,411 ⁵			23,411
	Retention Award ⁴	12/01/2017	12/01/2020	25,000					25,000
	Sharesave	02/07/2014	01/10/2019–31/03/20	1,202	1,247p				1,202
	Sharesave	06/07/2017	01/10/2022–31/03/23		1,194p	1,256			1,256

Shares which are released under the DBP 2006 and PSP attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under the DBP 2006 and PSP, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:

Gregor Alexander received 6,372 shares and Alistair Phillips-Davies received 8,181 shares.

1 The performance conditions applicable to awards under the PSP are described on page 136. The 2014 award under the PSP vested at 45.54%.

2 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2006 and DBP 2016. Vesting of shares under the DBP 2006 is dependent on continued service over a three year period. In view of the linkage to annual bonus, no further performance condition applies to the vesting of DBP 2006 awards.

3 The Leadership Share Plan (LSP) is a long-term incentive award granted to senior managers as deferred shares for three years before vesting subject to performance conditions.

4 Awards granted as Retention Share Awards prior to his appointment as an Executive Director.

5 The market value of a share on the date on which these awards were made was 1,507p.

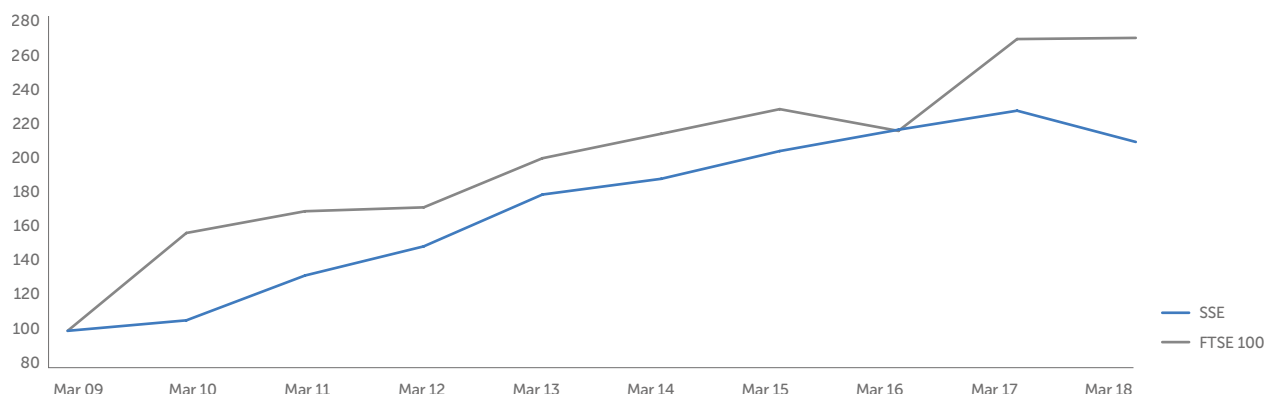
6 The market value of a share on the date on which these awards were realised was 1,507p.

The closing market price of shares at 29 March 2018 was 1,276p and the range for the year was 1,182p to 1,551p. Awards granted during the year were granted under the DBP 2016, PSP, LSP and Retention Share Awards. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £1,367,263 (2017: £126,791).

2. Historical remuneration disclosures

Change in Chief Executive total remuneration

The graph below shows SSE TSR performance over time relative to FTSE 100 performance.



The table below shows the Chief Executive's annual remuneration since 2010.

Directors	Single total figure of remuneration ¹ (£'000)	Annual variable element award ² (% of maximum)	Long-term incentive vesting ³ (% of maximum)	Application of discretion
2018 (Alistair Phillips-Davies)	2,693	78	30	
2017 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2016 (Alistair Phillips-Davies)	1,696	54	0	
2015 (Alistair Phillips-Davies)	2,311	64	0	
2014 (Alistair Phillips-Davies)	2,546	63	22	
2013 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP
2012 (Ian Marchant)	1,214	25	0	Downward discretion applied to AIP
2011 (Ian Marchant)	1,686	60	0	
2010 (Ian Marchant)	1,795	59	16	

¹ The single total figure of remuneration is calculated on the same basis as the 'single total figure of remuneration' table on page 124.

² The annual variable element award (AIP) is the figure shown on page 125, and reflected in the 'single total figure of remuneration table' on page 124.

³ The long-term incentive (PSP) vesting is the figure shown on page 127, and reflected in the 'single total figure of remuneration table' on page 124.

Alignment of Directors' remuneration policy with pay across the wider workforce

The table below shows how the Chief Executive's earnings compare to those of all employees expressed as a ratio over three years.

	Chief Executive earnings ¹ £	Average SSE earnings ² £	Pay ratio £
2017/18	2,693,000	43,144	62:1
2016/17	2,917,000	40,723	72:1
2015/16	1,696,000	39,990	42:1

¹ The Chief Executive's earnings are calculated on the same basis as the single total figure of remuneration table shown on page 124.

² Average employee earnings are based on staffing costs calculated on the same basis as Note 8.1 of the accounts, excluding social security costs.

The movement in the pay ratio from 2015/16 to 2016/17 is explained largely by the increase in Chief Executive's earnings in 2017 as a result of improved performance (through AIP and PSP) and the 2016 increase to the maximum AIP level by 50%.

Conversely, the narrowing of the pay ratio from 2016/17 to 2017/18 is as a result of slightly lower PSP performance and a reduced figure for the Chief Executive's pension as shown in the single total figure of remuneration table on page 124. In addition, average SSE earnings increased by 6% and the Chief Executive's single total figure of remuneration went down by 8%.

ANNUAL REPORT ON REMUNERATION CONTINUED

Relative importance of the spend on pay

The table below indicates how the earnings of Executive Directors compare with other financial dispersals. The movement in Executive Directors' earnings in 2018 is explained by the appointment of the Wholesale Director in 2017 which increased the number of Executive Directors from two to three.

	2016 £m	2017 £m	2018 £m
Executive Directors' earnings ¹	3.0	5.1	5.3
Dividends to shareholders	884.0	906.6	926.1
Capital and investment expenditure	1,618.7	1,726.2	1,503.0
Total UK taxes paid (profits, property, environment and employment taxes) ²	453.9	385.0	484.1
Staff costs ³	916.2	939.3	981.1

¹ Calculated on the same basis as the 'single total figure of remuneration' table on page 124.

² Includes corporation tax, employers' National Insurance contributions and business rates.

³ Staff costs for all employees, as per Note 8.1 of the accounts, excluding Executive Directors.

For every £1 spent on Executive Directors' earnings by SSE in 2017/18, £91 was paid in tax, £185 was spent on employee costs and £284 was spent on capital and investment expenditure. In addition, £175 was made in dividend payments to shareholders for every £1 spend on Executive Directors' earnings.

3. Governance

External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance their experience and value to the Company. Any fees received are retained by the Director. Gregor Alexander was a non-Executive Director with Stagecoach Group plc during 2017 and received £60,000 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks and receives no additional fees for this.

Payments for loss of office and payments to past Directors

There were no payments for loss of office or to former Directors during the year.

Advice to the Committee

The Chief Executive, the Director of Human Resources and Head of Reward advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions on their own remuneration.

The Director of Human Resources and Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

FIT Remuneration Consultants LLP (FIT) provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay. FIT received fees of £67,918 in relation to their work for the Committee, calculated on a time and materials basis. FIT are founding members of, and adhere to, the Remuneration Consultants' Group Code of Conduct. The Code defines the roles of consultants, including the requirement to have due regard to the organisation's strategy, financial situation, pay philosophy, the Board's statutory duties and the views of investors and other stakeholders. The Committee reviews the advisers' performance annually to determine that it is satisfied with the quality, relevance, objectivity and independence of advice being provided. FIT provides no other services to the Company.

Morgan Stanley and Co International Plc provided analysis on comparator performance, but did not receive fees specifically for these services as they are retained as SSE's brokers.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

Evaluation

Through the internal Board evaluation process which was carried out during the year, it was confirmed that the Remuneration Committee continued to operate effectively. Details of the wider annual evaluation process are set out on pages 102 and 103.

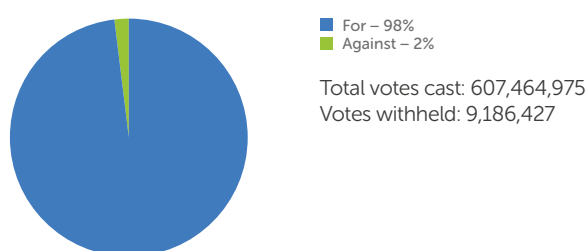
Risk assessment

During the course of the year, the Committee undertook a remuneration risk assessment exercise to identify and evaluate the risks inherent in our Directors' Remuneration Policy. Important risk mitigators identified included the broad balance of clear financial and non-financial performance measures, targets which are set in line with SSE's business plans and an overall approach to pay design which rewards the delivery of strong, yet sustainable, performance. The close coordination with the Audit Committee was also highlighted as a strength. Specific areas of focus for the future in respect of remuneration risk include simplicity, ensuring fair pay outcomes and applying discretion to do so, and the internal alignment of pay design and outcomes.

Shareholder voting in 2017

On 20 July 2017, shareholders approved the Directors' Remuneration Report for the year ended 31 March 2017. Below is the result of the resolution.

Shareholding voting in 2017



The Remuneration Committee

The members of the Committee and the meetings attended is set out on page 120.

The Terms of Reference for the Committee are available on the Company's website <http://sse.com/media/471048/ToR-RemCo.pdf>. In summary, the Committee determines and agrees with the Board, the Company's framework and policy for executive remuneration including setting remuneration for all Executive Directors, the Company Chairman and Company Secretary. The Committee also monitors the level and structure of remuneration across the senior management team.

During the year the Committee met three times where it considered the following:

MEETING DATE ¹	AGENDA ITEMS
May 2017	AGM season overview, AIP and PSP performance discussions, below-board remuneration, 2016/17 DRR, PSP/LSP/DBS participants, remuneration advisors annual performance review, draft agenda items for 2016/17.
November 2017	Executive remuneration market and governance review, mid-year performance update, new Executive Director appointment, Board engagement with SSE employees.
March 2018	Executive remuneration market and governance review, 2017/18 draft DRR, AIP and PSP performance update, Chairman fee and Executive Director base salary reviews, below-Board pay, risk assessment, de-merger pay considerations, 2018-20 planning.

¹ A brief teleconference also took place in September 2017 to consider a routine operational matter in relation to share plans.

ANNUAL REPORT ON REMUNERATION CONTINUED

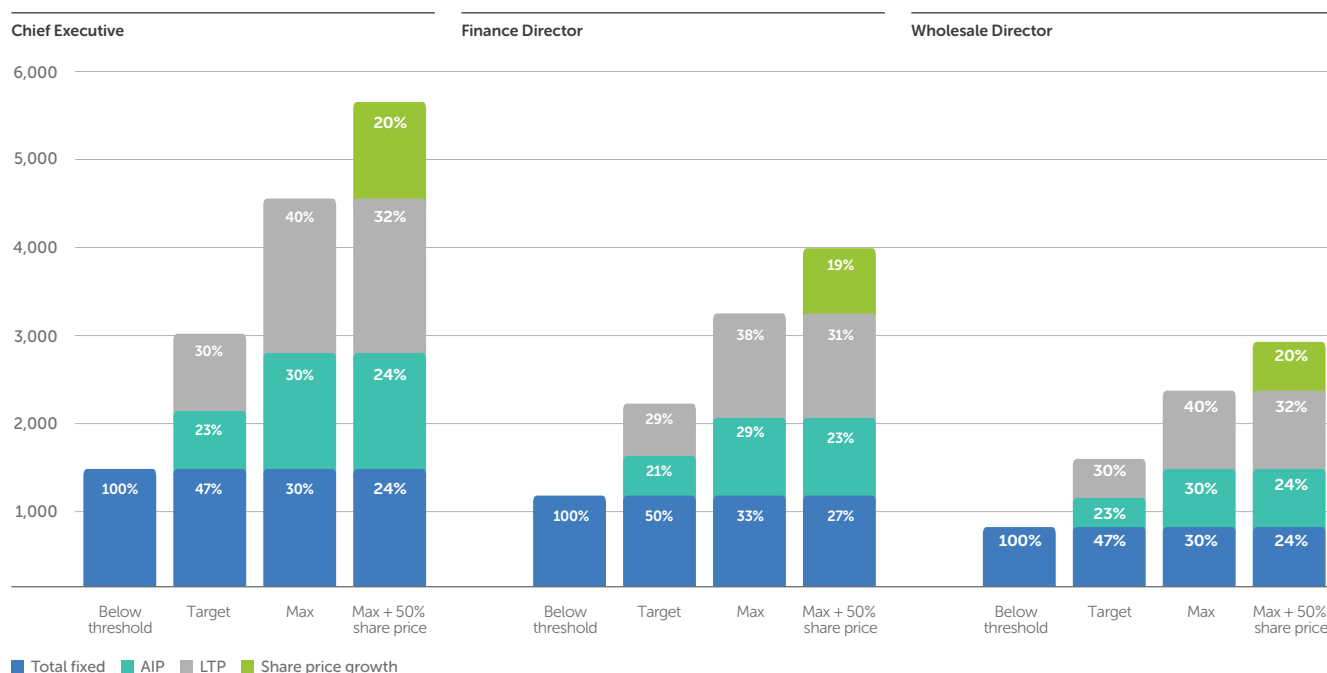
4. Implementation for 2018/19

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2019:

ELEMENT OF PAY	IMPLEMENTATION FOR 2018/19	COMMENT
Base salary	Increases of 3%, effective 1 April 2018	In line with wider workforce increases of 3%.
Benefits	No changes proposed	
Pension	No changes proposed	
Annual Incentive Plan	No changes proposed: Adjusted EPS – 30% Cashflow – 10% DPS – 10% Personal – 15% Teamwork – 20% Customer – 15%	The AIP targets are considered to be commercially sensitive at this time and therefore will only be disclosed retrospectively in next year's report.
PSP	No changes proposed: TSR (v FTSE 100) – 20% TSR (v MSCI Europe) – 20% EPS – 20% DPS – 20% Customer – 20%	It is recognised that sustained DPS growth at RPI would be good performance in the context of SSE's business environment and is considered to be a stretching level of performance rather than a "threshold" level of performance. As with previous years, the entry or threshold level vesting for the DPS element has therefore been set at 50% for achieving this stretch. In assessing performance against DPS the Committee must be satisfied that a reasonable level of dividend cover has been maintained. The customer service measure is based on an independent external customer measure (Citizen's Advice League Table) and the measure compares SSE's performance with the other energy suppliers.

The charts below indicate potential single figure of remuneration values for 2018/19 at below threshold, target and maximum. In addition, they show the possible impact of share price growth on the single total figure of remuneration based on a 50% increase.

Single total figure of remuneration – an illustration of the application of our policy



Chairman's and non-Executive Directors' fees

The policy in respect of the Chairman's and non-Executive Directors' fees mirrors that for Executive Directors where we aim to pay appropriately based on time commitments and scope of responsibilities, but generally at a level that is below the market median.

The Chairman's fee is determined by the Remuneration Committee. The fees for non-Executive Directors are a matter for the Chairman and Executive Directors. Care is taken to ensure no Director is present when their own remuneration is discussed.

For 2018/19, it is proposed that the Chairman's and the non-Executive Directors' fees are increased by 3% in line with the wider employee population with effect from 1 April 2018, with the exception of the SHEAC Chair fee which is proposed to increase from £12,000 to £14,000 reflecting the increased remit of that Committee. The new fees are shown in the table below.

As at 1 April 2018

Chairman	£388,800
Base fee	£70,000
Additional Senior Independent Director fee	£17,500
Additional fee for being Remuneration Committee Chairman	£17,500
Additional fee for being Audit Committee Chairman	£17,500
Additional fee for being SHEAC Chairman	£14,000

Changes in the SSE Group and impact on share plan participants

As covered in detail on page 6 and 7 subject to necessary shareholder and regulatory approvals, a decision was taken in November 2017 to enter into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy supply and services business in Great Britain and combination with innogy's subsidiary npower Group plc, to form a new independent energy supply and services business in the Great Britain market. As a result of this the Committee has started to consider the impact the transaction will have on the various employee share plans. The Committee will review the rules of the plans with appropriate advice from the Committee's advisors and make appropriate decisions in relation to all employees, both those remaining within the SSE Group and those likely to leave.

SUMMARY OF DIRECTORS' REMUNERATION POLICY

For ease of reference, set out below is a summary of the Remuneration Policy (the "Policy") which was approved by shareholders at SSE's AGM on 21 July 2016 and applies, in the normal course of events, for a period of three years. The full policy report is available on the Company's website at http://sse.com/media/404875/SSE_AnnualReport_2016.pdf.

ELEMENT OF REMUNERATION	LINK TO STRATEGY	FRAMEWORK (OPERATION AND MAXIMUM OPPORTUNITY)	PERFORMANCE MEASURES
Base salary	Supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy.	Normally reviewed annually with changes effective from 1 April. No maximum salary level, but salary increases will normally be in line with the typical level of increase awarded to other employees in the Company.	Broad review of performance is included in the annual review process.
Benefits	To provide a market-competitive level of benefits for Executive Directors.	Benefits currently provided are: – Core benefits – car allowance, private medical insurance and health screening. – All-employee share plans. – Relocation – additional reasonable benefits as necessary. The cost will depend on the cost to the Company of providing individual items.	Not applicable.
Pension	The pension provision is consistent with the long-term goals and horizons of the business.	Funded final salary and top-up unfunded arrangements ("UURBS") up to the maximum pension of two-thirds of final salary, normally at age 60. From 1 April 2017, future pensionable pay increases capped at RPI + 1%. Alternative pension provisions may operate for new appointments to the Board.	Not applicable.
Annual Incentive Plan (AIP)	Reward Executive Directors' for achievement of annual performance targets linked to SSE's strategy and core purpose.	Maximum annual incentive opportunity is 150% of base salary for the Chief Executive, and 130% of base salary for the Finance and Wholesale Directors. Award delivered: – 67% in cash; and – 33% in a career share award. Career share awards vest after three years (with accrual of dividends). The after-tax number of shares are retained until the first anniversary of the cessation of the Executive Director's employment. Subject to malus and clawback provisions.	Based on a mix of financial and strategic performance measures. A minimum of 50% of the annual incentive will be based on financial performance. The strategic performance will normally include matters such as safety, customer service in the Retail and Networks divisions and investment decision-making and execution, as well as the personal performance of the Executive Directors.
Performance Share Plan (PSP)	Reward Executive Directors, for delivering sustained success and align interests with those of shareholders.	Maximum annual award of 200% of base salary for the Chief Executive, and 175% for the Finance and Wholesale Directors. Awards normally vest based on performance over a period of three years (with accrual of dividends). Post-tax number of shares vesting will be subject to an additional two-year holding period. Subject to malus and clawback provisions.	Awards vest based on relative total shareholder return, financial based measures and customer satisfaction. At least 70% of the award will be based on financial and relative total shareholder return measures. Targets set each year to ensure they are stretching and represent value creation for shareholders.

ELEMENT OF REMUNERATION	LINK TO STRATEGY	FRAMEWORK (OPERATION AND MAXIMUM OPPORTUNITY)	PERFORMANCE MEASURES
Share ownership policy	Aligns the interests of Executive Directors with those of shareholders.	<p>Executive Directors are expected to maintain a shareholding equivalent to two times base salary.</p> <p>Normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes.</p> <p>Vested career shares may also count towards the Executive Director's shareholding.</p>	Not applicable.
Chairman's and non-Executive Directors' fees	Reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.	<p>Fees are reviewed at appropriate intervals against companies of a similar size and complexity.</p> <p>The fee structure may be made of: a basic Board fee or Chairman's fee; – an additional fee for any committee chairmanship or membership; and – an additional fee for further responsibilities e.g. Senior Independent Director, or periods of increased activity.</p> <p>The aggregate level of non-Executive Directors' fees shall not exceed the maximum limit set out in the Articles of Association.</p> <p>All non-Executive Directors should build up a minimum of 2,000 shares in the Company.</p>	Not applicable.

Further information on policy

The full policy approved by shareholders at the 2016 AGM is set out in the 2016 Directors' Remuneration Report and includes further information on:

- loss of office;
- recruitment;
- recovery provisions (clawback and malus);
- Committee discretions;
- legacy commitments;
- Directors' service contracts and non-Executive Directors' letters of appointment;
- shareholders' views;
- remuneration engagement across the Company; and
- illustration of the remuneration policy.

This report was approved by the Board and signed on its behalf by:

Dame Sue Bruce DBE

Chairman of the Remuneration Committee
24 May 2018

OTHER STATUTORY INFORMATION

The Directors submit their Annual Report and Accounts for SSE plc, together with the consolidated Financial Statements of the SSE Group of companies, for the year ended 31 March 2018.

The Strategic Report is set out on pages 1 to 85 and the Directors' Report is set out on pages 86 to 140. The Strategic Report and the Directors' Report together constitute the management report as required under Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

As permitted by the Companies Act 2006, the Directors' Report includes the disclosures in the Strategic Report on:

	Page Reference
An indication of likely future development in the business of the Company	1 to 85
Particulars of important events affecting the Company since the financial year	199
Greenhouse gas emissions	73 to 74
Employment of disabled people	80
Employee involvement	20 to 21, 82
A summary of the principal risks facing the Company	28 to 32

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. This information can be found in the following sections of the 2018 Annual Report and Accounts:

	Page Reference
Statement of amount of interest capitalised by the Group during the financial year	169 to 170
Details of any long-term incentive schemes	120 to 137

Board of Directors

Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2018 are provided on pages 90 to 92.

The rules governing the appointment and retirement of Directors are set out in the Company's Articles of Association, the Corporate Governance Code, the Companies Act 2006 and other related legislation.

Indemnification of Directors and insurance

The Directors have the benefit of an indemnity provision contained in the Company's Articles of Association. In addition, the Directors have been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the financial year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Shareholder	Number of SSE Shares*	Percentage of total voting rights*	Nature of holding
The Capital Group Companies, Inc.	98,966,198	9.91%	Indirect
BlackRock, Inc.	72,378,011	7.13%	Indirect (6.12%), Securities Lending (0.04%) & CFD (0.18%)
UBS Investment Bank	52,003,155	5.17%	Indirect (4.93%), Equity Options (0.19%), Equity Swaps (0.04%)
Invesco Limited	45,775,918	4.69%	Indirect

* At date of disclosure by relevant entity.

Articles of Association changes

The Company's Articles of Association were adopted at the 2010 AGM. Any amendments to the Articles of Association can only be made by a special resolution at a general meeting of shareholders.

Results and dividends

The Group's results and performance highlights for the year are set out on page 27. An interim dividend of 28.4p per Ordinary Share was paid on 16 March 2018. The Directors propose a final dividend of 66.3p per Ordinary Share. Subject to approval at the 2018 AGM, the final dividend will be paid on 21 September 2018 to shareholders on the Register of Members at close of business on 27 July 2018. The Company operates a Scrip Dividend Scheme, and a resolution to renew the Scrip Dividend Scheme for a further three years will be put to Shareholders at the 2018 AGM.

Shares

Share capital

The Company has a single share class which is divided into Ordinary Shares of 50p each. The issued share capital of the Company as at 31 March 2018, together with details of any changes during the year, is set out in Note 22 to the Financial Statements. As at 24 May 2018, the issued share capital of the Company consisted of 1,023,008,915 Ordinary Shares. This figure includes 7,832,528 ordinary shares which are held in treasury (representing 0.76% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended. During the financial year, and up until 24 May 2018, the Company used 1,342,393 treasury shares to satisfy the requirements of the employee Sharesave scheme.

The Company was authorised at the 2017 AGM to allot shares, or grant rights over shares up to an aggregate nominal amount equal to £168,518,630 (representing 337,037,260 Ordinary Shares of 50p each excluding treasury shares), representing one-third of its issued share capital. A renewal of this authority will be proposed at the 2018 AGM.

The Company was authorised at the 2017 AGM to allot up to an aggregate nominal amount of £25,277,794.50 (representing 50,555,589 Ordinary Shares of 50p each and 5% of issued share capital) for cash without first offering them to existing shareholders in proportion to their holding. A renewal of this authority will be proposed at the 2018 AGM.

Substantial shareholdings

As at 24 May 2018 (being the last practical date prior to the publication of the Annual Report) the Company has been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the interests in its shares as shown in the table below.

Authority to purchase shares

At the 2017 AGM, the Company obtained shareholder approval to purchase up to 101,111,178 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the 2018 AGM and close of business on 30 September 2018.

On 9 November 2016, the Company announced that it would commence a discretionary programme to purchase up to £500m of its own shares for cancellation or to be held in treasury, during the period commencing on 11 November 2016 and ending no later than 31 December 2017. This programme was completed on 7 December 2017, with the Company purchasing 34,768,893 Ordinary Shares at a total cost of £499,706,199.55 and an average market price of 1,437.22p per share, from the date of commencement.

Under the discretionary programme, between 1 April 2017 and 31 March 2018, the Company purchased 25,870,870 Ordinary Shares with a notional cost of £12,935,435 and an aggregate consideration of £368,974,258.81. The 25,870,870 shares purchased represent 2.52% of the issued share capital as at 24 May 2018. Of the shares purchased, 16,695,949 were cancelled and 9,174,921 were initially held in treasury. Details of the treasury shares used to satisfy the requirements of the employee Sharesave scheme are set out on page 138.

The 8,898,023 shares purchased between 11 November 2016 and 31 March 2017 were all cancelled.

The Directors will, again, seek renewal of their authority to purchase in the market the Company's own shares at the 2018 AGM.

Transfer of Ordinary Shares

There are no restrictions on the transfer of Ordinary Shares in the capital of the Company other than certain restrictions which may from time-to-time be imposed by law.

Voting

Each Ordinary Share of the Company carries one vote at general meetings of the Company. Any Ordinary Shares held in treasury have no voting rights.

A shareholder entitled to attend, speak and vote at a general meeting may exercise their right to vote in person, by proxy, or in relation to corporate members, by corporate representatives. To be valid, notification of the appointment of a proxy must be received not less than 48 hours before the general meeting at which the person named in the proxy notice proposes to vote. The Directors may in their discretion determine that in calculating the 48-hour period, no account be taken of any part of a day which is not a working day.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trusts give directions to the trustees to vote on their behalf by way of a Form of Direction.

Change of control

The Company is party to a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover. At 31 March 2018, change of control provisions were included in agreements for committed credit facilities, EIB debt, US Private Placements, and Hybrid instruments. The Company is not aware of any other agreements with change of control provisions that are considered to be significant in terms of their potential impact to the business.

Accounting policies, financial instruments and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in Note 24 to the Financial Statements and Supplementary Information, A6 to A8.

Research and development

SSE is involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A number of these projects and programmes are referred to in the Strategic Report in pages 1 to 85.

Political donations and expenditure

SSE operates on a politically neutral basis and does not make any donations to political parties, political organisations or independent election candidates. During the year, no political expenditure was incurred and no political donations were made by the Group.

Related party transactions

Related party transactions are set out in Supplementary Information, A5 on page 217.

Annual General Meeting (AGM)

The AGM will be held on 19 July 2018 at 12.30pm at the Perth Concert Hall, Mill Street, Perth PH1 5HZ. Details of the resolutions to be proposed are set out in a separate Notice of Annual General Meeting which accompanies this report for shareholders receiving hard copy documents, and which is available at sse.com for those who elected to receive documents electronically.

General Meeting

A General Meeting of the Company will be held on 19 July 2018 at 2.00pm at the Perth Concert Hall, Mill Street, Perth PH1 5HZ. Details of the resolutions to be proposed in relation to the proposed demerger of SSE's household energy and services business in Great Britain are set out in a separate Notice of Meeting which accompanies the Circular for shareholders receiving hard copy documents and which is available at sse.com for those who elected to receive documents electronically.

Information on the planned demerger can be found in the Strategic Report, pages 1 to 85, and the Directors' Report, pages 86 to 140.

Additional information

Where not provided elsewhere in the Directors' Report, the following provides the information required to be disclosed by Statutory Instrument 2008/410 Schedule 7 Part 6.

Restrictions on the transfer of securities and/or voting rights

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Disclosure of information to the auditor

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors' Report set out on pages 86 to 140 has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

Sally Fairbairn
Company Secretary
24 May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Alistair Phillips-Davies
Chief Executive
24 May 2018

Gregor Alexander
Finance Director

ALTERNATIVE PERFORMANCE MEASURES

When assessing, discussing and measuring the Group's financial performance, management refer to measures used for internal performance management. These measures are not defined or specified under International Financial Reporting Standards (IFRS) and as such are considered to be Alternative Performance Measures ('APMs').

By their nature, APMs are not uniformly applied by all preparers including other participants in the Group's industry. Accordingly, APMs used by the Group may not be comparable to other companies within the Group's industry.

Purpose

APMs are used by management to aid comparison and assess historical performance against internal performance benchmarks and across reporting periods. These measures provide an ongoing and consistent basis to assess performance by excluding items that are materially non-recurring, uncontrollable or exceptional. These measures can be classified in terms of their key financial characteristics:

- Profit measures allow management to assess and benchmark underlying business performance during the year. They are primarily used by operational management to measure operating profit contribution and are also used by the Board to assess performance against business plan;
- Capital measures allow management to track and assess the progress of the Group's significant ongoing investment in capital assets and projects against their investment cases, including the expected timing of their operational deployment; and
- Debt measures allow management to record and monitor both operating cash generation and the Group's ongoing financing and liquidity position.

The following table explains the key APMs applied by the Group and referred to in these statements:

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) #APM	Profit measure	Operating Profit	<ul style="list-style-type: none"> – Movement on operating and financing derivatives ('certain re-measurements') – Exceptional items – Share of joint ventures and associates interest and tax – Depreciation and amortisation before exceptional charges – Share of joint ventures and associates depreciation and amortisation – Release of deferred income
Adjusted Operating Profit #APM	Profit measure	Operating Profit	<ul style="list-style-type: none"> – Movement on operating and financing derivatives ('certain re-measurements') – Exceptional items – Share of joint ventures and associates interest and tax
Adjusted Profit Before Tax #APM	Profit measure	Profit before tax	<ul style="list-style-type: none"> – Movement on operating and financing derivatives ('certain re-measurements') – Exceptional items – Interest on net pension assets/liabilities (IAS 19R) – Share of joint ventures and associates tax
Adjusted net finance costs #APM	Profit measure	Net finance costs	<ul style="list-style-type: none"> – Movement on financing derivatives ('certain re-measurements') – Share of joint ventures and associates interest – Interest on net pension assets/liabilities (IAS 19R)
Adjusted Current Tax Charge #APM	Profit measure	Tax charge	<ul style="list-style-type: none"> – Share of joint ventures and associates tax – Deferred tax including share of joint ventures and associates – Tax on exceptional items and certain re-measurements – Reclassification of tax liabilities
Adjusted earnings per share #APM	Profit measure	Earnings per share	<ul style="list-style-type: none"> – Exceptional items – Movements on operating and financing derivatives ('certain re-measurements') – Interest on net pension assets/liabilities (IAS 19R) – Deferred tax including share of joint ventures and associates
Adjusted Net Debt and Hybrid Capital #APM	Debt measure	Unadjusted net debt	<ul style="list-style-type: none"> – Hybrid equity – Outstanding liquid funds – Finance leases – Non-recourse Clyde debt
Investment and Capital expenditure (adjusted) #APM	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	<ul style="list-style-type: none"> – Other expenditure – Customer funded additions (IFRIC 18) – Allowances and certificates – Disposed additions – Joint venture and associate additions

#APM Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments

A) Adjustments to profit measure

1 Movement on operating and financing derivatives ('certain re-measurements')

This adjustment can be split between operating and financing derivatives.

Operating derivatives are where the Group enters into forward contracts to buy (or sell) electricity, gas and other commodities to meet the future demand requirements of its energy supply business or to optimise the value of its Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 'Financial Instruments: Recognition and Measurement' and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments, due to the volatility that can arise. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 36 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts.

Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts entered into by the Group to manage its banking and liquidity requirements, as well as risk management relating to interest rate and foreign exchange exposures. Changes in the fair value of those financing derivatives are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments.

The re-measurements arising from operating and financing derivatives, and the tax effects thereof, are disclosed separately to aid understanding of the underlying performance of the Group.

2 Exceptional items

Exceptional charges or credits, and the tax effects thereof, are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation of the rationale for deciding whether an item is exceptional is included in Note 3.2 of the Financial Statements.

3 Share of joint ventures and associates interest and tax

This adjustment can be split between the share of interest and the share of tax.

The Group is required to report profit before interest and tax ('operating profit') including its share of the profit after tax of its equity-accounted joint ventures and associates. However, for internal performance management purposes and for consistency of treatment, SSE reports its adjusted profit measures before its share of the interest and/or tax on joint ventures and associates.

4 Share of joint ventures and associates depreciation and amortisation

For management purposes, the Group considers EBITDA (earnings before interest, tax, depreciation and amortisation) based on a sum-of-the-parts derived metric which includes share of EBITDA from equity-accounted investments. While this is not equal to adjusted cash generated from operating activities, it is considered useful by management in assessing a proxy for such a measure given the complexity of the Group structure and range of investment structures utilised.

5 Interest on net pension assets/liabilities (IAS 19R 'Employee Benefits')

The Group's interest charges relating to defined benefit pension schemes are derived from the net assets/liabilities of the schemes as valued under IAS 19R. This will mean that the charge recognised in any given year will be dependent on the impact of actuarial assumptions such as inflation and discount rates. To avoid income statement volatility derived from this basis of measurement and reflecting the non-cash nature of these charges, the Group excludes these from its adjusted profit measures.

6 Deferred tax

The Group adjusts for deferred tax when arriving at adjusted profit after tax, adjusted earnings per share and its adjusted effective rate of tax. Deferred tax arises as a result of differences in accounting and tax bases that give rise to potential future accounting credits or charges. As the Group remains committed to its ongoing capital programme, the liabilities associated are not expected to reverse and accordingly the Group excludes these from its adjusted profit measures. The current tax APM for 2018 has been presented net of a reclassification adjustment, from current to deferred tax, in respect of liabilities related to historic open tax positions.

B) Adjustments to debt measure

7 Hybrid equity

SSE plc has a mixture of perpetual and long dated hybrid capital securities with the perpetual hybrids being treated as equity and the long dated hybrids being treated as debt. The characteristics of the perpetual hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRS. Consequently, their coupon payments are presented within dividends rather than within finance costs. As a result, the coupon payments are not included in SSE's adjusted PBT measure. In order to present total funding provided from sources other than ordinary shareholders, SSE presents its adjusted net debt measure inclusive of hybrid equity to better reflect the Group's funding position.

8 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised. The Group includes this adjustment in order to better reflect the immediate cash resources it has access to, which in turn better reflects the Group's funding position.

Rationale for adjustments continued

9 Finance leases

SSE's reported loans and borrowings include finance lease liabilities, most significantly in relation to its tolling contract with Marchwood Power Limited, which are not directly related to the external financing of the Group. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's underlying funding position with its primary sources of capital.

10 Non-recourse Clyde debt

At 31 March 2016, prior to the change in consolidation treatment for the venture, an adjustment was made to exclude non-recourse debt associated with Clyde Windfarm (Scotland) Limited. Following the change in consolidation treatment, that non-recourse debt is not held on SSE's balance sheet and hence the adjustment is no longer required to the APM.

C) Adjustments to capex measure

11 Other expenditure

Other expenditure primarily represents subsequently derecognised development expenditure which is excluded to better reflect the Group's ongoing capital position.

12 Customer funded additions

Customer funded additions represents additions to electricity and other networks funded by customer contributions and accounted for under IFRIC 18 'Transfers of Assets from Customers'. Given these additions are directly funded by customers, they have been excluded to better reflect the Group's underlying investment position.

13 Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's capital expenditure and investment APM to better reflect the Group's investment in enduring operational assets.

14 Disposed additions

Disposed additions represents capital additions related to the Group's MFE2 plant at Ferrybridge prior to disposal of 50% interest on 4 September 2017. Prior year disposed additions represent smart meter installations which were subsequently disposed to the Meter Fit 10 Limited in 2017 (see Note 12). This has been excluded to better reflect the Group's net capital investment.

15 Joint venture and associate additions

Joint ventures and associates additions represent funding provided as equity and loans to joint ventures and associates directly related to large capital expenditure projects. This has been included to better reflect the Group's use of directly funded equity-accounted vehicles to grow the Group's asset base. Project finance raised by the Group's joint ventures and associates for capital expenditure is not included in this adjustment.

The table below reconciles the adjusted performance measures to the reported measure of the Group.

	March 2018 £m	March 2017 £m	March 2016 £m
Adjusted operating profit	1,828.7	1,874.0	1,824.4
Adjusted net finance costs	(375.5)	(328.1)	(310.9)
Adjusted profit before tax (PBT) #APM	1,453.2	1,545.9	1,513.5
Adjusted current tax charge	(130.7)	(157.7)	(193.4)
Adjusted profit after tax (PAT) #APM	1,322.5	1,388.2	1,320.1
Hybrid coupon paid	(98.5)	(119.3)	(124.6)
Adjusted profit after tax attributable to ordinary shareholders for EPS #APM	1,224.0	1,268.9	1,195.5
Number of shares for EPS	1,010.9	1,009.7	1,000.0
Adjusted earnings per share #APM	121.1	125.7	119.5
Adjusted EBITDA #APM	2,721.1	2,723.2	2,592.6
Depreciation, impairment and amortisation, before exceptional charges	(796.9)	(751.4)	(679.1)
Release of deferred income	20.6	18.0	17.9
Share of joint ventures and associates depreciation and amortisation	(116.1)	(115.8)	(107.0)
Adjusted operating profit #APM	1,828.7	1,874.0	1,824.4
Adjusted operating profit #APM	1,828.7	1,874.0	1,824.4
Movement on operating and joint venture financing derivatives	(85.8)	203.1	(28.8)
Exceptional items	(213.3)	(8.2)	(889.8)
Share of joint ventures and associates interest and tax	(150.4)	(128.4)	(120.4)
Reported operating profit	1,379.2	1,940.5	785.4

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments continued

	March 2018 £m	March 2017 £m	March 2016 £m
Adjusted profit before tax PBT #APM	1,453.2	1,545.9	1,513.5
Movement on operating and financing derivatives	(118.8)	255.7	(14.5)
Exceptional items	(213.3)	(8.2)	(889.8)
Interest on net pension assets/(liabilities)	2.9	(3.1)	(22.3)
Share of joint ventures and associates tax	(37.8)	(13.7)	6.4
Reported profit before tax	1,086.2	1,776.6	593.3
Adjusted net finance costs #APM	375.5	328.1	310.9
Movement on financing derivatives	33.0	(52.6)	(14.3)
Share of joint ventures and associates interest	(112.6)	(114.7)	(126.8)
Interest on net pension (assets)/liabilities	(2.9)	3.1	22.3
Reported net finance costs	293.0	163.9	192.1
Adjusted current tax charge #APM	130.7	157.7	193.4
Share of joint ventures and associates tax	(37.8)	(13.7)	6.4
Deferred tax including share of joint ventures and associates	288.0	19.8	80.8
Reclassification of tax liabilities	(101.3)	–	–
Tax on exceptional items and certain re-measurement	(113.5)	(106.0)	(272.5)
Reported tax charge	166.1	57.8	8.1
Adjusted net debt and hybrid capital #APM	(9,221.8)	(8,483.0)	(8,395.0)
Hybrid capital	1,169.7	2,209.7	2,209.7
Adjusted net debt #APM	(8,052.1)	(6,273.3)	(6,185.3)
Outstanding liquid funds	(75.1)	(105.2)	(121.8)
Finance leases	(251.1)	(276.9)	(300.8)
Non-recourse Clyde debt	–	–	(200.7)
Unadjusted net debt	(8,378.3)	(6,655.4)	(6,808.6)
Investment and capital expenditure (adjusted) #APM	1,503.0	1,726.2	1,618.7
Other expenditure	–	4.2	6.9
Customer funded additions (IFRIC 18)	82.0	112.8	88.3
Allowances and certificates	712.9	633.5	580.4
Disposed additions	60.6	15.6	–
Joint ventures and associates additions	(110.3)	(105.0)	(46.2)
Capital additions to intangible assets and property, plant and equipment	2,248.2	2,387.3	2,248.1
Capital additions to intangible assets	794.0	779.5	713.1
Capital additions to property, plant and equipment	1,454.2	1,607.8	1,535.0
Capital additions to intangible assets and property, plant and equipment	2,248.2	2,387.3	2,248.1

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018			2017		
		Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (Note 7) £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (Note 7) £m	Total £m
Revenue	5	31,226.4	–	31,226.4	29,037.9	–	29,037.9
Cost of sales	6	(27,954.3)	(89.1)	(28,043.4)	(25,794.5)	232.6	(25,561.9)
Gross profit		3,272.1	(89.1)	3,183.0	3,243.4	232.6	3,476.0
Operating costs	6	(1,774.7)	(213.3)	(1,988.0)	(1,707.3)	(406.2)	(2,113.5)
Other operating income		38.0	–	38.0	24.2	366.4	390.6
Operating profit before joint ventures and associates		1,535.4	(302.4)	1,233.0	1,560.3	192.8	1,753.1
Joint ventures and associates:							
Share of operating profit		293.3	–	293.3	313.7	–	313.7
Share of interest		(112.6)	–	(112.6)	(114.7)	–	(114.7)
Share of movement on derivatives		–	3.3	3.3	–	2.1	2.1
Share of tax		(37.2)	(0.6)	(37.8)	(32.8)	19.1	(13.7)
Share of profit on joint ventures and associates	16	143.5	2.7	146.2	166.2	21.2	187.4
Operating profit	5	1,678.9	(299.7)	1,379.2	1,726.5	214.0	1,940.5
Finance income	9	102.1	–	102.1	93.7	–	93.7
Finance costs	9	(362.1)	(33.0)	(395.1)	(310.2)	52.6	(257.6)
Profit before taxation		1,418.9	(332.7)	1,086.2	1,510.0	266.6	1,776.6
Taxation	10	(279.6)	113.5	(166.1)	(163.8)	106.0	(57.8)
Profit for the year		1,139.3	(219.2)	920.1	1,346.2	372.6	1,718.8
Attributable to:							
Ordinary shareholders of the parent	11	1,040.8	(219.2)	821.6	1,226.9	372.6	1,599.5
Other equity holders		98.5	–	98.5	119.3	–	119.3
Earnings per share							
Basic (pence)	11			81.3			158.4
Diluted (pence)	11			81.2			158.2

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	2018 £m	2017 £m
Profit for the year	920.1	1,718.8
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Net (losses)/gains on cash flow hedges	(29.5)	14.9
Transferred to assets and liabilities on cash flow hedges	1.4	10.6
Taxation on cash flow hedges	5.0	(2.8)
	(23.1)	22.7
Reversal of unrealised losses following disposal of investments recognised in income statement	14.4	–
Share of other comprehensive loss of joint ventures and associates, net of taxation	(6.9)	(6.0)
Exchange difference on translation of foreign operations	27.8	74.1
Loss on net investment hedge net of taxation	(18.3)	(22.5)
	(6.1)	68.3
Items that will not be reclassified to profit or loss:		
Actuarial gain on retirement benefit schemes, net of taxation	178.6	252.5
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	47.3	(56.4)
	225.9	196.1
Other comprehensive gain, net of taxation	219.8	264.4
Total comprehensive income for the period	1,139.9	1,983.2
Attributable to:		
Ordinary shareholders of the parent	1,041.4	1,863.9
Other equity holders	98.5	119.3
	1,139.9	1,983.2

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2018

	Note	2018 £m	2017 £m
Assets			
Property, plant and equipment	14	13,121.7	12,622.2
Goodwill and other intangible assets	13	707.7	760.4
Equity investments in joint ventures and associates	16	977.0	985.8
Loans to joint ventures and associates	16	781.0	788.4
Other investments	16	4.8	12.5
Deferred tax assets	10	294.7	322.3
Derivative financial assets	24	336.4	528.3
Retirement benefit assets	23	572.1	525.4
Non-current assets		16,795.4	16,545.3
Intangible assets	13	712.5	580.7
Inventories	17	225.9	269.1
Trade and other receivables	18	4,071.7	3,754.4
Cash and cash equivalents	21	232.2	1,427.0
Derivative financial assets	24	1,060.1	1,269.5
Current assets held for sale	12	117.2	70.4
Current assets		6,419.6	7,371.1
Total assets		23,215.0	23,916.4
Liabilities			
Loans and other borrowings	21	650.3	142.4
Trade and other payables	19	4,977.6	4,923.5
Current tax liabilities	10	117.9	294.8
Provisions	20	20.6	39.7
Derivative financial liabilities	24	1,253.1	1,153.2
Liabilities held for sale	12	–	1.4
Current liabilities		7,019.5	6,555.0
Loans and other borrowings	21	7,960.2	7,940.0
Deferred tax liabilities	10	1,002.8	788.9
Trade and other payables	19	385.3	437.4
Provisions	20	812.5	764.5
Retirement benefit obligations	23	237.6	454.9
Derivative financial liabilities	24	566.9	703.2
Non-current liabilities		10,965.3	11,088.9
Total liabilities		17,984.8	17,643.9
Net assets		5,230.2	6,272.5
Equity:			
Share capital	22	511.5	507.8
Share premium		890.3	885.7
Capital redemption reserve		34.8	26.5
Hedge reserve		(15.5)	14.5
Translation reserve		43.3	33.8
Retained earnings		2,596.1	2,594.5
Equity attributable to ordinary shareholders of the parent		4,060.5	4,062.8
Hybrid equity	22	1,169.7	2,209.7
Total equity		5,230.2	6,272.5

The accompanying notes are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 24 May 2018 and signed on their behalf by:

Gregor Alexander,
Finance Director

Richard Gillingwater,
Chairman

SSE plc Registered No: SC117119

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m
At 1 April 2017	507.8	885.7	26.5	14.5	33.8	2,594.5	4,062.8	2,209.7	6,272.5
Total comprehensive income for the year	–	–	–	(30.0)	9.5	1,061.9	1,041.4	98.5	1,139.9
Dividends to shareholders	–	–	–	–	–	(926.1)	(926.1)	–	(926.1)
Scrip dividend related share issue	12.0	(12.0)	–	–	–	331.6	331.6	–	331.6
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(98.5)	(98.5)
Redemption of Hybrid	–	–	–	–	–	(92.4)	(92.4)	(1,040.0)	(1,132.4)
Issue of shares	–	16.6	–	–	–	–	16.6	–	16.6
Share repurchase	(8.3)	–	8.3	–	–	(371.6)	(371.6)	–	(371.6)
Credit in respect of employee share awards	–	–	–	–	–	18.0	18.0	–	18.0
Investment in own shares	–	–	–	–	–	(19.8)	(19.8)	–	(19.8)
At 31 March 2018	511.5	890.3	34.8	(15.5)	43.3	2,596.1	4,060.5	1,169.7	5,230.2

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity attributable to equity holders of the parent £m	Non- controlling interests £m	Total equity £m
At 1 April 2016	503.8	880.4	22.0	(2.2)	(17.8)	1,598.6	2,984.8	2,209.7	5,194.5	22.5	5,217.0
Total comprehensive income for the year	–	–	–	16.7	51.6	1,795.6	1,863.9	119.3	1,983.2	–	1,983.2
Dividends to shareholders	–	–	–	–	–	(906.6)	(906.6)	–	(906.6)	–	(906.6)
Scrip dividend related share issue	7.9	(7.9)	–	–	–	237.9	237.9	–	237.9	–	237.9
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(119.3)	(119.3)	–	(119.3)
Issue of shares	0.6	13.2	–	–	–	–	13.8	–	13.8	–	13.8
Share repurchase	(4.5)	–	4.5	–	–	(131.5)	(131.5)	–	(131.5)	–	(131.5)
Credit in respect of employee share awards	–	–	–	–	–	13.1	13.1	–	13.1	–	13.1
Investment in own shares	–	–	–	–	–	(12.6)	(12.6)	–	(12.6)	–	(12.6)
Non-controlling interest	–	–	–	–	–	–	–	–	–	(22.5)	(22.5)
At 31 March 2017	507.8	885.7	26.5	14.5	33.8	2,594.5	4,062.8	2,209.7	6,272.5	–	6,272.5

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £m	2017 £m
Operating profit		1,379.2	1,940.5
Less share of profit of joint ventures and associates		(146.2)	(187.4)
Operating profit before jointly controlled entities and associates		1,233.0	1,753.1
Pension service charges less contributions paid	23	(39.5)	(48.0)
Movement on operating derivatives	24	89.1	(201.0)
Depreciation, amortisation, write downs and impairments		1,036.8	1,135.0
Charge in respect of employee share awards (before tax)		21.7	16.2
Profit on disposal of assets and businesses		(34.9)	(391.0)
Release of provisions		(20.5)	(17.6)
Release of deferred income		(20.6)	(18.0)
Cash generated from operations before working capital movements		2,265.1	2,228.7
Decrease in inventories		43.2	8.6
Increase in receivables		(313.1)	(541.9)
(Decrease)/increase in payables (i)		(97.8)	644.0
Decrease in provisions		(7.9)	(53.8)
Cash generated from operations		1,889.5	2,285.6
Dividends received from investments	16	171.9	123.4
Interest paid		(201.8)	(178.5)
Taxes paid		(132.2)	(98.5)
Net cash from operating activities		1,727.4	2,132.0
Purchase of property, plant and equipment	5	(1,486.6)	(1,621.1)
Purchase of other intangible assets (i)	5	(71.7)	(146.3)
Deferred income received		12.2	36.9
Proceeds from disposals		151.5	739.3
Loans and equity provided to joint ventures and associates	16	(140.4)	(105.0)
Purchase of businesses and subsidiaries	12	–	(15.8)
Loans and equity repaid by joint ventures	16	128.0	73.4
Increase in other investments		–	(0.2)
Net cash from investing activities		(1,407.0)	(1,038.8)
Proceeds from issue of share capital		16.6	13.8
Dividends paid to company's equity holders		(594.5)	(668.7)
Redemption of Hybrid equity		(1,132.4)	–
Hybrid equity dividend payments		(98.5)	(119.3)
Employee share awards share purchase		(19.8)	(12.6)
New borrowings	21	859.0	1,842.5
Repayment of borrowings	21	(175.4)	(961.2)
Settlement of cashflow hedges		1.4	10.6
Repurchase of own shares		(371.6)	(131.5)
Net cash from financing activities		(1,515.2)	(26.4)
Net (decrease)/increase in cash and cash equivalents		(1,194.8)	1,066.8
Cash and cash equivalents at the start of year	21	1,427.0	360.2
Net (decrease)/increase in cash and cash equivalents		(1,194.8)	1,066.8
Cash and cash equivalents at the end of year		232.2	1,427.0

(i) Re-presented to reclassify the purchase of carbon allowances and certificates from investing to operating activities.

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

1. General information and basis of preparation

1.1 General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out in the Strategic Report. The consolidated financial statements for the year ended 31 March 2018 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group, these can be seen on pages 228 to 239.

1.2 Basis of preparation

Statement of compliance

The financial statements were authorised for issue by the directors on 24 May 2018. The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and its interpretations as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('adopted IFRS').

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Further details of the Group's liquidity position and going concern review are provided in A6 Accompanying Information to the Financial Statements on page 220.

Basis of measurement

The financial statements of the Group are prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets and assets of the Group pension schemes which are stated at their fair value, and liabilities of the Group pension schemes which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Group are presented in pounds sterling. The basis for including operations and transactions conducted in currencies other than pounds sterling is provided in A1 Accompanying Information to the Financial Statements on page 200.

Use of estimates and judgements

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at pages 155 to 157.

Changes to presentation

During the year, the Group reviewed the presentation of its operating segments following the announcement of its intention to dispose of its GB domestic energy supply and energy related service activities through a demerger with npower. The change to operating segments is a result of changes to management structure and internal reporting to the Board following the announcement. Further information on the change to presentation of the operating segments is provided in Note 5.

2. New accounting policies and reporting changes

The basis of consolidation and principal accounting policies applied in the preparation of these financial statements are set out below and in the A1 Accompanying Information to the Financial Statements on pages 200 to 207.

All issued standards, amendments and interpretations of adopted IFRS, mandatory for the year ended 31 March 2018 and not early adopted, have been applied by the Group in the current year and have not had a material impact on the financial statements.

A number of standards have been issued but not yet adopted by the Group within these financial statements, because application is not yet mandatory or because adoption by the EU remains outstanding at this point in time:

2.1 IFRS 9 'Financial instruments' which has been endorsed by the European Union (EU) and will be effective from 1 January 2018 (and thus 1 April 2018 for the Group)

This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The impact of adopting this standard can be summarised with reference to the three project phases:

(i) Classification and measurement

The standard adopts a principles based approach to classify financial assets on the basis of the business model within which they are held and their contractual cash flow characteristics. Following this approach, financial assets will be classified as measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income. For financial liabilities, the classification and measurement requirements under IAS 39 have been carried forward essentially unchanged, with the majority of financial liabilities being classified as measured at amortised cost.

Whilst financial assets and liabilities will be classified into the categories required by IFRS 9, there is not expected to be any resulting measurement impact. The Group will continue to measure equity instruments at fair value through other comprehensive income, as an election on an instrument-by-instrument basis on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

2. New accounting policies and reporting changes *continued*

2.1 IFRS 9 'Financial instruments' which has been endorsed by the European Union (EU) and will be effective from 1 January 2018 (and thus 1 April 2018 for the Group) *continued*

(ii) Impairment

The standard includes the requirement that impairment models also consider the expected credit losses on an entity's financial assets held at amortised cost and commitments to extend credit. As a result of this forward looking model – which removes the requirement for a 'trigger event' to have occurred – earlier recognition of credit losses may occur.

The Group has reviewed existing impairment models – principally counterparty specific provision models applied to Wholesale Trade Receivables and provision matrix models applied to Retail Trade Receivables – including the credit risk management processes described in accompanying information Note A6.1. Given the short term nature of the majority of affected financial assets, and the Group's focus on mitigating significant credit risk through regular monitoring and securitisation, the inclusion of forward looking information within these models is expected to reduce Group Reported Profit by less than 1%.

(iii) Hedge accounting

The standard does not materially change the amounts recognised in relation to existing hedging arrangements but does simplify the requirements for measuring hedge effectiveness, and thus the eligibility conditions for hedge accounting. The new hedge accounting model is intended to enable companies to reflect better their risk management activities in the financial statements.

The Group's review of the IFRS 9 hedge accounting model concluded that whilst adoption would not change the treatment of existing hedging arrangements, the changes made would not result in any additional hedge designations either. As such, the existing hedge accounting model under IAS 39 appropriately reflects our risk management activities in the financial statements. Therefore, as permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. This policy choice will be periodically reviewed to consider any changes in our risk management activities.

Upon adoption of IFRS 9, the Group intends to apply the exemption from the requirement to restate comparative information about classification and measurement, including impairment. The opening retained earnings will be adjusted for any difference between financial instrument carrying amounts before and after adoption of IFRS 9, which is expected to be less than 1% of Group Reported Profit.

2.2 IFRS 15 'Revenue from contracts with customers' which has been endorsed by the EU and will be effective from 1 January 2018 (and thus 1 April 2018 to the Group)

This standard replaces IAS 11 'Construction contracts', IAS 18 'Revenue', IFRIC 18 'Transfers of Assets from Customers' and a number of other revenue related interpretations previously adopted by the Group. The core principle of IFRS 15 is that an entity recognises revenue that reflects the expected consideration for goods or services provided to a customer under contract, over the performance obligations they are being provided. The standard has introduced a five-step model as the framework for applying that core principle.

The Group's assessment of changes to the current revenue recognition policy, as described in accompanying information Note A1.2, can be summarised for each Business Area as follows:

Networks

Revenue relating to Distribution Connections will be recognised 'over time' with reference to the ongoing obligation to provide connection access to the Distribution Network, rather than at the point of time the connection was completed under IFRIC 18. This will reduce revenue and operating profit from this revenue stream.

Retail

The clarifications on assessing principal versus agent relationships will result in revenue and costs relating to Third Party Intermediary companies (used by Business customers to support and advise them in changing Supplier), as well as customer support schemes (such as the Warm Home Discount), being offset within the Income Statement, rather than recognised gross as currently applied. This will reduce revenue but have no impact on operating profit.

A review of the 'percentage of completion' methodology currently applied by the Enterprise Segment concluded that certain process changes are required, specifically to ensure contract costs are expensed as they occur (thereby removing Work in Progress from the Balance Sheet) and calculating revenue recognised on a 'costs incurred' input basis (rather than the margin mark-up basis currently applied). This may either increase or reduce revenue and operating profit from this segment, depending on the underlying contractual terms.

For certain equipment provided to customers on inception of a contract – for example, internet routers delivered to a customer on inception of a Broadband contract – IFRS 15 requires recognition of revenue when the equipment is delivered rather than over the contract period as currently applied. This will increase revenue and operating profit from this revenue stream.

Wholesale

The majority of revenue within this Business Area relates to sales through optimisation trades in physical and financial energy and commodity contracts ('commodity trades') within the scope of IFRS 9 'Financial Instruments' and therefore outwith the scope of IFRS 15. No changes to revenue recognition under IFRS 15 have been noted in this area.

2. New accounting policies and reporting changes continued

2.2 IFRS 15 'Revenue from contracts with customers' which has been endorsed by the EU and will be effective from 1 January 2018 (and thus 1 April 2018 to the Group) continued

Adoption

Applying the IFRS 15 revenue recognition policy changes noted above to the Group for the year ended 31 March 2018 – either separately or in combination – would have resulted in a less than 1% change in Group Revenue, less than 1% change in Group Reported Profit and less than 1% change in Group Net Assets. Adoption of IFRS 15 will not affect the cashflows generated by the Group. The full impact of adopting IFRS 15 on the Group's consolidated Financial Statements for the year ended 31 March 2019 will depend on the contractual arrangements entered into by the Group during the forthcoming financial year, however, it is the Group's expectation that the impact will be broadly equivalent.

The Group will apply the 'Modified Retrospective' approach, with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application as allowed by the standard. The Group has also elected to take advantage of the practical expedient whereby contracts that have been completed under the current accounting policies at the beginning of the earliest period are not restated.

Whilst not within the scope of IFRS 15 and with no changes to revenue recognition under IFRS 15 being identified for revenue in the Energy Portfolio Management (EPM) business, the Group has noted that presentation of sales and purchases of commodity optimisation trades on a gross or net basis varies across its industry peer group. Therefore, in connection with the future adoption of IFRS 15, the Group will undertake a review in the forthcoming financial year of whether a gross or net presentation of commodity trades, provides a more relevant reflection of their underlying economic reality of the activities in the EPM business to users of the financial statements. Therefore, the Group currently presents sales and purchases on a gross basis, a net presentation could have reduced revenue and cost of sales for the year ended 31 March 2018 by up to £22bn with no impact on reported profit, net assets or cashflows.

2.3 IFRS 16 'Leases' which has been endorsed by the EU and will be effective from 1 January 2019 (and thus 1 April 2019 to the Group)

This standard replaces IAS 17 'Leases' and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The principal change from the previous standard is the introduction of a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group commenced its project on adoption of this standard during the year, with current activity still focused on data collection and analysis of contracts for lease features. The Group continues to anticipate that the impact from adopting the standard can be summarised in two areas:

(i) Identification of a lease

The standard introduces a distinction between a lease and a service contract on the basis of whether a customer is able to control an identifiable asset. The Group anticipates some existing operating and finance leases may fail to meet this definition, and therefore would be treated as service contracts. Likewise, some existing service contracts may now meet this definition, and therefore would be treated as leases. However, the Group does not believe this will have a material impact on the Group's results, given the low number of affected contracts identified to date.

(ii) Recognition of right-of-use assets and lease liabilities for existing operating leases

The standard removes the previous distinction between operating leases and finance leases and requires that, where a lease is identified in a contract, a right-of-use asset and lease liability are recognised. The Group anticipates that adoption is likely to result in the majority of arrangements currently accounted for as operating leases (as set out in Note 25.2, £174.6m of operating lease commitments at 31 March 2018) being recognised on the Consolidated Balance Sheet as right-of-use assets and lease liabilities.

The project will be completed during the forthcoming financial year and, given the number of leases in place, the data capture requirements and the variety of transition approaches available on adoption, the full implementation effect of the standard will only be determined once the project has completed.

However, the Group has concluded that the arrangements for Smart Meter contracts – as described in Accounting Judgement Note 4.2(iv) – do not contain a lease under IFRS 16, given the Suppliers' inability to direct the use of the asset.

2.4 IFRS 17 'Insurance Contracts' is effective from 1 January 2021 (and thus 1 April 2021 to the Group), and is subject to EU endorsement

IFRS 17 'Insurance contracts' was issued in May 2017, replaces IFRS 4 'Insurance Contracts' and sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds.

Whilst the Group operates a captive insurance company – SSE Insurance Limited – its primary purpose is to provide greater control over SSE's management of specific risks, with minor annual premium payments made. It is therefore not expected that adoption of this standard will have a material impact on the Group's consolidated financial statements.

2.5 Other interpretations and amendments

In addition to these issued standards, there are a number of other interpretations, amendments and annual improvement project recommendations that have been issued but not yet adopted by the Group because application is not yet mandatory or because adoption by the EU remains outstanding at this point in time. These are not anticipated to have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

2. New accounting policies and reporting changes *continued*

2.6 Other aspects of IFRS: clarifications by the IASB

The accounting treatment under IAS 12 'Income Taxes' of interest and penalties related to income taxes was clarified by the IFRS Interpretations Committee during the year. In such situations, the Committee observed that entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' to interest and penalties. If an entity considers a particular amount payable or receivable for interest and penalties to be an income tax, then the entity applies IAS 12 to that amount. Instead, if an entity does not apply IAS 12 to a particular amount payable or receivable for interest and penalties, it applies IAS 37 to that amount.

The Group had previously reported interest and penalties related to income taxes as part of the tax charge within the Income Statement. With effect from 1 April 2017, the Group has updated its treatment of these charges in accordance with the guidance issued. The impact of this change on the opening Balance Sheet and prior year Income Statement is not material, therefore restatement for this voluntary change in accounting policy has not been made. Instead, interest and penalties previously charged of £8m included within Current Tax Liabilities has been reclassified to Other Creditors.

3. Adjusted accounting measures

The Group applies the use of adjusted accounting measures throughout the Annual Report and Financial Statements. These measures enable the Directors to present the underlying performance of the Group and its segments to the users of the statements in a consistent and meaningful manner. The adjustments applied and certain terms such as 'adjusted operating profit', 'adjusted EPS', 'adjusted EBITDA' and 'adjusted net debt and Hybrid equity' are not defined under IFRS and are explained in more detail below.

3.1 Adjusted measures

The Directors assess the performance of the Group and its reportable segments based on 'adjusted measures'. These measures are used for internal performance management and are believed to be appropriate for explaining underlying performance to users of the accounts. These measures are also deemed the most useful for the ordinary shareholders of the Company and for other stakeholders.

The performance of the reportable segments is reported based on adjusted profit before interest and tax ('adjusted operating profit'). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see Note 3.2 below) and after the removal of interest and taxation on profits from equity-accounted joint ventures and associates.

The performance of the Group is reported based on adjusted profit before tax which excludes exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes and taxation on profits from equity-accounted joint ventures and associates. The interest costs removed are non-cash and are subject to variation based on actuarial valuations of scheme liabilities.

The Group also uses adjusted earnings before interest, taxation, depreciation and amortisation ('adjusted EBITDA') as an alternative operating performance measure which acts as a management proxy for cash generated from operating activities. This does not take into account the rights and obligations that SSE has in relation its equity-accounted joint ventures and associates. This measure excludes exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes, depreciation and amortisation from equity-accounted joint ventures and associates and interest and taxation on profits from equity-accounted joint ventures and associates.

The Group's key performance measure is adjusted earnings per share (EPS), which is based on basic earnings per share before exceptional items and certain re-measurements (see below), the net interest costs associated with defined benefit schemes and after the removal of deferred taxation and other taxation items. Deferred taxation is excluded from the Group's adjusted EPS because of the Group's significant ongoing capital investment programme, which means that the deferred tax is unlikely to reverse. Adjusted profit after tax is presented on a basis consistent with adjusted EPS except for the exclusion of payments to holders of hybrid equity.

The financial statements also include an 'adjusted net debt and Hybrid equity' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under finance leases and includes cash held as collateral on commodity trading exchanges and other short term loans. The measure represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Finally, the financial statements include an 'investment and capital expenditure' measure. This metric represents the capital invested by the Group in projects that are anticipated to provide a return on investment over future years and is consistent with internally applied metrics. This therefore includes capital additions to Property, Plant and Equipment and Intangible Assets and also the Group's direct funding of joint venture and associates capital projects. The Group has considered it appropriate to report these values both internally and externally in this manner due to its use of equity-accounted investment vehicles to grow the Group's asset base, where the Group is providing the source of funding to the vehicle through either loans or equity. The Group does not include project funded ventures in this metric or other capital invested in joint ventures and associates. In addition, the Group excludes from this metric or other capital invested in joint ventures or associates. In addition the Group excludes from this metric additions to its Property, Plant and Equipment funded by Customer Contributions and additions to Intangible Assets associated with Allowances and Certificates. As with 'adjusted earnings per share', this measure is considered to be of particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures along with further description of the rationale for those adjustments are included in the 'Adjusted Performance Measures' section at pages 143 and 144.

#APM Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this.

3. Adjusted accounting measures *continued*

3.2 Exceptional items and certain re-measurements

Exceptional items are those charges or credits that are considered unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger points for exceptional items will tend to be non-recurring although exceptional charges may impact the same asset class or segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include material asset or business impairment charges, business restructuring costs and reorganisation costs, significant gains or losses on disposal and provisions in relation to contractual settlements associated with significant disputes and claims. The Directors consider that any individual gain or loss on disposal of greater than £30.0m would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances which will be explained on a case-by-case basis. Impairments of intangible development projects as part of the normal course of business are considered exceptional.

Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments. The amount shown in the before exceptional items and certain re-measurements results for these contracts is the amount settled in the year as disclosed in Note 24.1. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

3.3 Other additional disclosures

As permitted by IAS 1 'Presentation of financial statements', the Group's income statement discloses additional information in respect of joint ventures and associates, exceptional items and certain re-measurements to aid understanding of the Group's financial performance and to present results clearly and consistently.

4. Accounting judgements and estimation uncertainty

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately.

4.1 Significant financial judgements – estimation uncertainties

The preparation of these financial statements has specifically considered the following significant financial judgements, all of which are areas of estimation uncertainty.

(i) Impairment testing and valuation of certain non-current assets – estimation uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2018 are intangible development assets and specific property, plant and equipment assets related to gas production, thermal power generation and hydro power generation. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs. At 31 March 2018, the Group has assessed that its Gas Production assets, Glendoe hydro-electric generation plant and its Great Island CCGT plant displayed indicators of impairment and were accordingly tested for impairment.

Changes to the estimates and assumptions on factors such as regulation and legislation changes, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected proven and probable reserves, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment charges and the sensitivity of this assessment to key assumptions is disclosed at Note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1.

(ii) Revenue recognition – unbilled energy consumption – estimation uncertainty

Revenue from Retail energy supply activities includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation will comprise of values for i) billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables) and ii) unbilled revenue calculated by assessing a number of factors such as externally notified aggregated volumes supplied to customers from national settlements bodies, amounts billed to customers and other adjustments (disclosed as accrued income).

Given the non-routine process, number of differing inputs and the extent of management judgement as noted below, the unbilled revenue estimate is considered a significant estimate made by management in preparing the financial statements.

Unbilled revenue is calculated by applying the tariffs applicable to customers to the calculated estimated volume of electricity or gas consumed. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This corroboration process requires the comparison of calculated unbilled volumes to a 'benchmark' measure of unbilled volumes (in GWh and millions of therms) which is derived from historical weather-adjusted consumption patterns and aggregated, independently validated but unreconciled, metering data that is used in industry reconciliation processes for total consumption by supplier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

4. Accounting judgements and estimation uncertainty *continued*

4.1 Significant financial judgements – estimation uncertainties *continued*

This comparison of the estimated supplied quantity of electricity or gas that is deemed to have been delivered to customers against the aggregate supplied quantity of electricity or gas applicable to the Group's customers that is measured by industry system operators, is a key judgement. The estimation of electricity unbilled revenue is further influenced by the impact on estimated electricity or gas supplied of national settlements data or, for electricity only, feed-in-tariff supported volumes and spill from solar PV generation.

The Group's policy is to recognise unbilled revenue only where the economic benefits are expected to flow to the Group. As a result, the judgements applied, and the assumptions underpinning the judgements, are considered to be appropriate. Change in these assumptions would have an impact on the amount of revenue recognised in any given period. In the year, judgements applied for domestic and business electricity, the Group's confidence in the quality of grid supply point metering and national settlements data it uses as part of its estimation process has improved which has enabled an additional revenue amount of c. £42m (2017: £60m) to be recognised in the year. The unbilled gas revenue estimation process has required the Group to take account of industry estimated supplied quantities of gas consumed have historically been higher than actual metered supply. To address this, the Group has applied a further judgement, being a percentage reduction to unbilled consumption volume, to the measurement of its unbilled revenue in the financial statements. While it is expected that this judgement will become less critical as the industry transitions to smart meter technology, the percentage reduction applied has been increased in the year following the entering into operation of the new national settlements system, Nexus, and data issues associated with that; the impact of this change in estimation is c. £12m reduction in revenue. The sensitivity associated with this judgement factor is disclosed at Note 18.

(iii) Retirement benefit obligations – estimation uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.

Further detail of the calculation basis and key assumptions used, the resulting movements in obligations and the sensitivity of key assumptions to the obligation is disclosed at Note 23.

Changes from prior year

In addition to the three significant financial judgements noted above, the Group disclosed the valuation of trade receivables as a significant financial judgement at 31 March 2017. The Group has assessed that the judgements applied in arriving at the provisions for bad and doubtful debt do not have a material impact on these financial statements at 31 March 2018.

4.2 Other key accounting judgements

Other key accounting judgements applied in the preparation of these Financial Statements include the following:

(i) Accounting for capacity market payments – accounting judgement

The Group's UK Supply businesses are required to make payments to an independent Settlement Body to ensure sufficient reliable electricity capacity is available throughout the year. This charge is based on the Supplier's forecast energy demands between November and February, and is charged over the course of the delivery year.

In accordance with IFRIC 21 'Levies', a liability for the full year charge is recognised progressively between November and February. The Group has assessed that this represents a regulatory operating cost to the business for its operations throughout the settlement year and therefore recognises the cost over the course of that year. Any difference between the liability and charge is recognised as a settlement prepaid asset.

(ii) Accounting for costs of the smart meter infrastructure programme – accounting judgement

Through its participation in the UK smart metering programme, the Group is required to make payments to the Data Communications Company ('DCC') as it develops infrastructure to support the UK smart meter roll-out. The Group has assessed that the DCC costs incurred are capital in nature as they will provide future economic benefit and the Group has the power to control certain assets through the terms of the Smart Meter Code. These assets relate to the centralised infrastructure costs of the UK's smart meter programme. At 31 March 2018, the costs capitalised to date total £86.6m (2017: £54.4m). SSE is aware that other market participants have elected to expense these costs as incurred, however, given that it has been assessed that control exists over these assets, they have been capitalised.

(iii) Presentation of SSE's household energy and services business in Great Britain – accounting judgement

On 8 November 2017, the Group announced that it had entered into an agreement with innogy SE ('innogy') in respect of a proposed demerger of SSE's household energy and services business in Great Britain and combination with innogy's subsidiary, npower Group plc, to form a new independent UK incorporated company. At 31 March 2018, it has been assessed that the business activity subject to the demerger does not meet the criteria to be disclosed as held for sale, because the transaction is subject to a UK Competition and Markets Authority investigation and the approval of SSE's shareholders, neither of which have been completed at 31 March 2018. It has been assessed that because these approvals have not been granted it is not reasonably certain that the business activity will be disposed of in the next 12 months. SSE therefore continues to present its household energy and services businesses as continuing operations within the Retail operating segment.

(iv) Lease classification for Smart Meter contracts – accounting judgement

Following the disposal of smart meter assets to Meter Fit 10 Limited in the prior period (see Note 12), the Group entered into an agreement for the provision of meter asset provider (MAP) services with that company. During the prior year, the Group also entered into a framework agreement with a joint venture company, Maple Topco Limited, to provide MAP services for further tranches of smart meter deployment.

4. Accounting judgements and estimation uncertainty continued

4.2 Other key accounting judgements continued

(iv) Lease classification for Smart Meter contracts – accounting judgement continued

The Group has assessed that both arrangements, in common with all similar arrangements, do not contain leases of the smart meters owned by the MAP due to other parties taking a significant amount of the output from the meters and due to the Group being unable to control either the operation or the physical access to the meters. The IFRS 16 'Leases' implementation project has concluded that this assessment will not change upon adoption of that standard (see Note 2.3).

Changes from prior year

At 31 March 2017, the Group also disclosed business combinations and acquisitions; treatment of disputes and claims; consolidation of interest in investments and trading arrangements; and pension scheme surplus restrictions as accounting judgements. Following a review of transactions during the year, it has been assessed that the judgements applied no longer have a significant impact on the presentation of these financial statements. Further information of the non-significant judgements applied can be found in the relevant notes to the financial statements.

4.3 Other areas of estimation uncertainty

(i) Tax provisioning

The Group has a number of open tax issues with the tax authorities in the UK and Republic of Ireland, the two jurisdictions in which the Group operates. Where management makes a judgement that an outflow of funds is probable, and a reliable estimate of the dispute can be made, provision is made for the best estimate of the most likely liability.

In estimating any such liability, the Group applies a risk-based approach, taking into account the specific circumstances of each dispute based on management's interpretation of tax law and supported, where appropriate, by discussion and analysis by external tax advisors. These estimates are inherently judgemental and could change substantially over time as each dispute progresses and new facts emerge. Provisions are reviewed on an ongoing basis, however the resolution of tax issues can take a considerable period of time to conclude and it is possible that amounts ultimately paid will be different from the amounts provided. Provisions for uncertain tax positions are included in current tax liabilities, and total £66.1m at 31 March 2018 (2017 £131.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax provisions could be settled in a range between nil to the full value of the provision.

IFRIC 23 'Uncertainty over Income Tax Treatments', issued by the IASB with an effective date for the Group of 1 April 2019 but yet to be endorsed by the EU, clarifies the application of IAS 12 'Income Taxes' regarding recognition and measurement when there is uncertainty over the income tax treatment. Analysis of the potential impact from adopting this interpretation is ongoing, however adoption may result in changes to the judgements or estimates made for tax provisions.

(ii) Decommissioning costs

The estimated cost of decommissioning at the end of the useful lives of certain property, plant and equipment assets is reviewed periodically and has been reassessed in the year to 31 March 2018. Decommissioning costs in relation to gas exploration and production assets are periodically agreed with the field operators and reflect the latest expected economic production lives of the fields. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date. The dates for settlement of future decommissioning costs are uncertain, particularly for gas exploration and production assets where reassessment of gas and liquids reserves can lengthen or shorten the field life as well as the upward and downward movement in commodity prices and operating costs, but are currently expected to be incurred beginning in 2019 and increasing into the subsequent decade and out to 2040.

Further detail on the assumptions made and movement in decommissioning costs during the year are disclosed at Note 20.

(iii) Gas and liquids reserves

The volume and production profile of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and liquids property, plant and equipment. This is also a significant input estimate to the associated impairment and decommissioning calculations. The estimation of gas and liquid reserves is subject to change between reporting periods, following the review and updating of inputs such as regional activity, geological data, reservoir performance data, well drilling activity, commodity prices and production costs. Proven and probable (2P) reserves, and other reserve classifications out-with 2P, can both increase and decrease following assessment of the inputs.

The estimates of gas and liquid reserves are formally reviewed on an annual basis using an independent reservoir auditor, and the impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by an immediate write-down (impairment) of the asset's book value or a higher future depreciation expense.

Further detail on the assumptions made are disclosed at Note 15.

5. Segmental information

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. On 8 November 2017, SSE announced its intention to dispose of its GB domestic supply and energy related services business in a demerger with npower. Following this announcement, the presentation of financial information to the Board changed resulting in a change of the operating segments with the activities subject to the proposed demerger being presented as SSE Energy services. During the review of operating segments triggered by the Retail transaction, it was also assessed that the Energy Portfolio Management activity should also be presented as a standalone segment to reflect its contribution to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

5. Segmental information *continued*

The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England.
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England.
Retail	SSE Energy Services – Supply	The supply of electricity and gas to residential customers in GB.
	SSE Energy Services – Energy Related Services	The provision of energy related goods and services to residential customers in GB including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services.
	Business Energy	The supply of electricity and gas to business customers in GB.
	Airtricity	The supply of electricity, gas and energy related services to residential and business customers in the Republic of Ireland and Northern Ireland.
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.
Wholesale	Electricity Generation	The generation of power from renewable and thermal plant in the UK and Ireland.
	Energy Portfolio Management (EPM)	The optimisation of SSE's power and gas and other commodity requirements.
	Gas Storage	The operation of gas storage facilities in the UK.
	Gas Production	The production and processing of gas and oil from North Sea fields.

As referred to in Note 3, the internal measure of profit used by the Board is 'adjusted profit before interest and tax' or 'adjusted operating profit' which is arrived at before exceptional items, the impact of financial instruments measured under IAS 39, the net interest costs associated with defined benefit pension schemes and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided below. All revenue and profit before taxation arise from operations within the UK and Ireland.

5.1 Segmental information disclosure

(i) Revenue by segment

	External revenue 2018 £m	Intra-segment revenue (i) 2018 £m	Total revenue 2018 £m	External revenue 2017 £m	Intra-segment revenue (i) 2017 £m	Total revenue 2017 £m
Networks						
Electricity Distribution	777.0	252.4	1,029.4	814.8	259.7	1,074.5
Electricity Transmission	325.7	0.2	325.9	358.2	0.2	358.4
	1,102.7	252.6	1,355.3	1,173.0	259.9	1,432.9
Retail						
SSE Energy Services – Energy Supply	3,840.5	10.1	3,850.6	3,796.6	–	3,796.6
SSE Energy Services – Energy Related Services	135.5	168.5	304.0	130.7	151.0	281.7
Business Energy	2,517.3	22.1	2,539.4	2,579.6	19.2	2,598.8
Airtricity	917.6	119.1	1,036.7	865.5	82.9	948.4
Enterprise	431.1	104.0	535.1	371.6	99.5	471.1
	7,842.0	423.8	8,265.8	7,744.0	352.6	8,096.6
Wholesale						
Electricity Generation	498.6	1,919.1	2,417.7	477.0	1,731.8	2,208.8
EPM	21,710.1	3,670.0	25,380.1	19,532.5	3,738.0	23,270.5
Gas Storage	11.1	306.5	317.6	13.5	280.4	293.9
Gas Production	30.3	221.7	252.0	35.5	235.4	270.9
	22,250.1	6,117.3	28,367.4	20,058.5	5,985.6	26,044.1
Corporate unallocated	31.6	316.9	348.5	62.4	273.9	336.3
Total	31,226.4	7,110.6	38,337.0	29,037.9	6,872.0	35,909.9

5. Segmental information continued

5.1 Segmental information disclosure continued

(i) Significant intra-segment revenue is derived from use of system income received by the Electricity Distribution business from SSE Energy Services – Energy Supply, Business Energy and Airtricity; Business Energy provides internal heat and light power supplies to other Group companies; Enterprise provides electrical contracting services and telecoms infrastructure charges to other Group companies; SSE Energy Services – Energy-Related Services provides metering and other services to other Group companies; Energy Portfolio Management ('EPM') provides power, gas and other commodities to the SSE Energy Services – Energy Supply, Business Energy and Airtricity segments; Gas Storage provide the use of Gas Storage facilities to Energy Portfolio Management; Gas Production sells gas from producing North Sea fields to the Energy Portfolio Management segment. Corporate unallocated provides corporate and infrastructure services to the operating businesses. All are provided at arm's length.

Revenue within Energy Portfolio Management ('EPM') represents the gross value of all wholesale commodity sales including settled physical and financial trades entered into to optimise the performance of the generation plants and to manage the Group's commodity risk exposure. The gross value of purchase trades are included in cost of sales. In connection with the future adoption of IFRS 15 'Revenue from contracts with customers', as highlighted in Note 2.2, the Group will undertake a review in the financial year ended 31 March 2019 of whether a gross or net presentation of commodity trades provides a more relevant reflection of their underlying economic reality to users of the financial statements. Whilst the Group currently presents sales and purchases on a gross basis, a net presentation could have reduced revenue and cost of sales for the year ended 31 March 2018 by up to £22bn with no impact on reported profit, net assets or cashflows.

Revenue from the Group's investment in Scotia Gas Networks Limited SSE share being £391.5m (2017: £486.7m) is not recorded in the revenue line in the income statement.

Revenue by geographical location is as follows:

	2018 £m	2017 £m
UK	30,407.6	28,291.3
Ireland	818.8	746.6
	31,226.4	29,037.9

(ii) Operating profit/(loss) by segment

	2018					2017				
	Adjusted operating profit reported to the Board #APM £m	JV/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Adjusted operating profit reported to the Board #APM £m	JV/ Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Networks										
Electricity Distribution	402.2	–	402.2	–	402.2	433.4	–	433.4	–	433.4
Electricity Transmission	195.6	–	195.6	–	195.6	263.7	–	263.7	–	263.7
Gas Distribution	165.3	(96.2)	69.1	2.7	71.8	239.4	(108.9)	130.5	21.2	151.7
	763.1	(96.2)	666.9	2.7	669.6	936.5	(108.9)	827.6	21.2	848.8
Retail										
SSE Energy Services – Energy Supply	260.4	–	260.4	(56.9)	203.5	260.8	–	260.8	(89.1)	171.7
SSE Energy Services – Energy-related Services	18.3	–	18.3	–	18.3	12.7	–	12.7	(7.2)	5.5
Business Energy	64.2	–	64.2	–	64.2	89.4	–	89.4	(16.4)	73.0
Airtricity	33.0	–	33.0	(6.1)	26.9	42.7	–	42.7	–	42.7
Enterprise	26.9	–	26.9	(11.8)	15.1	16.7	–	16.7	–	16.7
	402.8	–	402.8	(74.8)	328.0	422.3	–	422.3	(112.7)	309.6
Wholesale										
Electricity Generation	578.9	(52.3)	526.6	(3.2)	523.4	510.9	(38.6)	472.3	72.5	544.8
EPM	46.0	–	46.0	(89.1)	(43.1)	(9.7)	–	(9.7)	201.0	191.3
Gas Storage	(6.5)	–	(6.5)	–	(6.5)	(13.0)	–	(13.0)	(23.8)	(36.8)
Gas Production	34.0	–	34.0	(104.7)	(70.7)	26.4	–	26.4	(227.5)	(201.1)
	652.4	(52.3)	600.1	(197.0)	403.1	514.6	(38.6)	476.0	22.2	498.2
Corporate unallocated	10.4	(1.3)	9.1	(30.6)	(21.5)	0.6	–	0.6	283.3	283.9
Total	1,828.7	(149.8)	1,678.9	(299.7)	1,379.2	1,874.0	(147.5)	1,726.5	214.0	1,940.5

The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from joint ventures and associates and after adjusting for exceptional items (see Note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in Gas Distribution). The Group has accounted for its 33% share of this, £15.2m (2017: £12.7m), as finance income (Note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

5. Segmental information continued

5.1 Segmental information disclosure continued

The Group's share of operating profit from joint ventures and associates has been recognised in the Electricity Generation segment other than that for Scotia Gas Networks Limited, which is recorded in Gas Distribution.

(iii) Capital expenditure by segment

	Capital additions to Intangible Assets 2018 £m	Capital additions to Property, Plant and Equipment 2018 £m	Capital additions to Intangible Assets 2017 £m	Capital additions to Property, Plant and Equipment 2017 £m
Networks				
Electricity Distribution	–	408.1	–	397.5
Electricity Transmission	–	434.2	–	505.0
	–	842.3	–	902.5
Retail				
SSE Energy Services – Energy Supply	47.7	53.2	89.5	83.0
SSE Energy Services – Energy-related Services	3.3	6.6	18.2	9.0
Business Energy	–	0.9	–	0.3
Airtricity	0.6	–	–	–
Enterprise	0.4	61.5	–	58.6
	52.0	122.2	107.7	150.9
Wholesale				
Electricity Generation	19.7	323.9	36.8	338.3
EPM	712.9	–	633.5	–
Gas Storage	–	1.8	0.2	–
Gas Production	9.4	56.1	–	72.9
	742.0	381.8	670.5	411.2
Corporate unallocated	–	107.9	1.3	143.2
Total	794.0	1,454.2	779.5	1,607.8
Decrease/increase in prepayments related to capital expenditure	–	4.2	–	(7.1)
Decrease/(increase) in trade payables related to capital expenditure	–	28.2	–	20.4
Less: Other non-cash additions	(435.2)	–	(184.1)	–
Net cash outflow	358.8	1,486.6	595.4	1,621.1

Capital additions do not include assets acquired in acquisitions or assets acquired under finance leases. Capital additions to Intangible Assets includes the cash purchase of emissions allowances and certificates (2018: £287.1m; 2017: £449.1m). Other non-cash additions comprise self-generated renewable obligation certificates.

Within the cash flow statement £287.1m (2017: £449.1m) relating to the purchase of carbon allowances and certificates has been reclassified from investing to operating activities.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

5. Segmental information continued

5.1 Segmental information disclosure continued

At 31 March 2018	Capital additions to Intangible Assets 2018 £m	Capital additions to Property, Plant and Equipment 2018 £m	Capital Investment relating to Joint Ventures and Associates (i)	Disposed Additions (ii)	Allowances and certificates (iii)	Customer funded additions (iv)	Adjusted Capital Expenditure and Investment 2018 #APM £m
Networks							
Electricity Distribution	–	408.1	–		–	(82.0)	326.1
Electricity Transmission	–	434.2	–		–	–	434.2
	–	842.3	–		–	(82.0)	760.3
Retail							
SSE Energy Services – Energy Supply	47.7	53.2	–		–	–	100.9
SSE Energy Services – Energy-related Services	3.3	6.6	–		–	–	9.9
Business Energy	–	0.9	–		–	–	0.9
Airtricity	0.6	–	–		–	–	0.6
Enterprise	0.4	61.5	–		–	–	61.9
	52.0	122.2	–		–	–	174.2
Wholesale							
Electricity Generation	19.7	323.9	47.1		–	–	390.7
EPM	712.9	–	–		(712.9)	–	–
Gas Storage	–	1.8	–		–	–	1.8
Gas Production	9.4	56.1	–		–	–	65.5
	742.0	381.8	47.1		(712.9)	–	458.0
Corporate unallocated	–	107.9	2.6		–	–	110.5
Total	794.0	1,454.2	49.7		(712.9)	(82.0)	1,503.0

(i) Represents funding provided to joint venture arrangements and associates in relation to capital expenditure projects.

(ii) Represents capital additions related to Ferrybridge MFE2 Limited and operating windfarms which were subsequently disposed (See Note 12).

(iii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.

(iv) Represents additions to electricity and other networks funded by customer contributions and accounted for under IFRIC 18.

At 31 March 2017	Capital additions to Intangible Assets 2017 £m	Capital additions to Property, Plant and Equipment 2017 £m	Capital Investment relating to Joint Ventures and Associates (i)	Disposed additions (ii)	Allowances and certificates (iii)	Customer funded additions (iv)	Other (v)	Adjusted Capital Expenditure and Investment 2017 #APM £m
Networks								
Electricity Distribution	–	397.5	–	–	–	(112.8)	–	284.7
Electricity Transmission	–	505.0	–	–	–	–	–	505.0
	–	902.5	–	–	–	(112.8)	–	789.7
Retail								
SSE Energy Services – Energy Supply	89.5	83.0	–	–	–	–	–	172.5
SSE Energy Services – Energy-related	18.2	9.0	–	(15.6)	–	–	(0.1)	11.5
Business Energy	–	0.3	–	–	–	–	–	0.3
Airtricity	–	–	–	–	–	–	–	–
Enterprise	–	58.6	–	–	–	–	0.1	58.7
	107.7	150.9	–	(15.6)	–	–	–	243.0
Wholesale								
Electricity Generation	36.8	338.3	102.0	–	–	–	(2.1)	475.0
EPM	633.5	–	–	–	(633.5)	–	–	–
Gas Storage	0.2	–	–	–	–	–	–	0.2
Gas Production	–	72.9	–	–	–	–	–	72.9
	670.5	411.2	102.0	–	(633.5)	–	(2.1)	548.1
Corporate unallocated	1.3	143.2	3.0	–	–	–	(2.1)	145.4
Total	779.5	1,607.8	105.0	(15.6)	(633.5)	(112.8)	(4.2)	1,726.2

(i) Represents share of capital expenditure undertaken by joint venture arrangements and associates.

(ii) Represents capital additions related to smart meter installations which were subsequently disposed to the Meter Fit 10 Limited (see Note 12).

(iii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.

(iv) Represents additions to electricity and other networks funded by customer contributions and accounted for under IFRIC 18.

(v) Primarily represents subsequently derecognised development expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

5. Segmental information continued

5.1 Segmental information disclosure continued

(iv) Items included in operating profit/(loss) by segment

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2018 £m	Impairment charges 2018 £m	Total 2018	Before exceptional charges 2018 £m	Impairment charges 2018 £m	Total 2018 £m
Networks						
Electricity Distribution	248.7	–	248.7	–	–	–
Electricity Transmission	63.1	–	63.1	–	–	–
	311.8	–	311.8			
Retail						
SSE Energy Services – Energy Supply	37.8	16.3	54.1	–	–	–
SSE Energy Services – Energy-related Services	14.2	–	14.2	–	12.4	12.4
Business Energy	0.3	–	0.3	–	–	–
Airtricity	6.2	5.5	11.7	1.6	–	1.6
Enterprise	31.4	14.3	45.7	–	–	–
	89.9	36.1	126.0	1.6	12.4	14.0
Wholesale						
Electricity Generation	219.7	22.2	241.9	–	4.7	4.7
EPM	–	–	–	–	–	–
Gas Storage	0.9	–	0.9	–	–	–
Gas Production	119.0	104.7	223.7	–	–	–
	339.6	126.9	466.5	–	4.7	4.7
Corporate unallocated	53.2	30.9	84.1	0.8	–	0.8
Total	794.5	193.9	988.4	2.4	17.1	19.5

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2017 £m	Impairment charges 2017 £m	Total 2017 £m	Before exceptional charges 2017 £m	Impairment charges 2017 £m	Total 2017 £m
Networks						
Electricity Distribution	250.6	0.9	251.5	–	–	–
Electricity Transmission	52.5	0.1	52.6	–	–	–
	303.1	1.0	304.1	–	–	–
Retail						
SSE Energy Services – Energy Supply	8.2	11.1	19.3	–	85.6	85.6
SSE Energy Services – Energy-related Services	12.0	7.2	19.2	–	–	–
Business Energy	0.6	–	0.6	–	42.4	42.4
Airtricity	4.7	1.0	5.7	1.6	–	1.6
Enterprise	44.8	–	44.8	–	–	–
	70.3	19.3	89.6	1.6	128.0	129.6
Wholesale						
Electricity Generation	193.9	47.3	241.2	–	(10.7)	(10.7)
EPM	0.0	0.0	0.0	–	–	–
Gas Storage	0.9	23.8	24.7	–	–	–
Gas Production	144.2	244.3	388.5	–	(20.0)	(20.0)
	339.0	315.4	654.4	–	(30.7)	(30.7)
Corporate unallocated	36.6	23.5	60.1	0.8	–	0.8
Total	749.0	359.2	1,108.2	2.4	97.3	99.7

The Group's share of Scotia Gas Networks Limited depreciation (2018: £54.8m; 2017: £70.9m) and amortisation (2018: £nil; 2017: £nil) is not included within operating costs.

5. Segmental information continued

5.1 Segmental information disclosure continued

(v) Earnings before interest, taxation, depreciation and amortisation ('EBITDA')

	2018					2017				
	Adjusted operating profit reported to the Board (Note 5.1 (ii)) #APM £m	Depreciation/Impairment/amortisation before exceptional charges (Note 5.1 (iv)) £m	JV/Associate share of depreciation and amortisation (Note 16.4) £m	Release of Deferred income (Note 6) £m	Adjusted EBITDA #APM £m	Adjusted operating profit reported to the Board (Note 5.1 (ii)) #APM £m	Depreciation/Impairment/amortisation before exceptional Charges (Note 5.1 (iii)) £m	JV/Associate share of depreciation and amortisation (Note 16.4) £m	Release of Deferred income (Note 6) £m	Adjusted EBITDA #APM £m
Networks										
Electricity Distribution	402.2	248.7	–	(13.4)	637.5	433.4	250.6	–	(13.4)	670.6
Electricity Transmission	195.6	63.1	–	(2.6)	256.1	263.7	52.5	–	(2.6)	313.6
Gas Distribution	165.3	–	55.8	–	221.1	239.4	–	70.9	–	310.3
	763.1	311.8	55.8	(16.0)	1,114.7	936.5	303.1	70.9	(16.0)	1,294.5
Retail										
SSE Energy Services – Energy Supply	260.4	37.8	–	–	298.2	260.8	8.2	–	–	269.0
SSE Energy Services – Energy-related Services	18.3	14.2	–	–	32.5	12.7	12.0	–	–	24.7
Business Energy	64.2	0.3	–	–	64.5	89.4	0.3	–	–	89.7
Airtricity	33.0	7.8	–	–	40.8	42.7	6.3	–	–	49.0
Enterprise	26.9	31.4	–	(1.5)	56.8	16.7	45.1	–	(1.5)	60.3
	402.8	91.5	–	(1.5)	492.8	422.3	71.9	–	(1.5)	492.7
Wholesale										
Electricity Generation	578.9	219.7	59.6	(2.5)	855.7	510.9	193.9	44.9	(0.4)	749.3
EPM	46.0	–	–	–	46.0	(9.7)	–	–	–	(9.7)
Gas Storage	(6.5)	0.9	–	–	(5.6)	(13.0)	0.9	–	–	(12.1)
Gas Production	34.0	119.0	–	–	153.0	26.4	144.2	–	–	170.6
	652.4	339.6	59.6	(2.5)	1,049.1	514.6	339.0	44.9	(0.4)	898.1
Corporate unallocated	10.4	54.0	0.7	(0.6)	64.5	0.6	37.4	–	(0.1)	37.9
Total	1,828.7	796.9	116.1	(20.6)	2,721.1	1,874.0	751.4	115.8	(18.0)	2,723.2

The Electricity Generation adjusted EBITDA measure of £855.7m (2017: £749.3m) can be attributed to Renewable (£692.2m, 2017: £580.3m) and Thermal/Other sources (£163.5m, 2017: £169.0m).

6. Other operating income and cost

Total group costs before exceptional items and certain re-measurements can be analysed thus:

	2018 £m	2017 £m
Cost of sales	27,954.3	25,794.5
Distribution costs	684.8	652.5
Administration costs	1,089.9	1,054.8
Operating costs	1,774.7	1,707.3
Total costs	29,729.0	27,501.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

6. Other operating income and cost continued

Group operating profit is stated after charging (or crediting) the following items:

	2018 £m	2017 £m
Depreciation of property, plant and equipment (Note 14)	794.5	749.0
Net exceptional (charges) and gains on disposal (Note 7)	213.3	(11.3)
Research costs	3.3	5.5
Operating lease rentals (Note 25)	174.6	165.5
Release of deferred income in relation to capital grants and historic customer contributions	(20.6)	(18.0)
Gain on disposals (non-exceptional) (Note 12)	(34.9)	(24.6)
Amortisation of other intangible assets (Note 13)	2.4	2.4

(i) Does not include exceptional impairment charges.

Auditor's remuneration

	2018 £m	2017 £m
Audit of these financial statements	0.3	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	0.8	0.8
Audit-related assurance services	0.2	0.1
Taxation compliance and advisory services	–	0.1
Other services fees	0.8	0.6
	1.8	1.6
Total remuneration paid to Auditor	2.1	1.9

Assurance and Tax service fees incurred in the year were £0.2m (2017: £0.6m). Audit – related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. Other service fees include fees for due diligence and KPMG's role as Reporting Accountant in preparation of the circular and listing prospectus of the new demerged Retail supply business (£0.6m) and providing assistance in preparation of a stakeholder engagement submission to Ofgem and in developing a revised stakeholder engagement strategy. A description of the work of the Audit Committee is set out on pages 109 to 115 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. Exceptional items and certain re-measurements

	2018 £m	2017 £m
Exceptional items		
Asset impairments and related (charges) and credits	(205.3)	(376.4)
Provisions for restructuring and other liabilities (Note 20)	(8.0)	1.8
	(213.3)	(374.6)
Net gains on disposals of businesses and other assets (Note 12)	–	307.3
Fair value uplift on loss of control of Clyde	–	59.1
	(213.3)	(8.2)
Share of effect of change in UK corporation tax on deferred tax liabilities and assets of associate and joint venture investments	–	19.5
Total Exceptional items	(213.3)	11.3
Certain re-measurements		
Movement on operating derivatives (Note 24)	(89.1)	201.0
Movement on financing derivatives (Note 24)	(33.0)	52.6
Share of movement on derivatives in jointly controlled entities (net of tax)	2.7	1.7
Total certain re-measurements	(119.4)	255.3
Exceptional items after certain re-measurements and before taxation	(332.7)	266.6
Taxation		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	–	35.4
Taxation on other exceptional items	105.6	118.7
	105.6	154.1
Taxation on certain re-measurements	7.9	(48.1)
Taxation	113.5	106.0
Exceptional items after certain re-measurements and after taxation	(219.2)	372.6

7. Exceptional items and certain re-measurements continued

Exceptional items are disclosed across the following categories within the income statement:

	2018 £m	2017 £m
Cost of sales:		
Thermal Generation	–	31.6
Movement on operating derivatives (Note 24)	(89.1)	201.0
	(89.1)	232.6
Operating costs:		
Gas Production (E&P) related charges	(104.7)	(227.5)
Gas Storage related charges	–	(23.8)
Retail and technology development related charges	(62.5)	(120.3)
Other exceptional provisions and charges	(46.1)	(34.6)
	(213.3)	(406.2)
Operating income:		
Net gains on disposals of businesses and other assets	–	307.3
Fair value uplift on loss of control of Clyde	–	59.1
	–	366.4
Joint ventures and associates:		
Effect of change in UK corporation tax rate on deferred tax liabilities and assets	–	19.5
Share of movement on derivatives in jointly controlled entities (net of tax)	2.7	1.7
	2.7	21.2
Operating profit/(loss)	(299.7)	214.0
Finance costs/(income)		
Movement on financing derivatives (Note 24)	(33.0)	52.6
(Loss)/profit before taxation	(332.7)	266.6

7.1 Exceptional items

In the year to 31 March 2018, the Group recognised a net exceptional charge of £213.3m. This consisted of asset and investment impairment charges totalling £208.1m and net exceptional charges for provisions of £5.4m.

The net exceptional charges excluding gains on disposal recognised can be summarised as follows:

	Property, Plant & Equipment (Note 14) £m	Goodwill & Other Intangibles (Note 13) £m	Provisions & other charges £m	Investments £m	Total charges £m
Gas Production (i)	104.7	–	–	–	104.7
Retail and technology development (ii)	53.3	9.7	–	–	63.0
Other (iii)	20.9	(4.4)	5.4	23.7	45.6
	178.9	5.3	5.4	23.7	213.3

i) Gas Production

In the year, the Group recognised net impairment charges of £104.7m related to its North Sea Gas Production assets following an increase in projected costs at certain fields and revised assessments of hydrocarbon reserves. The impairment charges were recognised on the Greater Laggan fields (£104.2m) and Bacton fields (£19.3m) due to lower than previously forecast independently assessed proved and probable (2P) hydrocarbon reserves and, at Greater Laggan, increased projected costs to extract those reserves as a result of enhanced clarity over the interconnectivity of the field resources. These charges were offset by a £18.8m reversal of previous exceptional impairments on the ECA field following an increase to estimated hydrocarbon reserves. Following these charges and credit, the residual value in the Group's gas production assets is £517.8m.

ii) Retail and other technology developments

The Group has undertaken an internal restructuring exercise following the announcement on 8 November 2017 that SSE plans to dispose of its UK domestic supply business in a demerger and combination with npower. That restructuring, which was concluded on 1 April 2018, resulted in the transfer of assets and contracts between wholly owned subsidiaries of the Group, and necessitated a detailed impairment review. This impairment review was performed to ensure that a new demerged Retail business would contain assets that would be utilised in its post-demerger operations. This review resulted in £29.3m of software development cost impairment charges, related to the Group's previous Retail strategic investment in transformation and a further £33.7m of charges in relation to Retail related software developments and programmes within the Group's central service company and other subsidiaries that it was identified would no longer be utilised by the demerged or continuing energy supply businesses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items continued

iii) Other

In the year SSE disposed of its 1.8% shareholding in Faroe Petroleum Limited for cash consideration of £4.0m, crystallising £7.2m of losses on disposal and disposed of its 15% shareholding in BIFAB Ltd for consideration of £1. The sale of shareholding in Burntisland Fabrication Limited ('BIFAB') resulted in an exceptional charge of £16.5m, including £10.0m of losses previously recognised in the statement of other comprehensive income. These losses represent costs of exit from non-controlling financial interests in investments totalling £23.7m. These investments are not-related to SSE's core operating activities and are considered exceptional in nature.

The Group also recognised an impairment charge of £15.6m on its Barkip anaerobic digestion plant following experience of operational issues and assessment of future economic prospects. The plant represented an investment in emergent and economically unproven technology and its impairment is considered exceptional due to the nature of that historic investment.

Finally, the Group recognised combined charges of £11.8m in its Enterprise Utilities business following detailed review and assessment of the assets and contracts in its Heat Network portfolio. These charges are considered exceptional as part of the restructure and realignment of that business under new management. As part of its preparation for the proposed demerger, the Group has also incurred £11.8m of transaction-related costs in the year to 31 March 2018.

Offsetting these exceptional charges, the Group recognised a reversal in impairment in its Doggerbank offshore windfarm prospect of £7.9m following a renewed commitment to the project by the joint venture partners. The Group also released £9.3m of provisions related to historic regulatory investigations and legal disputes following satisfaction of remedies and reassessment of liability in relation to the Glendoe dispute. These reversal credits are related to provisions and impairments previously disclosed as exceptional.

31 March 2017

In the previous financial year, the Group recognised a net exceptional charge of £8.2m. This consisted of asset impairment and related charges totalling £374.6m, net exceptional credits for provisions of £1.8m, net exceptional gains on disposal of £307.3m and net fair value uplift following loss of control of £59.1m. The £307.3m gain was related to the part disposal of the Group's stake in Scotia Gas Networks.

The exceptional impairment and related charges can be summarised as follows:

	Property, Plant & Equipment (Note 14) £m	Goodwill & Other Intangibles (Note 13) £m	Inventories (Note 17) £m	Other charges/ credits £m	Total charges £m
Gas Production	244.3	(20.0)	–	3.2	227.5
Retail and technology development	42.2	78.1	–	–	120.3
Gas Storage	23.8	–	–	–	23.8
Thermal Generation	30.7	–	(62.3)	–	(31.6)
Other	12.0	36.4	–	(13.8)	34.6
	353.0	94.5	(62.3)	(10.6)	374.6

In 2016/17 the Group recognised an impairment charge of £180.5m in relation to the Greater Laggan field following a reduction in the independently assessed quantity of available proved and probable (2P) hydrocarbon resources. In addition an impairment charge of £63.8m was recognised in relation to the Bacton field predominantly as a result of higher forecast decommissioning costs, which were deemed to be irrecoverable through the remaining economic life. These gas production impairment charges were offset by an exceptional credit of £20.0m which was the partial reversal of a 2015/16 impairment of Greater Laggan Area intangible assets following the identification of additional prospective resources. The Group also decided to cease the development of its replacement customer service and billing system which resulted in an exceptional charge of £83.1m, and following a detailed review of related technology development projects a further £37.2m of discontinued IT project development costs were identified.

In 2016/17 management revised their assessment of the anticipated decommissioning costs associated with the Aldbrough and Atwick Gas Storage sites, resulting in an additional decommissioning provision of £23.8m that was subsequently impaired.

The Group also assessed that changes to the Integrated Single Electricity Market (I-SEM) on the island of Ireland resulted in impairment of the Group's oil burning stations at Rhode and Tawnaghmor, due to their age and future competitive prospects. The impairment for these assets amounted to £30.7m. As a result of unexpected running of the Fiddler's Ferry power station, due to the award of a one year contract to provide ancillary services, the Group reversed a previous impairment of coal stock inventory of £62.3m. However due to ongoing uncertainty surrounding the plant, no reversals of previous impairment of the generating asset were recognised. The Group also reassessed the deployment of The Energy Services Group ('ESG') within SSE, which resulted in a £36.4m impairment of the goodwill recognised on acquisition of ESG.

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items continued

At 31 March 2016	Property, Plant & Equipment £m	Goodwill & Other Intangibles £m	Inventories £m	Other charges £m	Total Impairment related £m	Provisions £m	Total charges £m
Coal Generation	67.6	–	87.9	83.2	238.7	48.3	287.0
Gas Generation	302.5	2.2	3.7	18.0	326.4	–	326.4
Gas Production	125.0	27.2	–	9.6	161.8	–	161.8
Gas Storage	150.9	–	–	–	150.9	–	150.9
Other	–	11.2	–	3.5	14.7	6.6	21.3
	646.0	40.6	91.6	114.3	892.5	54.9	947.4

In 2015/16, the Group announced the closure of Ferrybridge and highlighted significant uncertainty in relation to ongoing operations at Fiddlers Ferry. These consequently gave rise to impairment and other charges totalling £287.0m. The subsequent 2016/17 operational performance at Fiddler's Ferry outturn was more positive than previously anticipated and gave rise to certain impairment reversals. The Group's gas-fired generation plants at Peterhead, Medway and Marchwood were impaired in 2015/16 due to difficult economic conditions and factors such as the withdrawal of support for the proposed carbon capture and storage project at Peterhead. More broadly, no observable recovery in 'spark spread' margins were forecast. In total, impairment and other charges of £326.4m were recognised in relation to gas generation. No further deterioration in the values of GB gas plants was observed in the financial year to 31 March 2017. In 2015/16, impairment charges totalling £161.8m were recognised in relation to the Group's Gas Exploration and Production assets in the North Sea, predominately due to declining wholesale gas prices. The exceptional charges recognised included an element (£121.2m) relating to the impairment of Greater Laggan field assets acquired at 28 October 2016 which reflected the impact of the decline in expected long term gas prices between the acquisition date and the financial year end. The Group's gas storage assets at Hornsea (Atwick) and Aldbrough saw reduced short term price volatility and seasonal spreads in the wholesale gas market, which created exceptional charges relating to plant value.

7.2 Certain re-measurements

The Group enters into forward commodity purchase (and sales) contracts to meet the future demand requirements of its Energy Supply business and to optimise the value of its Generation and other Wholesale assets. Certain of these contracts are determined to be derivative financial instruments under IAS 39 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IAS 39 financial instruments are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 24 months. Conversely, commodity contracts that are not financial instruments under IAS 39 are accounted for as 'own use' contracts. The re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category also includes the income statement movement on financing derivatives (and hedged items) as described in Note 24.

7.3 Change in UK corporation tax rates

Finance (No.2) Act 2015 which received royal assent on 18 November 2015 enacted a corporation tax rate of 19% from 1 April 2017, and a rate of 18% from 1 April 2020. A further change to reduce the rate of corporation tax to 17% from 1 April 2020 was announced in Finance Act 2016, as this change was enacted on 15 September 2016 it had the effect of reducing the Group's deferred tax liabilities by £34.6m in the year ended 31 March 2017, including the impact of changes recognised in the statement of other comprehensive income. In the year to 31 March 2018, the rate change enacted on 15 September 2016 which is effective from 1 April 2020, has the effect of increasing the Group's deferred tax liabilities by £12.8m. This impact results from items arising in the year to 31 March 2018, which were therefore not rebased to 17% at the previous balance sheet date.

Taxation

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

8. Directors and employees

8.1 Staff costs

	2018 £m	2017 £m
Staff costs:		
Wages and salaries	752.0	731.0
Social security costs	81.6	74.8
Share-based remuneration	18.0	13.1
Pension costs (Note 23)	129.5	120.4
	981.1	939.3
Less: capitalised as property, plant and equipment	(138.8)	(159.6)
	842.3	779.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

8. Directors and employees continued

8.2 Employee numbers

	2018 Number	2017 Number
Numbers employed at 31 March	20,786	21,157

The average number of people employed by the Group (including Executive Directors) during the year was:

	2018 Number	2017 Number
Networks		
Electricity Distribution	3,760	3,832
Electricity Transmission	456	469
	4,216	4,301
Retail		
SSE Energy Services – Energy Supply	5,124	5,224
SSE Energy Services – Energy-related Services	3,430	2,941
Business Energy	988	906
Airtricity	483	481
Enterprise	2,990	3,237
	13,015	12,789
Wholesale		
Electricity Generation	1,420	1,526
Energy Portfolio Management	148	195
Gas Storage	83	90
Gas Production	10	12
	1,661	1,823
Corporate	2,153	2,093
Total	21,045	21,006

8.3 Remuneration of key management personnel

The remuneration of the key management personnel of the Group (excluding amounts equivalent to pension value increases as set out in the Remuneration Report), is set out below in aggregate.

	Executive committee members 2018 £m	Executive directors 2018 £m	Total 2018 £m	Executive committee members 2017 £m	Executive directors 2017 £m	Total 2017 £m
Salaries and short term employee benefits	2.9	2.8	5.7	3.8	2.5	6.3
Social security costs	0.5	0.4	0.9	0.5	0.4	0.9
Post employment benefits	–	0.9	0.9	–	0.9	0.9
Share based benefits	0.1	1.3	1.4	0.3	1.3	1.6
	3.5	5.4	8.9	4.6	5.1	9.7

Key management personnel are responsible for planning, directing and controlling the operations of the Group. These activities were conducted by the Executive Committee, comprising the three Executive Directors and the Managing Directors of the Networks and Retail businesses. On 1 September 2017, Martin Pibworth (Managing Director of Wholesale) was appointed as an Executive Director.

Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report.

Information regarding transactions with post-retirement benefit plans is included in Note 23.

Non-Executive directors were paid fees of £0.9m during the current year (2017: £0.9m).

9. Finance income and costs

Recognised in income statement

	2018			2017		
	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Finance income:						
Interest income from short term deposits	5.2	–	5.2	1.8	–	1.8
Foreign exchange translation of monetary assets and liabilities	–	–	–	20.5	–	20.5
Interest on pension scheme assets	2.7	–	2.7	–	–	–
Other interest receivable:						
Scotia Gas Networks loan stock	15.2	–	15.2	12.7	–	12.7
Other joint ventures and associates	38.2	–	38.2	33.2	–	33.2
Other receivable	40.8	–	40.8	25.5	–	25.5
	94.2	–	94.2	71.4	–	71.4
Total finance income	102.1	–	102.1	93.7	–	93.7
Finance costs:						
Bank loans and overdrafts	(26.5)	–	(26.5)	(28.9)	–	(28.9)
Other loans and charges	(324.2)	–	(324.2)	(275.4)	–	(275.4)
Interest on pension scheme liabilities (i)	–	–	–	(4.0)	–	(4.0)
Notional interest arising on discounted provisions	(16.3)	–	(16.3)	(14.2)	–	(14.2)
Foreign exchange translation of monetary assets and liabilities	(6.5)	–	(6.5)	–	–	–
Finance lease charges	(30.8)	–	(30.8)	(33.1)	–	(33.1)
Less: interest capitalised (ii)	42.2	–	42.2	45.4	–	45.4
Total finance costs	(362.1)	–	(362.1)	(310.2)	–	(310.2)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	–	(33.0)	(33.0)	–	52.6	52.6
Net finance costs	(260.0)	(33.0)	(293.0)	(216.5)	52.6	(163.9)
Presented as:						
Finance income	102.1	–	102.1	93.7	–	93.7
Finance costs	(362.1)	(33.0)	(395.1)	(310.2)	52.6	(257.6)
Net finance costs	(260.0)	(33.0)	(293.0)	(216.5)	52.6	(163.9)

i) The interest on net pension assets/(liabilities) for the year ended 31 March 2018 of £2.7m credit (2017: £4.0m charge) represents the respective credits/(charges) under IAS 19R.

ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 4.01% (2017: 4.23%).

Of finance costs, £30.5m relates to interest on the £1.0bn debt accounted hybrid instruments that were issued in March 2017. These hybrids replaced £1.0bn of equity accounted hybrid instruments, the coupon payments on which were recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

9. Finance income and costs continued

Adjusted net finance costs are arrived at after the following adjustments:

	2018 £m	2017 £m
Net finance costs	(293.0)	(163.9)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	(15.2)	(12.7)
Other joint ventures and associates	(97.4)	(102.0)
Interest on pension scheme (assets)/liabilities	(112.6)	(114.7)
Share of interest on net pension liabilities in joint ventures	(2.7)	4.0
Share of interest on net pension liabilities in joint ventures	(0.2)	(0.9)
Movement on financing derivatives (Note 24)	33.0	(52.6)
Adjusted net finance costs #APM	(375.5)	(328.1)
Notional interest arising on discounted provisions	16.3	14.2
Finance lease charges	30.8	33.1
Hybrid coupon payment (Note 22)	(98.5)	(119.3)
Adjusted net finance costs for interest cover calculations #APM	(426.9)	(400.1)

Recognised in other comprehensive income

	2018 £m	2017 £m
(Loss)/profit on effective portion of cash flow hedges (before tax)	(29.5)	14.9
Share of joint venture/associate loss on effective portion of cash flow hedges (before tax)	(8.4)	(7.4)
Total recognised in other comprehensive income	(37.9)	7.5

10. Taxation

10.1 Analysis of charge recognised in the income statement

	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2018 £m	Before Exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2017 £m
Current tax						
UK corporation tax	162.7	(9.2)	153.5	188.0	(1.5)	186.5
Adjustments in respect of previous years	(40.8)	(29.1)	(69.9)	(61.1)	(9.0)	(70.1)
Reassessment of capital allowances for previous years (i)	(101.3)	–	(101.3)	–	–	–
Loss carry back	(24.0)	–	(24.0)	–	–	–
Total current tax	(3.4)	(38.3)	(41.7)	126.9	(10.5)	116.4
Deferred tax						
Current year	103.3	(75.2)	28.1	11.8	(60.1)	(48.3)
Effect of change in tax rate	12.8	–	12.8	–	(35.4)	(35.4)
Losses carried forward de-recognised	–	–	–	86.4	–	86.4
Reassessment of capital allowances for previous years (i)	101.3	–	101.3	–	–	–
Adjustments in respect of previous years	65.6	–	65.6	(61.3)	–	(61.3)
Total deferred tax	283.0	(75.2)	207.8	36.9	(95.5)	(58.6)
Total taxation charge/(credit)	279.6	(113.5)	166.1	163.8	(106.0)	57.8

(i) Reclassification of historic tax liabilities from current to deferred tax following a review of the Group's tax accrual positions for earlier open years.

In October 2015, SSE became the first FTSE 100 group to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays and the reported total taxation charge along with additional commentary on the main reconciling items.



These can be seen at section A2.

10. Taxation continued

Analysis of charge recognised in the income statement continued

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2018 (2017: 20%). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). In addition, profits from the Sean gas field were subject to petroleum revenue tax ('PRT') at 0% from 1 January 2016 which is deductible against corporation tax, giving an overall effective rate for the field of 40%. Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Deferred tax has been recognised at 35% in respect of the defined benefit pension scheme surplus, as there is insufficient certainty over how the surplus will reverse. If a special repayment is made to the company, withholding tax of 35% applies. Deferred tax on pension scheme deficits has previously been booked at the standard UK Corporation Tax rate.

The 'adjusted current tax charge' and the 'adjusted effective rate of tax', which are presented in order to best represent underlying performance by making similar adjustments to the 'adjusted profit before tax' measure, are arrived at after the following adjustments:

	2018 £m	2018 %	2017 £m	2017 %
Group tax charge and effective rate	166.1	17.7	57.8	3.6
Add: reported deferred tax credit and effective rate	(207.8)	(22.1)	58.6	3.7
Reported current tax charge and effective rate	(41.7)	(4.4)	116.4	7.3
Effect of adjusting items	–	(5.0)	–	0.2
Reported current tax charge on adjusted basis	(41.7)	(9.4)	116.4	7.5
add:				
Share of current tax from joint ventures and associates	32.9	3.5	30.8	2.0
Effect of reassessment of capital allowances for previous years	101.3	10.8		
less:				
Current tax credit on exceptional items	38.2	4.1	10.5	0.7
Adjusted current tax charge and effective rate #APM	130.7	9.0	157.7	10.2

Tax charge/(credit) recognised in other comprehensive income/(loss):

	2018 £m	2017 £m
Relating to:		
Pension scheme actuarial movements	(43.2)	(168.8)
Cash flow and net investment hedge movements	9.5	0.8
	(33.7)	(168.0)

All tax recognised through other comprehensive income is deferred tax.

» These can be seen at section A2.

10.2 Current tax liabilities

	2018 £m	2017 £m
Corporation tax	117.9	294.8

Uncertain tax positions

The Group invests heavily in infrastructure, on which significant amounts of capital allowances are potentially available. The extent to which capital allowances are available on any single asset is, however, very much dependent upon the fact pattern for the asset involved, and there will often be an element of uncertainty as to how capital allowances legislation applies in those circumstances. Reaching agreement with tax authorities as to the amount of capital allowances available can take a number of years, and sometimes can only be resolved through a formal legal process.

The calculation of the Group's total tax charge therefore necessarily involves a degree of estimation and judgement in relation to certain items for which the tax treatment cannot be finally determined until resolution has been reached with the tax authorities or, if required, through a formal legal process. At 31 March 2018, the Group has recognised provisions totalling £66.0m in respect of uncertain tax positions, primarily in relation to the availability of capital allowances (2017: £131.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax positions could be in the range from nil to the full value of the provision.

Due to the uncertainty associated with such tax positions, it is possible that at a future date, and on conclusion of these open tax positions, the final outcomes may vary significantly. While a range of outcomes is reasonably possible, the Group continues to believe that it has made appropriate provision for periods which are open and not yet agreed with the tax authorities.

In May 2017, the Group's case concerning the availability of capital allowances on Glendoe Hydro Electric Station was heard at the First Tier Tribunal. It is likely that a decision will be issued during the year to 31 March 2019, potentially resulting in the provision carried in relation to that case being released or utilised. The Group does not currently anticipate any material changes to the amounts carried for other uncertain tax positions during the next twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

10. Taxation continued

10.3 Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives £m	Retirement benefit obligations £m	Other £m	Total £m
At 31 March 2016	819.5	(129.6)	(71.0)	(213.4)	405.5
Recognised on deconsolidation (i)	(48.3)	–	–	–	(48.3)
(Credit)/charge to Income Statement	(111.8)	48.1	8.8	(3.7)	(58.6)
(Credit)/charge to equity	–	3.0	168.8	(3.8)	168.0
At 31 March 2017	659.4	(78.5)	106.6	(220.9)	466.6
(Credit)/charge to Income Statement	124.1	0.1	10.1	73.5	207.8
(Credit)/Charge to equity	–	(5.0)	43.2	(4.5)	33.7
At 31 March 2018	783.5	(83.4)	159.9	(151.9)	708.1

(i) Relates to the deconsolidation of Clyde Windfarm (Scotland) Limited in 2017.

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £m	2017 £m
Deferred tax liabilities	1,002.8	788.9
Deferred tax assets	(294.7)	(322.3)
Net deferred tax liabilities/(assets)	708.1	466.6

The deferred tax assets disclosed include the deferred tax relating to the Group's pension scheme liabilities.

Temporary differences arising in connection with interests in associates and joint ventures are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is a charge, excluding exceptional items and re-measurement, of £3.1m (2017: £6.5m charge).

In total there are £103.5m of unrecognised deferred tax assets. The Group has not recognised an asset of £41.2m (2017: £64.8m) on losses of £137.4m (2017: £216.0m) in respect of ring fence corporation tax, an asset of £8.9m (2017: £21.6m) on losses of £89.2m (2017: £216.0m) in respect of ring fence supplementary profits, an asset of £32.7m (2017: nil) on activated investment allowances of £327.1m (2017: nil) primarily in respect of the Greater Laggan Area fields and an asset of £20.6m (2017: £25.8m) on trading losses of £165.1m (2017: £206.4m) in the Republic of Ireland. These assets have not been recognised as the Group is uncertain that there will be sufficient future profits against which to utilise the assets. There is no time limit for expiry of the losses or allowances to which they relate.

11. Dividends and earnings per share

11.1 Ordinary dividends

	2018 Total £m	Settled via scrip £m	Pence per ordinary share	2017 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2018	287.8	7.1	28.4	–	–	–
Final – year ended 31 March 2017	638.3	324.5	63.9	–	–	–
Interim – year ended 31 March 2017	–	–	–	277.1	95.3	27.4
Final – year ended 31 March 2016	–	–	–	629.5	142.6	62.5
	926.1	331.6		906.6	237.9	

The final dividend of 63.9p per ordinary share declared in respect of the financial year ended 31 March 2017 (2016: 62.5p) was approved at the Annual General Meeting on 20 July 2017 and was paid to shareholders on 22 September 2017. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme.

An interim dividend of 28.4p per ordinary share (2017: 27.4p) was declared and paid on 16 March 2018 to those shareholders on the SSE plc share register on 19 January 2018. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 66.3p per ordinary share-based on the number of issued ordinary shares at 31 March 2018 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Based on shares in issue at 31 March 2018, this would equate to a final dividend of £678.3m.

11. Dividends and earnings per share continued

11.2 Basic and adjusted earnings per share

The calculation of basic earnings per ordinary share at 31 March 2018 is based on the net profit attributable to Ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2018. All earnings are from continuing operations.

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R and the impact of exceptional items and certain re-measurements (Note 7).

	2018 Earnings £m	2018 Earnings per share pence	2017 Earnings £m	2017 Earnings per share pence
Basic	821.6	81.3	1,599.5	158.4
Exceptional items and certain re-measurements (Note 7)	219.2	21.7	(372.6)	(36.9)
Reassessment of capital allowances from prior year	(101.3)	(10.0)	1,226.9	121.5
Basic excluding exceptional items and certain re-measurements	939.5	93.0		
Adjusted for:				
Interest on net pension scheme (assets)/liabilities (Note 9)	(2.7)	(0.3)	4.0	0.4
Share of interest on net pension scheme liabilities in joint venture (Note 9)	(0.2)	–	(0.9)	(0.1)
Deferred tax	283.0	28.0	36.9	3.7
Deferred tax from share of joint ventures and associates	4.4	0.4	2.0	0.2
Adjusted <small>#APM</small>	1,224.0	121.1	1,268.9	125.7
Basic	821.6	81.3	1,599.5	158.4
Dilutive effect of outstanding share options	–	(0.1)	–	(0.2)
Diluted	821.6	81.2	1,599.5	158.2

The weighted average number of shares used in each calculation is as follows:

	31 March 2018 Number of shares (millions)	31 March 2017 Number of shares (millions)
For basic and adjusted earnings per share	1,010.9	1,009.7
Effect of exercise of share options	0.8	1.4
For diluted earnings per share	1,011.7	1,011.1

11.3 Dividend cover

The Group's adjusted dividend cover metric is calculated by comparing adjusted earnings per share to the projected dividend per share payable to ordinary shareholders.

	2018 Earnings per share (pence)	2018 Dividend per share (pence)	2018 Dividend Cover (times)	2017 Earnings per share (pence)	2017 Dividend per share (pence)	2017 Dividend Cover (times)
Reported	81.3	94.7	0.86	158.4	91.3	1.74
Adjusted <small>#APM</small>	121.1	94.7	1.28	125.7	91.3	1.38

12. Acquisitions, disposals and held-for-sale assets

12.1 Acquisitions

There have been no significant acquisitions in the year.

12.2 Disposals

(i) Significant disposals

Clyde windfarm – On 28 August 2017 the Clyde Extension windfarm, comprising 54 turbines generating an additional 172.8MW, reached its Commercial Operation Date. In March 2016, SSE announced the initial sale of 49.9% of Clyde Windfarm (Scotland) Limited ('Clyde') equating to 349.6MW of the existing operational wind farm. It was agreed between the partners that when Commercial Operation began, the equity stake in Clyde jointly owned by Greencoat UK Wind Plc ('UKW') and GLIL Infrastructure LLP ('GLIL') would be diluted from 49.9% to 30%, with the Group retaining 70%. Due to the contractual agreement between the parties, the Group assessed that dilution did not give rise to a change in control, therefore Clyde remains an equity accounted joint venture.

On 4 September 2017 the Group completed the disposal of a further 5.0% equity stake in Clyde to the existing joint venture partners for consideration of £67.8m, recognising a gain on sale of £24.0m. At 31 March 2018, the Group's shareholding in Clyde was therefore 65% with UKW and GLIL jointly owning 35%. In the period prior to disposal, the 5% equity stake in the windfarm contributed £0.2m to profit before tax of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

12. Acquisitions, disposals and held-for-sale assets continued

12.2 Disposals continued

As part of that disposal agreement, UKW and GLIL also have the option to buy a further 14.9% of Clyde, equating to 77.8MW, for a cash consideration of £202.2m, before costs. This option can be exercised between 1 April 2018 and 30 June 2018 and would result in SSE's equity share in Clyde reducing to 50.1% with UKW and GLIL owning the remaining 49.9%. As a result, 14.9% of the Group's investment in Clyde has been presented as held for sale at 31 March 2018.

On 8 May 2018, subsequent to the financial year end, UKW and GLIL announced that they will exercise their option to purchase 14.9% of on 30 May 2018 for consideration of £202.0m. Following the sale of this stake, the Group will retain 50.1% in the equity accounted joint venture. The gain on sale will be calculated following completion of the sale.

Ferrybridge MFE2 – On 7 September 2017, the Group disposed of a 50% equity stake in its subsidiary Ferrybridge MFE2 Limited to Wheelabrator Technologies Inc. for consideration of £62.5m, recognising nil gain/(loss) on disposal of the subsidiary. The Group disposed of a subsidiary on the date it lost control and acquired a joint venture which it then recognised at fair value under the principles of both IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements'. A gain of £6.7m was recognised on acquisition of the joint venture following the fair value assessment. The Group's 50% interest in Ferrybridge MFE2 was classified as held for sale at 31 March 2017.

(ii) Disposal reconciliation

The following table summarises all businesses and assets disposed of during the financial year, including those not previously 'held for sale' and including other assets and investments disposed of as part of the normal course of business and which are noted in the relevant respective notes to the financial statements.

	2018			2017
	Held for sale at March 2017 £m	Not Held for Sale at March 2017 £m	Total £m	Total £m
Net assets disposed:				
Property, plant and equipment	63.6	21.8	85.4	15.5
Intangible and biological assets	–	3.2	3.2	43.5
Investments and loans – joint ventures	–	34.7	34.7	326.9
Trade and other receivables	–	–	–	105.8
Trade and other payables	–	–	–	(7.3)
Provisions	–	–	–	16.2
Loans and borrowings	–	–	–	(90.4)
Net assets	63.6	59.7	123.3	410.2
Proceeds of disposal:				
Consideration	66.6	84.9	151.5	886.0
Fair value uplift	6.7	–	6.7	–
Debt reduction	–	–	–	(129.4)
Costs of disposal	–	–	–	(11.7)
Provisions	–	–	–	(2.8)
Net proceeds (i)	73.3	84.9	158.2	742.1
Gain on disposal after provisions	9.7	25.2	34.9	331.9
Presentation:				
Income statement exceptional credit	–	–	–	307.3
Income statement non-exceptional credit	9.7	25.2	34.9	24.6
			2018 £m	2017 £m
Net proceeds of disposal			158.2	742.1
Fair value uplift			(6.7)	–
Provisions			–	(2.8)
Total cash proceeds			151.5	739.3

The debt reduction items in 2017 of £129.4m are associated with the disposal of PFI Lighting Services companies.

12. Acquisitions, disposals and held-for-sale assets continued

12.3 Held-for-sale assets and liabilities

A number of assets and liabilities associated with activities are deemed available for immediate sale and have been separately presented on the face of the balance sheet at 31 March 2018. The assets have been stated at their fair value less costs to sell.

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2017, are as follows:

	2018 £m	2017 £m
Property, plant and equipment	–	63.6
Equity investments in joint ventures and associates	35.3	–
Loans to joint ventures and associates	81.9	–
Derivative financial assets	–	2.7
Non-current assets	117.2	66.3
Derivative financial assets	–	4.1
Current assets	–	4.1
Total assets	117.2	70.4
Deferred tax liabilities	–	(1.4)
Non-current liabilities	–	(1.4)
Total liabilities	–	(1.4)
Net assets	117.2	69.0

The assets and liabilities classified as held for sale at 31 March 2018 are the Group's 14.9% equity interest in Clyde Windfarm (Scotland) Limited (see 'Significant Disposals').

The aggregated pre-tax profit contribution of the held for sale assets and businesses in the year to 31 March 2018 was £6.6m (2017: nil).

£14.3m of operating wind farm assets were held for sale at 31 March 2017. The other held for sale items in prior year related to 50% of the assets and liabilities of Ferrybridge MFE 2 Limited which was disposed on 7 September 2017 (Note 12.2).

12.4 Acquisitions and disposals in the previous year

(i) Acquisitions in the previous year

In the prior year, the Group increased its share in the Doggerbank Offshore Wind development to 37.5% following an acquisition of an additional 12.5% stake from former consortium partner Statkraft for consideration of £15.8m. In addition, the Group reversed a previous impairment of £10.7m in respect of the project within other intangible assets.

(ii) Disposals in the previous year

On 26 October 2016, the Group completed the disposal of a 16.7% equity stake in Scotia Gas Networks (SGN) to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA). After transaction costs and adjustments, cash consideration received was £615.1m and an exceptional gain on sale of £307.3m was recognised on disposal. Following the divestment, the Group continues to retain a 33.3% equity stake in SGN. These assets were not held for sale at 31 March 2016. The disposed 16.7% stake of SGN sold contributed £34.2m to the Group's reported profits in the prior financial year.

On 21 January 2016, the company sold a 10% share in Beatrice Offshore Windfarm Limited to CI Beatrice I Limited and CI Beatrice II Limited split equally between the two entities for total consideration of £31.7m, of which £21.2m was deferred. The deferred element of the consideration was contingent on certain events occurring after the balance sheet date. Following confirmation of those events in May 2016, the Group received net cash proceeds of £31.7m which also included an element of deferred consideration associated with a prior divestment (£10.5m). The Group consequently recognised a £20.3m gain on disposal in the prior year.

On 26 May 2016, the Group disposed of £43.5m of smart meter assets to Meter Fit 10 Limited for cash consideration equal to book value resulting in Enil gain/(loss) on disposal and, at the same time, entered into a contract with the purchaser for meter asset services.

On 30 March 2017, the Group completed the disposal of its stake in three Tay Valley Streetlighting joint ventures in Leeds, Stoke and Newcastle to DIF Infra 4 UK Limited for net consideration of £40.4m, resulting in a gain on sale of £2.2m.

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FOR THE YEAR ENDED 31 MARCH 2018

13. Intangible assets

	Goodwill £m	Allowances & Certificates £m	Development Assets £m	Other intangibles £m	Total £m
Cost:					
At 31 March 2016	798.9	727.6	380.3	193.8	2,100.6
Additions	–	633.5	38.4	107.6	779.5
Acquired through business combination	–	–	15.8	–	15.8
Transfer to Property Plant and Equipment (Note 14)	–	–	(153.3)	–	(153.3)
Disposals/utilised	–	(552.2)	(8.0)	–	(560.2)
Exchange adjustments	0.2	(0.7)	0.1	(0.1)	(0.5)
At 31 March 2017	799.1	808.2	273.3	301.3	2,181.9
Additions	–	712.9	29.2	51.9	794.0
Transfer to Property Plant and Equipment (Note 14)	–	–	(28.2)	(47.4)	(75.6)
Disposals/utilised	–	(580.9)	(42.5)	(0.4)	(623.8)
Exchange adjustments	3.9	(0.2)	0.3	–	4.0
At 31 March 2018	803.0	940.0	232.1	305.4	2,280.5
Aggregate amortisation and impairment:					
At 31 March 2016	(189.0)	(227.5)	(210.7)	(113.9)	(741.1)
Charge for the year	–	–	–	(2.4)	(2.4)
Exceptional impairment (charges)/credits (Note 7)	(36.4)	–	20.0	(78.1)	(94.5)
Non-exceptional impairment charge (i)	(6.0)	–	(7.5)	–	(13.5)
Non-exceptional Impairment write back (ii)	–	–	10.7	–	10.7
At 31 March 2017	(231.4)	(227.5)	(187.5)	(194.4)	(840.8)
Charge for the year	–	–	–	(2.4)	(2.4)
Exceptional impairment credits/(charges) (Note 7)	–	–	7.1	(12.4)	(5.3)
Non-exceptional impairment charge (i)	–	–	(11.8)	–	(11.8)
At 31 March 2018	(231.4)	(227.5)	(192.2)	(209.2)	(860.3)
Carrying amount:					
At 31 March 2018	571.6	712.5	39.9	96.2	1,420.2
At 1 April 2017	567.7	580.7	85.8	106.9	1,341.1
At 1 April 2016	609.9	500.1	169.6	79.9	1,359.5

There were no non-exceptional impairments of goodwill in the current year (2017: £6.0m in relation to ESG). £9.4m of non-exceptional impairments of development assets relate to the write-off of an E&P exploration well in the Sean field and £2.4m relates to windfarm development projects no longer determined as viable (2017: £7.5m in relation to windfarm development projects).

There were no non-exceptional write backs of previous impairment charges in the current year (2017: £10.7m relating to the Doggerbank project). £7.9m was written back on the Doggerbank project in the current year. This write-back was considered exceptional, as the previous impairment was also considered exceptional.

Disposal of development assets includes £42.3m now recognised in joint ventures. (see Note 16)

Intangible assets have been analysed as current and non-current as follows:

	2018 £m	2017 £m
Current	712.5	580.7
Non-current	707.7	760.4
	1,420.2	1,341.1

13. Intangible assets continued

(i) Goodwill

At inception, goodwill arising from business combinations is allocated to cash-generating units (CGUs) for impairment testing purposes. Certain goodwill valuations have changed in the current year following retranslation. Commentary on the impairment testing of the related CGUs, with the exception of two historic balances totalling £18.5m, is included in Note 15.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating Segment	2018 £m	2017 £m
Windfarms	Electricity Generation	328.5	324.6
GB Energy Supply	SSE Energy Services – Energy Supply and SSE Energy Services – Energy Related Services	187.0	187.0
Energy Solutions ¹	Business Energy & Enterprise	47.9	47.9
Ireland Supply ²	Airtricity	8.2	8.2
		571.6	567.7

1 Enterprise Energy Solutions includes goodwill balances arising from historic acquisitions of Telecoms and Contracting businesses of £10.3m and a further £37.6m in relation to the acquisition of Energy Solutions Group (ESG). The amount of goodwill associated with the historic businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group.

2 The value associated with the Ireland supply goodwill represents the difference between the fair value attributed to the Northern Ireland based Phoenix Energy business acquired in 2012 and the book value of those assets. No impairment has been recognised during the year on this balance.

(ii) Allowances and certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Generation and business and domestic energy supply businesses.

(iii) Development assets

Development costs relate to the design, construction and testing of thermal and renewable generation sites and devices, including wind farms, which the Group believes will generate probable future economic benefits. Costs capitalised as development intangibles include options over land rights, planning application costs, environmental impact studies and other costs incurred in bringing wind farm and other generation and network development projects to the consented stage. These may be costs incurred directly or at a cost as part of the fair value attribution on acquisition. Development assets also include the Group's exploration and evaluation expenditure in relation to North Sea gas production wells.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to Property, Plant and Equipment (Note 14). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

In the prior year, an exceptional credit of £20.0m was recognised in relation to 'prospect' assets at Greater Laggan based on reassessed additional prospective resources. This was a partial reversal of a prior year impairment.

(iv) Other intangible assets

Included within other intangible assets are brands, customer lists, contracts, application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over the shorter of the contract term or five years with the exception of certain application software assets, which are amortised over 10 years.

Exceptional impairment charges have been recognised in relation to Retail and other technology developments of £12.4m (2017: £78.1m) (see Note 7).

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FOR THE YEAR ENDED 31 MARCH 2018

14. Property, plant and equipment

	Power Generation Assets (i) £m	Gas Production and Storage Assets (ii) £m	Land and Buildings £m	Network Assets £m	Metering assets and other equipment £m	Assets Under Construction £m	Total £m
Cost:							
At 31 March 2016	8,165.9	1,794.8	274.1	9,932.3	835.5	1,217.0	22,219.6
Additions	0.2	–	–	110.8	0.2	1,496.6	1,607.8
Increase in decommissioning asset	9.1	79.1	–	–	–	–	88.2
Transfer from Intangible Assets (Note 13)	–	0.2	0.2	–	–	152.9	153.3
Transfer from Assets Under Construction	242.1	110.8	36.6	800.5	190.7	(1,380.7)	–
Transfer to assets held for sale	(16.5)	–	–	–	–	(49.3)	(65.8)
Disposals (iii)	(653.6)	–	(0.1)	–	(17.7)	(96.4)	(767.8)
Exchange rate adjustments	95.1	–	3.6	–	4.4	(0.7)	102.4
At 31 March 2017	7,842.3	1,984.9	314.4	10,843.6	1,013.1	1,339.4	23,337.7
Additions	6.4	–	–	79.9	1.0	1,366.9	1,454.2
Increase in decommissioning asset	31.3	5.2	–	–	–	7.2	43.7
Transfer from Intangible Assets (Note 13) (iv)	0.3	–	0.4	–	37.7	37.2	75.6
Transfer from Assets Under Construction	619.9	63.7	38.5	773.2	227.5	(1,722.8)	–
Disposals (iii)	(0.8)	–	(4.9)	(0.1)	(8.1)	(108.9)	(122.8)
Exchange rate adjustments	39.5	–	0.7	–	1.9	3.7	45.8
At 31 March 2018	8,538.9	2,053.8	349.1	11,696.6	1,273.1	922.7	24,834.2
Depreciation:							
At 31 March 2016	4,113.1	964.3	81.2	3,937.7	533.9	64.4	9,694.6
Charge for the year	195.7	145.1	6.2	332.8	69.2	–	749.0
Impairments charges (Note 7) (v)	34.8	268.1	–	–	15.7	40.6	359.2
Disposals (iii)	(105.2)	–	–	–	(10.1)	–	(115.3)
Transfer to assets held for sale	(2.2)	–	–	–	–	–	(2.2)
Exchange rate adjustments	27.1	–	–	–	3.1	–	30.2
At 31 March 2017	4,263.3	1,377.5	87.4	4,270.5	611.8	105.0	10,715.5
Charge for the year	221.3	119.8	7.9	319.7	125.8	–	794.5
Impairments charges (Note 7) (v)	22.0	104.8	–	12.4	21.2	33.5	193.9
Transfers in the year	55.6	–	–	6.2	–	(61.8)	–
Disposals (iii)	–	–	(0.7)	(0.1)	(3.4)	–	(4.2)
Exchange rate adjustments	7.5	–	0.1	–	0.2	5.0	12.8
At 31 March 2018	4,569.7	1,602.1	94.7	4,608.7	755.6	81.7	11,712.5
Net book value							
At 31 March 2018	3,969.2	451.7	254.4	7,087.9	517.5	841.0	13,121.7
At 31 March 2017	3,579.0	607.4	227.0	6,573.1	401.3	1,234.4	12,622.2
At 31 March 2016	4,052.8	830.5	192.9	5,994.6	301.6	1,152.6	12,525.0

- (i) Power generation assets comprise thermal and renewable generating plant, related buildings, plant and machinery and include all hydro power generation and wind farm assets. The net book value of power generation assets includes decommissioning costs with a net book value of £145.3m (2017: £123.2m) which includes an increase following a review of all portfolio decommissioning liabilities (see Note 20).
- (ii) Gas storage and production assets include decommissioning costs with a net book value of £104.5m (2017: £130.9m).
- (iii) Assets disposed of include £62.5m in respect of the Group's assets under construction related to the Ferrybridge Multifuel 2 plant under construction. Other disposals were related to other equipment. Details of disposals related to assets held for sale at 31 March 2017 are provided in Note 12.
- (iv) Represents the carrying value of development assets transferred from intangible assets (Note 13) which have reached the consent stage and have been approved for construction.
- (v) Impairment charges relate to exceptional impairments of £179.1m and non-exceptional impairments of £14.8m. (2017: exceptional impairments of £353.0m, non-exceptional impairments £6.2m).

14. Property, plant and equipment continued

Included within property, plant and equipment are the following assets held under finance leases:

	Power Generation assets £m	Network Assets £m	Metering assets and other equipment £m	Total £m
Cost				
At 1 April 2016	401.7	17.6	7.0	426.3
Additions	–	–	–	–
At 1 April 2017	401.7	17.6	7.0	426.3
Additions	–	–	–	–
At 31 March 2018	401.7	17.6	7.0	426.3
Depreciation				
At 31 March 2016	249.8	7.5	7.0	264.3
Charge for the year	11.2	2.5	–	13.7
At 31 March 2017	261.0	10.0	7.0	278.0
Charge for the year	11.6	2.2	–	13.8
At 31 March 2018	272.6	12.2	7.0	291.8
Net book value				
At 31 March 2018	129.1	5.4	–	134.5
At 31 March 2017	140.7	7.6	–	148.3
At 1 April 2016	151.9	10.1	–	162.0

15. Impairment testing

Goodwill and intangibles that are not amortised are reviewed at least annually for impairment and PPE and other intangibles are assessed annually for impairment triggers.



The Group's accounting policies and methodologies for impairment testing are described at Accompanying Information sections A1.2.

The key operating and valuation assumptions, specific considerations and outcome of tests for all impairment reviews are noted in the following sections. The discount rates used are pre-tax real, except where noted, and reflect specific risks attributable to the relevant operating segments. The discount rates used have been benchmarked against externally published rates used by comparable quoted companies operating in the respective market sectors. The discount rates applied in both 2018 and 2017 remain consistent across all CGUs, except where noted, reflecting the Group's view of cost of capital and risk. The recoverable amounts derived from the VIU or FVLCS calculations are compared to the carrying amount of each asset or CGU to determine whether an impairment charge requires to be recognised. The reviews carried out for the 2018 accounts were carried out in the fourth quarter of the year, which is consistent with previous reviews. Note that the actual outcomes may differ from the assumptions included in the assessments at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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15. Impairment testing *continued*

15.1 Goodwill impairment reviews – CGUs testing

The recoverable amounts of the Windfarms, GB Energy Supply and Enterprise Energy Solutions CGUs are determined by reference to value-in-use ('VIU') calculations. The VIU calculations use, as a starting point, pre-tax cash flow projections based both on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based both on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Windfarms	Period to end of life of portfolio assets	<p>The VIU assessment is used to test the carrying value of £328.5m of goodwill related to the Group's windfarms. The assessment is based on the discounted pre-tax cash flows expected to be generated by the specific wind farm assets included in the CGU across the remaining useful lives of those assets. This includes over 50 operating assets in both the UK and Republic of Ireland.</p> <p>Cash inflows for the CGU are based on the expected average annual generation GWh output based on technical assessment and past experience and are valued based on forward power prices. These factors are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement). The projections are also dependent on the UK and Irish government's continuing support for existing qualifying wind assets through ROCs or REFIT. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs.</p> <p>The Windfarm CGU includes wind farms in operation and projects in the construction and development phase which apply appropriate risk adjustments to cashflows or discount rates.</p> <p>The cash flow projections are based on UK power prices between £41 – £46 per MWh over the next five years and have been discounted applying a pre-tax real discount rate between 4.6% and 6.0% (2017: between 5.0% and 6.6%) based on technology and market risks. The change in discount rates represents management's revised view of the cost of capital of these government mandated projects.</p>	<p>Impairment conclusion</p> <p>The recoverable amount of the Windfarms CGU continues to significantly exceed the carrying value of the CGU based on the impairment test, therefore no impairment has been recognised.</p> <p>Sensitivity analysis</p> <p>While cash flow projections are subject to inherent uncertainty, a 25% power price decrease was modelled, which indicated significant headroom on the carrying value of the assets. Similarly, an increase in the pre-tax real discount rate to between 8.0% – 8.4% also indicated significant headroom.</p> <p>This view is supported by the Group's recent significant profit on disposal of wind assets including partial disposal of the Clyde windfarm which, as FVLCS, is secondary corroboration of the VIU assessment.</p>
GB Energy Supply	5 years	<p>Goodwill of £187.0m is carried in relation to the acquisition of the SWALEC supply business and is attributed to the Group's GB Retail electricity and gas supply business CGU.</p> <p>The main assumptions in the VIU assessment for the impairment test are derived from the Group's 5 year Corporate Model and is principally based on the net margins achieved from current and new customers based on current experience. The derivation of the net margins applied include assumptions for power and gas prices, credit losses, acquisition and retention costs, sales and marketing costs, government schemes such as ECO and other impacts of competition and regulation. The projected cash flows derived are discounted by applying a pre-tax real discount rate of 10.8%, which is consistent with the previous year.</p>	<p>The recoverable amount of the GB Energy Supply CGU significantly exceeded the carrying values of goodwill and other non-current assets at the time of the impairment test.</p> <p>While cash flow projections are subject to inherent uncertainty, reasonably possible changes in the key assumptions applied in assessing the value-in-use would not cause a change to the conclusion reached.</p> <p>An increase in the discount rate to 12.0% would not result in an impairment. Similarly, a decrease in forecast cashflows by 10% over the modelled period would also not result in an impairment.</p>

15. Impairment testing continued

15.1 Goodwill impairment reviews – CGUs testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Enterprise Energy Solutions	5 years	<p>The Group capitalised goodwill of £74.0m on acquisition of the Energy Solutions Group in 2016. The business designs, installs and optimises building management technologies which deliver efficient operating environments for its customers.</p> <p>In 2017 an impairment charge of £36.4m was recognised on the carrying value of the Energy Solutions Group following consideration of the business' performance since acquisition.</p> <p>The VIU of the business CGU has been based on a 10% pre-tax real discount rate.</p>	<p>In the current year the outlook for the business has improved, and following announcement of the Retail demerger transaction, the activity of the Energy Solutions Group has been realigned to the Business Energy segment of the Group.</p> <p>At 31 March 2018 the impairment review indicates headroom on the carrying value. A decrease in forecast cashflows of 20% would not result in further impairment. An increase in the discount rate of 3% would result in a minor impairment (£0.1m).</p>

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15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing

Where an indicator of impairment exists, the recoverable amounts of the Group's PP&E, other intangible assets and interests in joint ventures and associates are determined by reference to VIU calculations. The calculations use, as their starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

All assets under review are in the Wholesale business.

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Gas Production	Period to end of life of field assets	<p>The VIU of the Gas Production assets is based on the cashflows projected from gas or distillate production profiles up to the date of the expected cessation of production for SSE's interests in the Greater Laggan, Sean, ECA and Bacton fields set against the expected selling price of the hydrocarbons produced and the impact of tax allowances.</p> <p>The assessment of projected gas or distillate reserves for all fields is formally reviewed on an annual basis using an Independent Reserves Auditor. This review considers the regional activity, geological data, reservoir performance data, well drilling activity, commodity prices and production costs to determine the expected total volume and production profile of gas and liquid reserves. This is a significant input estimate that is subject to change between reporting periods.</p> <p>Cash inflows are based on forward commodity prices and are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, or on internal estimation beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement).</p> <p>Operating cash outflows are based upon projections from the Independent Reserves Auditor, with future capital and decommissioning costs determined through periodic third party review.</p> <p>The pre-tax real discount rate applied to the projected cash flows was between 10% and 12.5% based on market and construction risks (2017: 10% and 12.5%).</p>	<p>The result of the review is a combined exceptional impairment charge of £104.7m (2017: £227.5m) which is predominately associated with Greater Laggan (£104.2m, 2017: £180.5m) driven by a reduction in the independently assessed quantity of available proved and probable (2P) hydrocarbon reserves. A £19.3m impairment on Bacton (2017: £63.8m) was offset by an £18.8m impairment write-back on Sean due to higher than previously estimated reserves in that field.</p> <p>A 10% reduction in the volume and production profile of proven and probable (2P) gas and liquids reserves would result in a £51.5m further impairment charge, and a £9.3m reduction in the write-back of historical impairment charges. A 10% increase would result in a £61.5m reduction in the current year impairment charge, and an additional £9.3m write-back of historical impairment charges. The measurement of gas and liquids reserves is an area of estimation uncertainty, as detailed in Note 4.3 (iii).</p> <p>Gas prices used in the impairment model range between 40–46p/therm in the next five years. Oil prices range between \$51–\$70/bbl in the next five years, based on internally generated market forecasts. A 5% reduction to commodity prices would result in a £25.6m further impairment charge, and a £4.6m reduction in the write-back of historical impairment charges related to the Sean field.</p> <p>A 5% increase in commodity prices would result in a £26.9m reduction in the current year impairment charge, and an additional £4.6m write-back of historical impairment charges related to the Sean field.</p> <p>A 1% increase to the discount rate would result in a £2.0m further impairment charge, with a 1% decrease resulting in a £1.2m reduction in the current year impairment charge.</p> <p>Note 7 provides further detail on the exceptional charge taken, as well as residual values for Gas production assets.</p>

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Great Island CCGT	Period to end of life	<p>The VIU of the Group's Great Island CCGT Power station was based on pre-tax discounted cash flows expected to be generated by the plant based on management's view of the plant's operating prospects. Cash flows are subject to a pre-tax real discount rate of 6.9% reflecting the specific risks in the Irish market.</p> <p>There remains valuation uncertainty in the Irish Electricity market pending the implementation of the Isle of Ireland Integrated Single Electricity Market ('I-SEM'), which is reflected in the Group's impairment assessment.</p>	<p>The result of the review is that no impairment charge to the plant is to be recognised. There remains significant valuation uncertainty in the Irish electricity market, which was reflected in the impairment testing process. Until more clarity in the future environment exists, management considers that the current carrying value of the assets remains most appropriate.</p> <p>A 1% increase in the discount rate would result in an impairment of £28.8m.</p> <p>A 10% reduction in forecast future cashflows would result in an impairment of £31.0m.</p>
Glendoe	Period to end of life	<p>The VIU of the Group's Glendoe Hydro Power station was based on pre-tax discounted cash flows expected to be generated by the plant based on management's view of the plant's operating prospects and operational flexibility within the GB wholesale market. Cash flows are subject to a real pre-tax discount rate of 7.2% (2017: 7.2%).</p>	<p>The VIU assessment performed on the Glendoe asset indicated a potential impairment of £26.4m. However, following the ruling in the Court of Session on 10 April which awarded SSE damages of £108.6m plus costs and interest, management considers that no impairment should be recognised on the plant as the receipt of damages from the contractor is considered highly likely. This ruling occurred after the reporting date, and as such, management has considered that it is a non-adjusting post-balance sheet event, however the highly likely receipt of the damages award has been considered in the impairment assessment.</p> <p>After accounting for the receipt of damages, there is significant headroom on the asset.</p> <p>A 1% increase in the discount rate, or a 10% decrease in forecast future cashflows would not result in an impairment to the asset.</p>

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16. Investments

16.1 Joint Ventures and associates

	2018			2017		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
Share of net assets/cost						
At 1 April	985.8	788.4	1,774.2	1,045.1	591.6	1,636.7
Additions (i)	30.9	231.1	262.0	10.6	94.4	105.0
Deconsolidation of Clyde (ii)	–	–	–	144.2	264.9	409.1
Repayment of shareholder loans	–	(128.0)	(128.0)	–	(73.4)	(73.4)
Dividends received	(171.9)	–	(171.9)	(123.1)	–	(123.1)
Share of profit/(loss) after tax	146.2	–	146.2	187.4	–	187.4
Share of other reserves adjustments	40.4	–	40.4	(62.4)	–	(62.4)
Disposals	(19.7)	(28.6)	(48.3)	(218.2)	(89.1)	(307.3)
Transfer to Held for sale (Note 12.3)	(35.3)	(81.9)	(117.2)	–	–	–
Impairment	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Exchange rate adjustments	1.0	–	1.0	2.6	–	2.6
At 31 March	977.0	781.0	1,758.0	985.8	788.4	1,774.2

(i) Includes non-cash additions of Ferrybridge MF2 Limited £79.3m and Doggerbank Offshore Wind development £42.3m.

(ii) On 13 May 2016, the Group agreed to waive certain contractual rights that gave rise to the accounting judgement that the Group had power to control the 'relevant activities' of Clyde. As a consequence, during the year to 31 March 2017 the Group changed its accounting for Clyde to that of an investment in an equity-accounted joint venture. In the above, an equity investment of £144.2m and loans of £264.9m were recognised on deconsolidation.

16.2 Acquisitions and disposals of equity in the current year

In September 2017, the Group disposed of a 5% equity stake in Clyde Windfarm (Scotland) Limited ('Clyde') to the existing joint venture partners (see Note 12.2). In addition, the Group disposed of a wholly owned subsidiary, Ferrybridge MFE2 Limited, and acquired a 50% stake in a joint venture under the principles of IFRS 3.

16.3 Disposals in the previous year

In the prior year, the Group sold its 16.7% equity stake in Scotia Gas Networks Limited (SGN) stake to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA) following the divestment, the Group retained a 33.3% equity stake in SGN.

Under IFRS 12 Disclosure of Interests in Other Entities, the Group has evaluated the key joint ventures and associates it holds with the purpose of disclosing any which are materially significant in order to identify the impact it has on its financial position, performance and cash flows, whilst identifying the nature of the risks associated with these interests. A full listing of the Group's incorporated joint ventures, joint operations, associates and investments are included in the Accompanying Information (A3).

16.4 Principal joint ventures and associates

Share of results of joint ventures and associates

	2018 SGN £m	2018 Windfarms £m	2018 Other Generation £m	2018 Other (i) £m	2018 Total £m	2017 Total £m
Revenue	391.5	135.4	143.4	6.7	677.0	679.4
Depreciation and amortisation	(55.8)	(45.9)	(13.7)	(0.7)	(116.1)	(115.8)
Other operating costs	(170.4)	(39.6)	(52.9)	(4.7)	(267.6)	(250.0)
Operating profit	165.3	49.9	76.8	1.3	293.3	313.6
Interest expense	(74.4)	(21.0)	(13.5)	0.5	(108.4)	(112.5)
Corporation tax	(19.8)	(6.0)	(13.0)	0.1	(38.7)	(13.7)
Share of post taxation results	71.1	22.9	50.3	1.9	146.2	187.4
Recognised in other comprehensive income						
Actuarial gain on retirement benefit schemes	57.0	–	–	–	57.0	(69.6)
Taxation	(9.7)	–	–	–	(9.7)	13.2
Cashflow hedges	(0.7)	(7.7)	–	–	(8.4)	(7.4)
Taxation	0.2	1.3	–	–	1.5	1.4
Total comprehensive income	117.9	16.5	50.3	1.9	186.6	125.0

(i) Other incorporates companies that have not yet contributed any profit or loss to the Group.

16. Investments continued

16.4 Principal joint ventures and associates continued

Share of joint ventures and associates assets and liabilities

	2018 SGN £m	2018 Windfarms £m	2018 Other Generation £m	2018 Other £m	2018 Total £m	2017 Total £m
Non-current assets	2,457.3	801.1	459.0	163.2	3,880.6	3,389.1
Current assets	190.1	85.6	131.8	15.7	423.2	168.9
Current liabilities	(104.7)	(41.5)	(111.6)	(18.1)	(275.9)	(214.3)
Non-current liabilities	(2,071.7)	(626.2)	(320.3)	(89.9)	(3,108.1)	(2,495.5)
	471.0	219.0	158.9	70.9	919.8	848.2
Other adjustments	–	150.3	(14.8)	(43.0)	92.5	137.6
Share of net assets of joint ventures and associates	471.0	369.3	144.1	27.9	1,012.3	985.8
Shareholder loans	109.0	403.6	318.1	32.2	862.9	788.4
Interest in joint venture and associate	580.0	772.9	462.2	60.1	1,875.2	1,774.2
Transfer to Held for Sale (i)	–	(117.2)	–	–	(117.2)	–
	580.0	655.7	462.2	60.1	1,758.0	1,774.2

(i) The assets and liabilities classified as held for sale at 31 March 2018 are the Group's 14.9% equity interest in Clyde Windfarm (Scotland) Limited.



Information on Group's investments in joint ventures and associates is provided at A3, A4 and A5.

16.5 Joint operations

Listed are the incorporated joint operations that have a material impact on the financial position and financial results of the Group.

	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end
Greater Gabbard Offshore Winds Limited	Offshore Windfarm	UK	Ordinary	50	50	31 March

The Group's interest in Greater Gabbard Offshore Winds Limited is that of a joint operation designed to provide output to the parties sharing control. The liabilities of the arrangement are principally met by the parties through the contracts for the output of the wind farm.

The Group also has an unincorporated arrangement with Statoil under which it accounts for its 66.7% share of the Aldbrough gas storage facility and in respect of its North Sea Gas Production assets at Greater Laggan, Sean, ECA and Bacton, all of which are owned by SSE E&P UK Limited.

16.6 Other investments

	Faroe Petroleum £m	Other £m	Total £m
At 31 March 2016	6.8	9.9	16.7
Additions in the year	–	0.2	0.2
Transfers in the year	–	(0.3)	(0.3)
Revaluation through other comprehensive (loss)	(3.9)	(0.2)	(4.1)
At 31 March 2017	2.9	9.6	12.5
Additions in the year	–	6.1	6.1
Dividends received in the year	–	(0.1)	(0.1)
Disposals in the year (i)	(4.1)	(0.3)	(4.4)
Impairments in the year (Note 7)	(7.2)	(16.5)	(23.7)
Recycle of previous impairments through other comprehensive income/(loss) (ii)	8.4	6.0	14.4
At 31 March 2018	–	4.8	4.8

(i) The remaining shares in Faroe Petroleum were disposed of in the current year for a cash consideration of £4.0m.

(ii) In the current year revaluations of £14.4m relating to Faroe Petroleum and Bifab, taken through other comprehensive income/(loss) in previous years, have been recycled through the income statement.

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FOR THE YEAR ENDED 31 MARCH 2018

17. Inventories

	2018 £m	2017 £m
Fuel and consumables	218.3	270.0
Work in progress	38.5	32.7
Less: provisions held	(30.9)	(33.6)
	225.9	269.1

The Group has recognised £316.1m within cost of sales in the year (2017: £206.4m). In the previous year £62.3m write back of stock previously impaired was recognised as an exceptional item.

18. Trade and other receivables

	2018 £m	2017 £m
Current assets		
Retail trade receivables	718.6	673.6
Wholesale trade receivables	1,901.2	1,838.3
Other trade receivables	79.0	86.7
Trade receivables	2,698.8	2,598.6
Other receivables	77.1	99.0
Cash held as collateral	75.1	105.2
Prepayments and accrued income:		
Unbilled energy income	1,128.6	868.6
Other prepayments and accrued income	92.1	83.0
	4,071.7	3,754.4

Prepayments and accrued income includes 'unbilled' energy income which represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. Details of the judgements applied in deriving these balances are included at Note 4.1(ii). The Group estimates the value of residual electricity consumption uncertainty at the year end is plus or minus £25.0m (2017: plus or minus £25.0m). The Group also applies a percentage reduction to consumption estimates in relation to gas to take account of inaccuracies in the industry settlement process which have historically allocated more volume to the Group than has been recovered through subsequent billings. A 0.5% change in this percentage adjustment would increase or decrease the accrued income recognised by £6.5m in the current year (2017: £6.0m).

Other receivables include financial assets totalling £5.0m (2017: £16.6m). Cash held as collateral relates to amounts deposited on commodity trading exchanges of £75.1m (2017: £105.2m).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in accompanying information note A6.

19. Trade and other payables

	2018 £m	2017 £m
Current liabilities		
Trade payables	2,562.6	2,606.7
Other creditors	1,154.0	988.1
Accruals and deferred income (i)	1,261.0	1,328.7
	4,977.6	4,923.5
Non-current liabilities		
Accruals and deferred income (ii)	385.3	437.4
	5,362.9	5,360.9

(i) Current accruals and deferred income includes customer contributions of £16.5m (2017: £16.0m) and government grants of £0.4m (2017: £0.7m).

(ii) Non-current accruals and deferred income includes customer contributions of £174.4m (2017: £191.3m) and government grants of £2.2m (2017: £2.5m).

20. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
At 1 April 2016	637.2	24.5	35.9	99.7	797.3
Charged in the year	–	12.0	–	11.4	23.4
Increase in decommissioning provision (i)	92.3	–	–	–	92.3
Unwind of discount	14.2	–	–	–	14.2
Released during the year	(0.2)	(10.7)	–	(26.7)	(37.6)
Disposed during the year	(16.2)	–	–	–	(16.2)
Utilised during the year	(15.6)	(4.9)	(27.6)	(21.1)	(69.2)
At 31 March 2017	711.7	20.9	8.3	63.3	804.2
Charged in the year	5.2	11.5	0.8	14.3	31.8
Increase in decommissioning provision (i)	41.6	–	–	–	41.6
Unwind of discount	16.3	–	–	–	16.3
Released during the year	(1.2)	(1.6)	–	(17.7)	(20.5)
Utilised during the year	(7.9)	(6.9)	(8.5)	(17.0)	(40.3)
At 31 March 2018	765.7	23.9	0.6	42.9	833.1
At 31 March 2018					
Non-current	765.7	16.6	–	30.2	812.5
Current	–	7.3	0.6	12.7	20.6
	765.7	23.9	0.6	42.9	833.1
At 31 March 2017					
Non-current	711.7	14.9	–	37.9	764.5
Current	–	6.0	8.3	25.4	39.7
	711.7	20.9	8.3	63.3	804.2

- (i) Provision has been made for the estimated net present value of decommissioning the Group's Gas Production assets, Thermal and Renewable power generation assets and Gas Storage facilities. Estimates are based on the forecast remediation or clean-up costs at the projected date of decommissioning and are discounted for the time value of money. It is expected that the costs associated with decommissioning of the Group's Gas Production assets will be incurred between 2019 and 2040. During the year, the Group increased the decommissioning liabilities held in respect of its Ferrybridge Power plant by £18.4m based on estimates of costs to be incurred from 2019. Further increases of £23.2m were recognised relating to reassessments of provisions for windfarm and thermal generation assets.
- (ii) The Group holds provisions in relation to certain long-term construction contracts. This includes the Group's retained sub-contracts with the various street-lighting PFI companies that have been disposed during the current and prior year. During the year, an exceptional provision of £6.3m was recognised relating to heat network provisions.
- (iii) Restructuring related to the closure and exit of operations such as the Group's Ferrybridge power station.
- (iv) Other provisions relate to costs associated with claims and disputes and the employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS 19.

21. Sources of finance

21.1 Capital management

The Board's policy is to maintain a strong balance sheet and credit rating to support investor, counterparty and market confidence in the Group and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2018, the Group's long term credit rating was A – stable outlook for Standard & Poor's and A3 stable outlook for Moody's.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

During the year, the Group completed its discretionary share buyback programme announced on 11 November 2016 to reduce the share capital of the Company. In total 34.8m shares were purchased for consideration of £499.7m (excluding stamp duty and commission), of which 9.2m (£125.0m) were retained as treasury shares to settle some of the Group's obligations under the Sharesave scheme in the UK and 25.6m shares were cancelled. See further detail within Note 22.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. In the financial year SSE successfully issued its inaugural Green Bond, an eight year €600m bond with a coupon of 0.875% and an all-in cost of 0.98%, which represented the lowest coupon ever achieved by SSE. In March 2018, SSE drew the £200m EIB facility, signed in March 2017, as two £100m, 10 year floating rate loans and rolled the maturing £105m term loan for a further two years. SSE also exercised the second, and last, one year extension option on its £1.3bn revolving credit facility and £200m bilateral facility meaning these facilities now mature in July 2022 and November 2022 respectively. The £1.5bn of committed bank facilities can be accessed at short notice for use in managing the Group's short term funding requirements, however these committed facilities remain undrawn for the majority of the time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

21. Sources of finance continued

21.1 Capital management continued

The Group capital comprises:

	2018 £m	2017 £m
Total borrowings (excluding finance leases)	8,359.4	7,805.5
Less: Cash and cash equivalents	(232.2)	(1,427.0)
Net debt (excluding hybrid equity)	8,127.2	6,378.5
Hybrid equity	1,169.7	2,209.7
Cash held as collateral and other short term loans	(75.1)	(105.2)
Adjusted Net Debt and Hybrid Equity #APM	9,221.8	8,483.0
Equity attributable to shareholders of the parent	4,060.5	4,062.8
Total capital excluding finance leases	13,282.3	12,545.8

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:

- **Interest Cover Ratio:** The Group shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:

- **'Operating Profit'** means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any extraordinary profits (or losses) and excluding the effect of IAS 39.
- **'Net Interest Payable'** means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

21.2 Loans and other borrowings

	2018 £m	2017 £m
Current		
Short-term loans	626.3	118.8
Obligations under finance leases	24.0	23.6
	650.3	142.4
Non-current		
Loans	7,733.1	7,686.7
Obligations under finance leases	227.1	253.3
	7,960.2	7,940.0
Total loans and borrowings	8,610.5	8,082.4
Cash and cash equivalents	(232.2)	(1,427.0)
Unadjusted Net Debt	8,378.3	6,655.4
Add/(less):		
Hybrid equity	1,169.7	2,209.7
Obligations under finance leases	(251.1)	(276.9)
Cash held as collateral and other short term loans	(75.1)	(105.2)
Adjusted Net Debt and Hybrids #APM	9,221.8	8,483.0

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of six months or less. The cash and cash equivalents are lower year on year due to the repayment of £1.0bn Hybrids maturing in October 17, which were refinanced in March 17.

21.3 Borrowing facilities

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2018 no commercial paper was outstanding (2017: £nil). During the year, the Group extended its existing £1.5bn revolving credit and bilateral facilities by invoking the second of the two, one year extension options with the facilities now maturing in July 2022 (£1.3bn) and November 2022 (£0.2bn). These facilities continue to provide back up to the commercial paper programme and, as at 31 March 2018, they were undrawn.

21. Sources of finance continued

21.3 Borrowing facilities continued

Analysis of borrowings

	2018 Weighted average interest rate (iii)	2018 Face value £m	2018 Fair value £m	2018 Carrying amount £m	2017 Weighted average interest rate (iii)	2017 Face value £m	2017 Fair value £m	2017 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	3.5%	126.6	153.7	126.6	1.8%	106.0	106.1	106.0
5.00% Eurobond repayable 1 October 2018	5.0%	500.0	509.2	499.7	–	–	–	–
US Private Placement 16 April 2017	–	–	–	–	3.2%	12.8	16.2	12.8
Total current		626.6	662.9	626.3		118.8	122.3	118.8
Non-current								
Bank loans – non-amortising (i)	1.9%	807.7	822.9	807.7	1.9%	676.7	709.1	676.7
US Private Placement 16 April 2019	3.7%	67.0	76.1	66.9	3.7%	67.0	86.4	66.9
US Private Placement 16 April 2022	4.3%	162.7	186.8	162.4	–	–	–	–
5.00% Eurobond repayable 1 October 2018	–	–	–	–	5.0%	500.0	530.0	499.2
2.00% 600m Eurobond repayable 17 June 2020 (iv)	2.0%	545.5	567.4	543.8	2.0%	511.8	540.1	509.4
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	326.0	298.7	4.3%	300.0	339.2	298.2
2.375% £500m Eurobond repayable 10 February 2022 (v)	2.4%	415.0	447.4	414.6	2.4%	415.0	453.8	414.5
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	352.4	298.8	–	–	–	–
Between two and five years		2,597.9	2,779.0	2,592.9		2,470.5	2,658.6	2,464.9
Bank loans – non-amortising (i)	1.9%	550.0	553.8	549.7	2.4%	500.2	524.9	499.8
US Private Placement 16 April 2022	–	–	–	–	4.3%	162.7	213.8	162.4
US Private Placement 28 April 2023	2.8%	35.0	35.7	34.3	2.8%	35.0	36.6	34.3
US Private Placement 6 September 2023	2.9%	120.0	121.6	117.6	2.9%	120.0	124.8	117.1
US Private Placement 16 April 2024	4.4%	204.1	234.0	203.8	4.4%	204.1	268.0	203.7
US Private Placement 8 June 2026	3.1%	64.0	65.9	62.7	3.1%	64.0	68.0	62.5
US Private Placement 6 September 2026	3.2%	247.1	244.7	241.8	3.2%	247.1	270.7	241.2
US Private Placement 6 September 2027	3.2%	35.0	36.1	34.3	3.2%	35.0	37.4	34.2
1.75% £700m Eurobond repayable 8 September 2023 (vi)	1.8%	514.6	544.2	513.5	1.8%	514.6	544.7	513.2
0.875% £600m Eurobond repayable 8 September 2025	1.0%	527.0	516.8	522.8	–	–	–	–
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	753.8	495.6	8.4%	500.0	800.9	495.1
5.50% Eurobond repayable on 7 June 2032	5.5%	350.0	459.5	350.1	5.5%	350.0	483.2	350.2
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	403.3	323.9	4.6%	325.0	423.2	323.8
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	516.6	346.7	6.3%	350.0	536.5	346.6
4.454% Index linked loan repayable on 27 February 2044	4.5%	127.7	217.0	127.2	4.5%	122.9	239.6	122.4
1.429% Index linked bond repayable on 20 October 2056	2.0%	137.7	236.7	137.7	1.9%	132.7	242.7	132.7
5.875% Eurobond repayable 22 September 2022	–	–	–	–	5.9%	300.0	368.9	298.5
4.75% \$900m NC5.5 Hybrid debt maturing 16 September 2077 (vii)	4.8%	745.4	750.7	742.4	4.8%	730.9	734.0	727.9
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	307.2	298.8	3.6%	300.0	300.0	298.8
Over five years		5,132.6	5,997.6	5,102.9		4,994.2	6,217.9	4,964.4
Fair value adjustment (ii)		–	–	37.3		–	–	257.4
Total non-current		7,730.5	8,776.6	7,733.1		7,464.7	8,876.5	7,686.7
TOTAL		8,357.1	9,439.5	8,359.4		7,583.5	8,998.8	7,805.5

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.

(ii) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.

(iii) The weighted average interest rates (including the effect of interest rate swaps) for the year ended 31 March 2018 was 3.56% (2017: 3.66%).

(iv) The 2.00% £600m Eurobond maturing on 17 June 2020 has been partly swapped to Sterling giving an effective interest rate of 2.67%.

(v) The 2.375% £500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.

(vi) The 1.75% £700m Eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.

(vii) The 4.75% \$900m non-call 5.5 year hybrid debt maturing 16 September 2077 has been swapped to Euros (\$605m) and Sterling (\$295m) giving an effective interest rate of 2.25% and 3.29% respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

21. Sources of finance continued

21.3 Borrowing facilities continued

Analysis of Borrowings continued

(i) Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present Value of minimum lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts payable:				
Within one year	53.3	55.5	24.0	23.6
Between one and five years	204.1	206.3	128.4	118.3
After five years	126.3	177.3	98.7	135.0
	383.7	439.1	251.1	276.9
Less: future finance charge	(132.6)	(162.2)		
Present value of lease obligations	251.1	276.9		

The Group has a power purchase agreement with a related party, Marchwood Power Limited, which is categorised as a finance lease. The lease is for use of Marchwood Power's main asset, an 890MW Gas powered CCGT Electricity Generating Plant. The term of the lease is 15 years with the Group having the option for a further 5 years extension at the end of this period. £25.8m (2017: £23.6m) of contingent rents paid under the lease were included within cost of sales for the period. Contingent rent consists of £/MWh charges for availability of the plant for energy production and a £/MWh charge for actual 'nominated' energy produced.

Of the remaining finance leases held by the Group, the average remaining term of the telecom leases is 1 year. No arrangements have been entered into for contingent rental payments for these leases.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

(ii) Hybrid Debt

On 16 March 2017, the Group issued £1.0bn of new hybrid debt securities. The securities have an issuer first call date on 16 September 2022 and are able to be redeemed at the Group's discretion. This dual tranche issue comprises £300m with a coupon of 3.625% and \$900m with a coupon of 4.75%. The \$900m tranche has been swapped back to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches to SSE of 3.02% per annum. This compares favourably to the all-in funding cost of 4.02% achieved on SSE's most recent Hybrid equity securities issued in 2015. The proceeds were used to repay SSE's hybrid issued in 2012 (at an all-in rate of 5.6%) on 1 October 2017. Due to the hybrid instruments issued in March 2017 having a fixed redemption date, they have been accounted for as a debt item and are included within Loans and Other Borrowings in Note 21.2. This is in contrast to the previous Hybrid instruments which have no fixed redemption date and are accounted for as Equity, see Note 22.5.

21.4 Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and Hybrid equity

	Note	2018 £m	2017 £m
(Decrease)/increase in cash and cash equivalents		(1,194.8)	1,066.8
Add/(less):			
Redemption of Hybrid equity		1,040.0	–
New borrowings		(859.0)	(1,842.5)
Repayment of borrowings		118.8	898.8
Non-cash movement on borrowings		186.3	(194.5)
(Decrease) in cash held as collateral and other short term loans	21	(30.1)	(16.6)
Movement in adjusted net debt and hybrids [#APM]		(738.8)	(88.0)

Cash held as collateral refers to amounts deposited on commodity trading exchanges and loans provided with a less than three month maturity which are reported within trade and other receivables on the face of the balance sheet.

21. Sources of finance continued

21.5 Reconciliation of movements in financing liabilities

	Financing cash flows				Non-cash movements					At 31 March 2018 £m
	At 1 April 2017 £m	New Borrowings £m	Repayment of Borrowings £m	Repayment of finance lease creditor £m	Fair Value movements £m	Foreign exchange Movements £m	Finance leases £m	Re-classification £m	Other £m	
Financing Liabilities										
Bank loans	1,167.8	306.0	–	–	(19.3)	1.7	–	(126.6)	–	1,329.6
US Private Placement	1,057.0	–	–	–	(102.6)	–	–	–	1.6	956.0
Fixed rate Eurobonds	4,194.7	553.0	–	–	10.2	7.6	–	(499.2)	(2.0)	4,264.3
Index Linked Loans	255.1	–	–	–	–	–	–	–	9.8	264.9
Hybrid Debt	1,012.1	–	–	–	(108.4)	14.6	–	–	–	918.3
Total long term borrowings	7,686.7	859.0	–	–	(220.1)	23.9	–	(625.8)	9.4	7,733.1
Bank loans	106.0		(106.0)	–	–	–	–	126.6	–	126.6
Non-Recourse Funding	–	–	–	–	–	–	–	499.2	0.5	499.7
US Private placement	12.8	–	(12.8)	–	–	–	–	–	–	–
Total short term borrowings	118.8	–	(118.8)	–	–	–	–	625.8	0.5	626.3
Finance leases	276.9	–	–	(56.6)	–	–	30.8	–	–	251.1
Total loans and borrowings (unadjusted net debt)	8,082.4	859.0	(118.8)	(56.6)	(220.1)	23.9	30.8	–	9.9	8,610.5
Assets held to hedge long term borrowings	104.7	320.2	–	–	(602.8)	–	–	–	6.8	(171.1)
	8,187.1	1,179.2	(118.8)	(56.6)	(822.9)	23.9	30.8	–	16.7	8,439.4

	Financing cash flows				Non-cash movements					At 31 March 2017 £m
	At 1 April 2016 £m	New Borrowings £m	Repayment of Borrowings £m	Repayment of finance lease creditor £m	Fair Value movements £m	Foreign exchange Movements £m	Finance leases £m	Other £m		
Financing Liabilities										
Bank loans	939.8	193.7			34.2				0.1	1,167.8
US Private Placement	474.3	488.2			105.9				(11.4)	1,057.0
Fixed rate Eurobonds	4,104.3	–			50.1	37.3			3.0	4,194.7
Index Linked Loans	250.1	–							5.0	255.1
Hybrid Debt	–	1,041.8			(14.6)	(10.9)			(4.2)	1,012.1
Total long term borrowings	5,768.5	1,723.7			175.6	26.4	–	(7.5)		7,686.7
Bank loans	700.0	106.0	(700.0)		–	–	–	–	–	106.0
Non-Recourse Funding	200.7		(200.7)		–	–	–	–	–	–
Commercial paper and cash advances	198.8	–	(198.8)		–	–	–	–	–	–
US Private placement	–	12.8	–		–	–	–	–	–	12.8
Total short term borrowings	1,099.5	118.8	(1,099.5)		–	–	–	–	–	118.8
Finance leases	300.8	–		(54.7)	–	–	30.8	–	–	276.9
Total loans and borrowings (unadjusted net debt)	7,168.8	1,842.5	(1,099.5)	(54.7)	175.6	26.4	30.8	(7.5)		8,082.4
Assets held to hedge long term borrowings	(124.3)	490.2	–	–	(247.0)	–	–	(14.2)		104.7
	7,044.5	2,332.7	(1,099.5)	(54.7)	(71.4)	26.4	30.8	(21.7)		8,187.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

22. Equity

22.1 Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2016	1,007.6	503.8
Issue of shares (i)	16.9	8.5
Shares repurchased (ii)	(8.9)	(4.5)
At 31 March 2017	1,015.6	507.8
Issue of shares (i)	24.1	12.0
Shares repurchased (ii)	(16.7)	(8.3)
At 31 March 2018	1,023.0	511.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 63.9p per ordinary share (in relation to year ended 31 March 2017) and the interim dividend of 28.4p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 23,497,675 and 546,613 new fully paid ordinary shares respectively (2017: 9,395,092 and 6,324,986). In addition, the Company issued 1.4m (2017: 1.2m) shares during the year under the savings-related share option schemes (of which 1.3m were settled by shares held in Treasury) for a consideration of £16.6m (2017: £13.8m).
- (ii) Under the share buyback programme announced on 11 November 2016, 16.7m shares were repurchased and cancelled in the year to 31 March 2018 for a total consideration of £245.5m (2017: 8.9m shares repurchased and cancelled for a total consideration of £131.5m). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve.

As part of the same share buyback programme the Group has purchased 9.2m shares (2017: nil) for total consideration of £126.1m (including stamp duty and commission) in the year to 31 March 2018 to be retained as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

In total, since the announcement of the share buyback scheme on 11 November 2016, the Group has purchased 34.8m shares for consideration of £503.1m (inclusive of stamp duty and commission).

During the year, on behalf of the Company, the employee share trust purchased 1.4m shares for a total consideration of £19.8m (2017: 0.8m shares, consideration of £12.6m). At 31 March 2018, the trust held 3.3m shares (2017: 2.9m) which had a market value of £41.8m (2017: £42.5m).

22.2 Capital redemption reserve

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

22.3 Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

22.4 Translation reserve

Comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

22.5 Hybrid equity

	2018 £m	2017 £m
USD 700m 5.625% perpetual subordinated capital securities (i)	—	427.2
EUR 750m 5.625% perpetual subordinated capital securities (i)	—	598.2
GBP 750m 3.875% perpetual subordinated capital securities (ii)	748.3	748.3
EUR 600m 2.375% perpetual subordinated capital securities (ii)	421.4	436.0
	1,169.7	2,209.7

(i) 18 September 2012 €750m and US\$700m hybrid equity bonds

On 2 October 2017, the Group redeemed all of the capital securities at their principal amount. The securities were redeemed in their functional currency with the additional net Sterling cost of redemption of £92.4m being recognised in retained earnings. The funding has been replaced by a debt accounted £1.0bn instrument issued on 16 March 2017 (see Note 21.3(ii)).

Each bond had no fixed redemption date but the Company was able, at its sole discretion, redeem all, but not part, of these capital securities at their principal amount. The first date for discretionary redemption of the capital issued on 18 September 2012 was 1 October 2017.

(ii) 10 March 2015 £750m and €600m hybrid equity bonds

The March 2015 hybrid equity bonds have no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first potential discretionary redemption of the £750m hybrid equity bond is 10 September 2020 and then every 5 years thereafter. The date for the first discretionary redemption of the €600m hybrid equity bond is 1 April 2021 and then every 5 years thereafter.

For the £750m capital issued coupon payments are made annually on 10 September and for the €600m capital issued coupon payments are made annually on 1 April.

22. Equity continued

22.5 Hybrid equity continued

(iii) Coupon payments

In relation to the \$700m hybrid equity bond coupon payments were made on 1 April 2017 and 2 October 2017 totalling £21.2m (2017: £23.3m). In relation to the €750m hybrid equity bond a coupon payment of £30.6m (2017: £33.6m) was made on 2 October 2017.

In relation to the €600m hybrid equity bond a coupon payment of £17.6m (2017: £18.6m) was made on 1 April 2017 and for the £750m hybrid equity bond a coupon payment of £29.1m (2017: £43.8m) was made on 10 September 2017.

The coupon payments in the year to 31 March 2018 consequently totalled £98.5m (2017: £119.3m).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- redemption; or
- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

23. Retirement benefit obligations

Defined benefit schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a Money purchase basis and has been arranged with Friends Provident. The Group matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Group may also provide additional contributions of 3% after five years and a further 3% after ten year's continuous Group service.

The Group presents its pension scheme valuations under two different measurement bases, an actuarial valuation and an IAS 19 valuation as required by accounting standards. The IAS 19 valuation is used to determine the assets and obligations recognised in the Group's consolidated balance sheet and is calculated annually by scheme actuaries, whereas the formal actuarial valuation is used to determine the contributions the Group make to the scheme. The actuarial valuation is recalculated for each scheme every three years.

Actuarial valuations

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2015	31 March 2016
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£1,916.0m	£1,828.4m
Value of liabilities based on valuation	£1,964.7m	£2,245.5m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	Inflation curve plus 1.0% pa	RPI+1%
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	97.5%	81.4%

Future contributions

Scottish Hydro Electric Scheme

The last actuarial valuation of the scheme was carried out at 31 March 2015 and showed a deficit of £48.7m. In line with this funding valuation the Group has agreed a schedule of contributions until September 2019 which is expected to adequately fund the scheme and reduce any shortfall. The Group has also set out an agreed schedule of contributions in respect of current accrual. Based on this schedule of contributions, total contributions of approximately £27.0m are expected to be paid by the Company during the year ending on 31 March 2019, including deficit repair contributions of £14m. The Company has agreed to pay this amount annually until March 2019. The next funding valuation will be carried out as at 31 March 2018 and is expected to be finalised by 30 September 2018. As part of that valuation process the trustee and Company will agree a long term funding strategy, which may include a revision to the schedule of contributions.

Southern Electric Pension Scheme

The last actuarial valuation of the Scheme as at 31 March 2016 and showed a deficit of £417.1m. The Group is paying deficit contributions which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2028. The next funding valuation will be carried out as at 31 March 2019. The Company also pays contributions in respect of current accrual, with some active members also paying contributions. Total contributions of approximately £67.8m are expected to be paid by the Company during the year ending on 31 March 2019 including deficit repair contributions of £43.2m. These payments will be made annually until March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

23. Retirement benefit obligations continued

Pension summary as measured under IAS 19:

Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension asset/(liability)	
	2018 £m	2017 £m	2018 £m	2017 £m
Scottish Hydro Electric Defined benefit	30.5	235.4	572.1	525.4
Southern Electric Defined benefit	191.3	(76.8)	(237.6)	(454.9)
	221.8	158.6	334.5	70.5
IFRIC 14 movement	–	262.7	–	–
Net actuarial gain/(loss) and movement in IFRIC 14 liability	221.8	421.3	334.5	70.5

IFRIC 14 surplus restrictions

The value of Scottish Hydro Electric Pension Scheme assets recognised was previously impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes, and may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies that future refunds may be recognised if the sponsoring entity has an unconditional right to a refund in certain circumstances.

During the prior financial year, the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that the Company has a clear right to any surplus upon final winding up of the scheme. This amendment removes the previous restriction on recognition of any surplus and as such the previously applied restriction is no longer recognised. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2018 was equal to £572.1m (2017: £525.4m).

At 31 March 2018, the Southern Electric Pension Scheme has a net deficit of £237.6m, and unrecognised future contributions of £341.1m, which when paid, will result in a notional surplus of £103.5m. The Group has assessed that it has the right to recognise any future surpluses on the scheme, therefore has not recognised a liability for future unrecoverable contributions.

23.1 Pension scheme assumptions

Both schemes have been updated to 31 March 2018 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2018	At 31 March 2017
Rate of increase in pensionable salaries	4.2%	4.3%
Rate of increase in pension payments	3.2%	3.3%
Discount rate	2.65%	2.65%
Inflation rate	3.2%	3.3%

23.2 Sensitivity analysis

The assumptions relating to longevity underlying the pension liabilities at 31 March 2018 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

Scottish Hydro Electric

	At 31 March 2018		At 31 March 2017	
	Male	Female	Male	Female
Currently aged 65	23	24	23	24
Currently aged 45	25	27	25	28

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2018		At 31 March 2017	
	Increase/decrease in assumption	Effect on scheme liabilities	Increase/decrease in assumption	Effect on scheme liabilities
Rate of increase in pensionable salaries	0.1%	+/- 0.2%	0.1%	+/- 0.2%
Rate of increase in pension payments	0.1%	+/- 1.6%	0.1%	+/- 1.2%
Discount rate	0.1%	+/- 2.1%	0.1%	+/- 2.2%
Longevity	1 year	+/- 3.5%	1 year	+/- 4.5%

Southern Electric

	At 31 March 2018		At 31 March 2017	
	Male	Female	Male	Female
Currently aged 65	23	25	23	25
Currently aged 45	24	26	25	27

23. Retirement benefit obligations continued

23.2 Sensitivity analysis continued

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2018		At 31 March 2017	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Rate of increase in pensionable salaries	0.1%	+/- 0.4%	0.1%	+/- 0.3%
Rate of increase in pension payments	0.1%	+/- 1.9%	0.1%	+/- 1.5%
Discount rate	0.1%	+/- 2.1%	0.1%	+/- 1.7%
Longevity	1 year	+/- 5.2%	1 year	+/- 4.0%

23.3 Valuation of combined pension schemes

	Quoted £m	Unquoted £m	Value at 31 March 2018 £m	Quoted £m	Unquoted £m	Value at 31 March 2017 £m
Equities	891.5	–	891.5	1,203.9	–	1,203.9
Government bonds	1,222.7	–	1,222.7	1,079.9	–	1,079.9
Corporate bonds	1,285.0	–	1,285.0	1,288.6	–	1,288.6
Insurance Contracts (i)	–	210.8	210.8	–	221.3	221.3
Other investments	587.3	–	587.3	591.9	–	591.9
Total fair value of plan assets			4,197.3	4,164.3	221.3	4,385.6
Present value of defined benefit obligation			(3,862.8)			(4,315.1)
Surplus/(deficit) in the schemes			334.5			70.5
Deferred tax thereon			(159.8)			(106.6)
Net pension asset/(liability) (ii)			174.7			(36.1)

(i) See details of valuations of insurance contracts in Note 23.6 (iv).

(ii) Deferred tax rate of 35% applied to pension surpluses, whilst 17% applied to pension deficits.

23.4 Movements in the combined defined benefit asset obligations and assets during the year

	2018			2017		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total
At 1 April	4,385.6	(4,315.1)	70.5	3,702.9	(3,835.0)	(132.1)
Included in Income Statement						
Current service cost	–	(55.2)	(55.2)	–	(50.9)	(50.9)
Past service cost	–	(3.2)	(3.2)	–	(13.6)	(13.6)
Interest income/(cost)	112.3	(109.6)	2.7	130.9	(134.9)	(4.0)
	112.3	(168.0)	(55.7)	130.9	(199.4)	(68.5)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	118.0	118.0	–	259.6	259.6
Financial assumptions	–	66.4	66.4	–	(807.9)	(807.9)
Experience assumptions	–	(2.6)	(2.6)	–	31.4	31.4
Return on plan assets excluding interest income	40.0	–	40.0	675.5	–	675.5
	40.0	181.8	221.8	675.5	(516.9)	158.6
Other						
Contributions paid by the employer	97.9	–	97.9	112.5	–	112.5
Scheme participant's contributions	0.2	(0.2)	–	0.2	(0.2)	–
Benefits Paid	(438.7)	438.7	–	(236.4)	236.4	–
	(340.6)	438.5	97.9	(123.7)	236.2	112.5
Balance at 31 March	4,197.3	(3,862.8)	334.5	4,385.6	(4,315.1)	70.5

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

23. Retirement benefit obligations continued

23.4 Movements in the combined defined benefit asset obligations and assets during the year continued

Pension scheme contributions and costs

Charges/(credits) recognised:

	2018 £m	2017 £m
Current service cost (charged to operating profit)	58.4	64.5
	58.4	64.5
(Credited)/charged to finance costs:		
Interest from pension scheme assets	(112.3)	(130.9)
Interest on pension scheme liabilities	109.6	134.9
	(2.7)	4.0

The return on Pension Scheme assets is as follows:

	2018 £m	2017 £m
Return/(loss) on Pension Scheme assets	152.3	806.4

Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £71.0m (2017: £55.9m).

Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation to EFRB was £0.1m (2017: £5.4m increase). This is included in other provisions (Note 20).

Staff costs analysis

The pension costs in Note 8 can be analysed thus;

	2018 £m	2017 £m
Service costs	58.4	64.5
Defined contribution scheme payments	71.0	55.9
	129.4	120.4

23.5 Pension scheme risk assessment and mitigation

Risks to which the pension schemes exposes the Group

The nature of the Groups' defined benefit pension schemes expose the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

(i) Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Schemes' long term objectives.

(ii) Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes. However, this will be partially offset by an increase in the value of the schemes' bond holdings.

(iii) Inflation Risk

The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

(iv) Life Expectancy

The majority of the schemes' obligations are to provide benefits for the life of the members, so an increase in the life expectancy will result in an increase in the liabilities. The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the schemes' liabilities of the risks highlighted.

(v) Liability vs asset risk

The risk that movement in the value of the schemes' liabilities are not met by corresponding movements in the value of the schemes' assets.

23. Retirement benefit obligations continued

23.5 Pension scheme risk assessment and mitigation continued

Risk mitigation

(i) De-risking

The trustees have taken a number of steps to control the level of investment risk including reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes.

(ii) Longevity swap

During the year the Scottish Hydro Electric scheme entered into a longevity swap covering c£800m of the scheme's liabilities related to 1,800 pensioners and 567 dependents. The scheme has agreed an average life expectancy for the Group of pensioners with an external counterparty meaning that if the pensioners live longer than the agreed average life expectancy, the counterparty will make payments to the scheme to compensate the additional cost of paying the pensioners. However, if the pensioners do not live as long as agreed, the scheme will benefit from reduced payments to pensioners but will be required to compensate the counterparty to the swap. The longevity swap is valued under the accounting principles of IFRS 13 and is considered a Level 3 instrument in the fair value hierarchy.

(iii) Asset buy-in

During the year the Scottish Hydro Electric scheme agreed an asset buy-in with a third party to transfer c£250m of the scheme's assets and liabilities related to 617 pensioners and 190 dependents to a third party. The asset swap has the effect of reducing the scheme's assets by £256.9m and reducing the scheme's liabilities by £228.7m. The difference between the transfer value of assets and liabilities from the scheme of £28.2m has been recognised as an experience loss and is due to the effect of unwinding the discount on the scheme liabilities to their present value.

(iv) Asset-liability matching strategies used by the scheme

The Company and trustees of the schemes have agreed a long term investment strategy that seeks to reduce investment risk as and when appropriate. The asset-liability matching strategy is part of this approach which aims to reduce the volatility of the funding level of the pension schemes by investing in assets which perform in line with the liabilities of the schemes so as to protect against inflation being higher than expected. This has been adopted for a proportion of the schemes' assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees of the respective schemes review the schemes' asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

Risk assessment

(i) Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 21.2 years (2017: 22 years) for the Scottish Hydro Electric Pension Scheme and 18 years (2017: 18 years) for the Southern Electric Pension Scheme.

(ii) Information about the defined benefit obligations

Status of members is weighted by the liabilities of each scheme

	Scottish Hydro Electric %	Southern Electric Scheme %
Active members	41	39
Deferred members	11	9
Pensioners	48	52
	100.0	100.0

23.6 Pension scheme policies

(i) Recognition of gains and losses

The Group recognises actuarial gains and losses in the Statement of Other Comprehensive Income following the re-measurement of the net defined benefit liabilities of the schemes.

(ii) Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the schemes' liabilities. While these have been calculated consistently with the previous financial year, the method applied may change over time with financial conditions and assumptions.

(iii) Asset recognition

The Group has recognised net pension assets in relation to the Scottish Hydro Electric pension scheme due to a surplus existing under IAS 19 accounting. The Group will only recognise a surplus should it have rights to that surplus under the rules of the pension scheme. The company has no longer applies the 'asset ceiling' restriction mandated by IFRIC 14 in respect of the Scottish Hydro Pension scheme following the modification of the scheme rules in the prior year. Details on this key accounting consideration are provided above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

23. Retirement benefit obligations *continued*

23.6 Pension scheme policies *continued*

iv) Fair value assessment of scheme assets

The Group seeks to assess whether there is a quotable market value (referenced as 'quotable' above) in relation to pension scheme assets held. This assessment is based on regular reviews conducted in conjunction with the trustees of the schemes. For assets where no quotable market value exists, these assets will be valued based on a set methodology agreed by trustees and scheme advisors and then regularly assessed.

Currently only one unquotable value exists within the two pension schemes of the Group, this being insurance contracts held by the Scottish Hydro Electric Scheme which were entered into during the current financial year. These assets are currently valued consistently with the scheme's liabilities with the expected return on these assets being set equal to the discount rate.

24. Financial instruments

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

24.1 Financial instruments – income statement

	2018 £m	2017 £m
Operating Derivatives		
Total result on operating derivatives (i)	(445.9)	(438.6)
Less: Amounts settled (ii)	356.8	639.6
Movement in unrealised derivatives	(89.1)	201.0
Financing Derivatives (and hedged items)		
Total result on financing derivatives (i)	(95.6)	(136.3)
Less: Amounts settled (ii)	62.6	188.9
Movement in unrealised derivatives	(33.0)	52.6
Net income statement impact	(122.1)	253.6

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.

(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

24.2 Financial instruments – balance sheet

The derivative financial assets and (liabilities) are represented as follows:

	2018 £m	2017 £m
Derivative financial assets		
Non-current	336.4	528.3
Current	1,060.1	1,269.5
	1,396.5	1,797.8
Derivative liabilities		
Non-current	(566.9)	(703.2)
Current	(1,253.1)	(1,153.2)
Total derivative liabilities	(1,820.0)	(1,856.4)
Net liability	(423.5)	(58.6)



Information on the Group's financial risk management and the fair value of financial instruments is available at A6 and A7.

25. Commitments and contingencies

25.1 Capital commitments

	2018 £m	2017 £m
Capital expenditure:		
Contracted for but not provided	527.3	949.0

Contracted for but not provided capital commitments include the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

25.2 Operating lease commitments

(i) Leases as lessee:

	2018 £m	2017 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	90.5	80.3
Other lease payments	84.1	85.2
	174.6	165.5

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018			2017		
	PPAs £m	Other £m	Total £m	PPAs £m	Other £m	Total £m
Within one year	12.5	67.6	80.1	86.0	65.9	151.9
Two to five years	30.3	142.0	172.3	–	153.5	153.5
After five years	–	214.9	214.9	–	240.8	240.8
	42.8	424.5	467.3	86.0	460.2	546.2

The average power purchase agreement (PPA) lease term is 3 years (2017: 1 year).

Certain obligations under power purchase agreements with various power generating companies are not deemed to qualify as finance leases, as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception of the agreements did not amount to substantially all of the fair value of the power stations at that time.

(ii) Leases as lessor:

The Group have no operating lease commitments as a lessor.

26. Post balance sheet events

(i) Disposal of 14.9% equity stake in Clyde Windfarm (Scotland) Limited

On 8 May 2018, the Group's joint venture partners Greencoat UK Wind Plc ('UKW') and GLIL Infrastructure LLP ('GLIL') announced they would exercise their option to purchase a 14.9% equity stake in Clyde (Windfarm) Scotland Limited for consideration of £202.0m on 30 May 2018 (Note 12). Following the sale of this stake, the Group will retain 50.1% in the equity accounted joint venture. The gain on sale will be calculated following completion of the sale.

(ii) Ruling on the Group's claim for damages following a tunnel collapse on the Glendoe hydro power station

On 10 April 2018, a ruling was passed in the Court of Session in Edinburgh to award SSE damages of £108.6m plus interest in its case against the main building contractor of the Glendoe hydro power station, following the collapse of a tunnel in 2009. As this award remains subject to appeal by the contractor, receipt of the award is not yet virtually certain and these financial statements have not been adjusted to recognise receipt of the award. However, SSE considers that receipt of the award is highly likely and has considered the award of damages when testing the power station for impairment on 31 March 2018 (Note 15).

ACCOMPANYING INFORMATION

A1. Basis of consolidation and significant accounting policies

A1.1 Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its interests in joint arrangements and associates. Where necessary to ensure consistency, the accounting policies of the subsidiaries, joint arrangements or associates have been adjusted to align to the accounting policies of the Group. Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint arrangements and associates are eliminated to the extent of the Group's interest in the entity. Non-controlling interests represent the equity in subsidiaries that is not attributable, either directly or indirectly, to SSE plc shareholders.

Subsidiaries (Accompanying Information A3)

Subsidiaries are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain variable returns from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

Interests in joint arrangements and associates (Note 16 and Accompanying Information A3)

Joint arrangements, as defined by IFRS 11 'Joint Arrangements', are those arrangements that convey to two or more parties 'joint control'. Joint control exists when decisions about the 'relevant activities', being the financial, operational or strategic policies of the arrangement, are made with the unanimous consent of the parties sharing control. The Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investor's contractual rights and obligations.

Associates are those investments over which the Group has significant influence but neither control nor joint control.

The Group's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Group's share of the revenue will be eliminated as it relates to its purchased share of the output from the arrangement.

The Group's joint ventures and associates are accounted for using the equity method of accounting where the joint venture and associate investments are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the parent. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement as a Finance Cost with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge which are transferred to the translation reserve to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results of foreign operations are transferred to the translation reserve and are reported in the consolidated statement of comprehensive income.

The average and spot rates for the principal functional currencies that the Group's foreign operations are denominated in are shown in the table below.

		2018	2017	Change
EUR v GBP	Year end spot rate	1.1386	1.1724	(2.9%)
	Average spot rate	1.1339	1.1907	(4.8%)

A1.2 Significant accounting policies

Revenue (Note 5)

Revenue is recognised to the extent that it is probable that economic benefits from the provision of goods and services in the normal course of business will flow to the Group, and that the revenue can be reliably measured. Revenue principally arises as a result of the Group's activities in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. The key policies applied by each Business Area are as follows:

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Networks

Revenue from use of electricity networks is derived from the allowed revenue as defined by the parameters in the relevant electricity distribution or transmission licence regulations, which informs the tariffs we set. Electricity distribution revenue recognised is based on the volume of electricity distributed and the set customer tariff. Where this revenue differs from the allowed revenue, there may be an over – or under-recovery of revenue which will be reflected in future financial year's allowed revenue as set out in the regulatory licence and relevant industry codes. No accounting adjustment is made for over – or under-recoveries in the year that they arise. Electricity transmission revenue is determined in accordance with its regulatory licence, is subject to approval of the industry regulator Ofgem and is charged to National Grid. As with electricity distribution revenue, any revenue adjustments assessed by Ofgem are reflected in future financial year's allowed revenue.

Where the Group has an ongoing obligation to provide contracted services (such as for network transmission connections), revenues are recognised as the service is performed with amounts billed in advance or arrears treated as either deferred income or accrued income and excluded from current revenue.

Where a contract includes capital works and ongoing services (such as for network distribution connections activity), revenue is recognised upon completion of the associated capital works when there is either no ongoing service obligation or where any future service obligations are clearly separable.

Retail

Revenue on the supply of energy comprises sales to domestic and business end-user customers based on actual energy consumption including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Details of the estimation process for the value of electricity and gas supplied to customers is given within Note 4.1(ii).

Where the Group has an ongoing obligation to provide contracted services, revenues are recognised as the service is performed with amounts billed in advance or arrears treated as either deferred income or accrued income and excluded from current revenue. Revenue from fixed-fee service contracts is recognised over the life of the contract, in relation to the benefit received by the customer.

For construction related contracts (such as those within the Enterprise reporting segment), where the outcome can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

Wholesale

Revenue from electricity generation is recognised as generated and supplied during the year. Revenue from physical energy and commodity trades entered into to optimise generation plant performance is recognised gross in the income statement.

Revenue from the production of natural gas, crude oil and condensates arises from the Group's interest in various joint ventures and associates and is based on the entitlement method; whereby the Group's share of interest and production sharing terms are used to determine the allocation of production to each party in the arrangement. Revenue is recognised when title passes to the customer, with any short-term imbalances between cumulative production entitlement and cumulative sales (known as overlift and underlift) recognised at the balance sheet date as a payable or receivable measured at market value.

Gas storage revenue is recognised evenly over the contract period, whilst revenue for the injection and withdrawal of gas is recognised at the point of gas flowing into or out of the storage facilities.

Finance income and costs (Note 9)

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

The accounting policy for foreign exchange translation of monetary assets and liabilities is described on page 200 and for finance lease charges on page 203.

Taxation (Note 10)

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies *continued*

A1.2 Significant accounting policies *continued*

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Group intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Business Combinations (Note 12)

The acquisition of subsidiaries, and joint operations that meet the definition of a business, is accounted for under the acquisition method as defined by IFRS 3 'Business Combinations'.

The cost of acquisition is measured as being the aggregate fair value of consideration to be transferred at the date control is obtained. Contingent consideration is classified as a liability and subsequently remeasured through the income statement. Acquisition costs are expensed as incurred.

Held for sale assets and liabilities (Note 12)

Non-current assets are classified as held for sale if their recoverable value is likely to be recovered via a sale opposed to continued use by the Group. In order to be classified as non-current assets held for sale, assets must meet all of the following conditions; the sale is highly probable, it is available for immediate sale, it is being actively marketed and the sale is likely to occur within one year.

Non-current assets determined as held for sale are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification as held for sale.

Intangible assets (Note 13)

Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or joint venture at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units (CGUs) expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

Goodwill may also arise upon investments in joint arrangements and associates. Goodwill arising on a joint operation is recorded as a separate asset and any impairment loss is recognised in the income statement. Goodwill arising on a joint venture or associate is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from joint ventures and associates. On disposal or closure of a previously acquired investment or business, any attributed goodwill will be included in determining the profit or loss on disposal.

Allowances and emissions

The EU Emissions Trading Scheme (EU ETS) has been in operation since 1 January 2005. Carbon allowances purchased are recorded at cost within intangible assets. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the difference is measured at market value selling price. Subsequent movements in market value are recognised in operating profit. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. Self-generated certificates are recorded at market value at the point of generation and purchased certificates are recognised at cost at the point of purchase, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the obligation level set by Ofgem and the prevailing market price. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Research and development

Expenditure on research activities is charged to the income statement as incurred.

Expenditure on development activities is capitalised as intangible assets if the project or process is considered to be technically and commercially feasible and the Group intends to complete the project or process for use or for sale. Development projects include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs incurred in bringing these projects to the consent stage include options over land rights, planning application costs and environmental impact studies and may be costs incurred directly or part of the fair value exercise on acquisition of an interest in a project. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in operation, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected to arise.

Other intangible assets

Other intangible assets that have been acquired separately by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated brands or customer lists are expensed as incurred. Expenditure on internally developed software assets and application software licences includes contractors' fees and directly attributable labour and overheads. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these assets. The amortisation periods utilised are as follows:

	Years
Brands	10
Customer lists	Shorter of contract term or 5
Developed software assets and application software licences	5-10

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis. Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Property, plant and equipment (Note 14)

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. Where the asset is a qualifying asset, for which a considerable period of time is required to prepare the asset for use or sale, borrowing costs will be capitalised as part of the asset's cost. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are recognised as part of the property, plant and equipment of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Lease finance charges are charged directly to the income statement as a Finance cost unless they are directly attributable to qualifying assets, in which case they are capitalised as part of the asset cost.

Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1 'First-time Adoption of IFRS', the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives with the exception of Gas Production Assets which are depreciated on the Units of Production basis. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Wholesale specific assets	
Hydro civil assets	100
Thermal and hydro power stations including electrical and mechanical assets	20 to 60
Operating wind farms	20 to 25
Gas storage facilities	25 to 50
E&P common infrastructure assets	25 to 50
Networks specific assets	
Overhead lines, underground cables and other network assets	40 to 80
Other transmission and distribution buildings, plant and equipment	10 to 45
Group wide assets	
Office buildings	30 to 40
Fixtures, IT assets, vehicles and mobile plant	3 to 10

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Subsequent expenditure

It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates. Maintenance and repair costs are expensed as incurred.

Derecognition

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Exploration, evaluation and production assets (Notes 13 and 14)

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or 'prospects'. This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. Upon recognition of proved and probable reserves and internal approval for development, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are determined to be unsuccessful, and no future activity is planned, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and include specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the estimated proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

All common infrastructure costs, such as production facilities or pipelines that are common to more than one field, are depreciated on a straight line basis, reflecting their shared usage unrelated to the production of any one field.

All exploration and production assets are reviewed annually for indicators of impairment. Where indicators of impairment are identified, the carrying value of the field assets are compared with the expected discounted future net cashflows associated with the remaining estimated commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net cashflows.

A1. Basis of consolidation and significant accounting policies continued

A1.2. Significant accounting policies continued

Leases (Notes 14 and 25)

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to use and control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are categorised as operating leases.

Finance lease obligations

Assets held under finance leases are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on page 203.

Operating lease obligations

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Impairment review (Note 15)

The carrying amounts of the Group's PP&E and other intangible assets and the Group's investments in joint ventures and associates, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For PP&E assets that have previously been identified as exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised. For goodwill and other intangible assets with an indefinite life or which are not yet ready for use, the test for impairment is carried out annually. In addition, financial assets measured at amortised cost are also reviewed for impairment annually.

For assets subject to impairment testing, the asset's carrying value is compared to the asset's (or cash-generating unit (CGU)'s, in the case of goodwill), recoverable amount. The recoverable amount is determined to be the higher of the fair value less costs to sell (FVLCS) and the value-in-use (VIU) of the asset or CGU. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement and, in relation to the impairment of goodwill, will not be subsequently reversed.

Value in use (VIU) calculations require the estimation of future cash flows to be derived from the respective assets (or CGUs) and the selection of an appropriate discount rate in order to calculate their present value. The VIU methodology is consistent with the approach taken by management to evaluate economic value and is deemed to be the most appropriate for reviews of PP&E asset and the Group's identified goodwill-related CGUs. The methodology is based on the pre-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a pre-tax discount rate based on the Group's cost of funding and adjusted for any specific risks. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the assets.

The fair value less costs to sell methodology also uses a present value technique, unless there is a quoted price in an active market for that asset. The methodology is based on the post-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a post-tax discount rate determined in the same manner as the rates used in the VIU calculations, adjusted for the relevant taxation rate.

For goodwill, the impairment charge will initially be adjusted against the goodwill allocated to the cash-generating unit. Thereafter, the remaining assets of the cash-generating unit will be written-down proportionately. Impairments of other intangible or PP&E assets will only reverse if there has been a significant increase in the recoverable amount associated with the asset. Impairments of Goodwill are not written back.

Inventories and work in progress (Note 17)

Inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the direct costs of labour, contractors, materials plus other directly attributable overheads.

Provisions (Note 20)

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2. Significant accounting policies continued

Decommissioning

The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities, offshore wind farms and power stations at the end of the useful life of the facilities. The estimates are based on technology and prices at the balance sheet date. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset or, for gas production facilities, is amortised on the unit of production method.

Employee benefit obligations (Note 23)

Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14 'IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group. Following an assessment of the Group's disclosures, the disclosures on equity and equity-related compensation benefits have been removed in the current year on the grounds of materiality in relation to the Group.

Financial instruments (Note 24)

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in A6.

Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A1. Basis of consolidation and significant accounting policies continued

A1.2. Significant accounting policies continued

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted in part (i) to this note. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

Net investment hedges

Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables

Interest-bearing loans and borrowings

All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

Share capital

Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Hybrid equity

Hybrid equity comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders. Tax credits in relation to the coupon payments are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

Hybrid Debt

Hybrid debt comprises issued bonds that have a fixed redemption date and are accounted within Loans and Borrowings. Coupon payments are recognised within the income statement as a finance cost.

ACCOMPANYING INFORMATION CONTINUED

A2. Taxation

The Group's primary tax disclosures are included at Note 10. The following tables represent enhanced disclosures adopted in order to assist stakeholder understanding of the Group's tax position and policies as part of the Group's commitment to its Fair Tax Mark accredited status.

Reconciliation of tax charge to adjusted underlying current tax

	2018 £m	2018 %	2017 £m	2017 %
Group profit before tax	1,086.2		1,776.6	
Less: share of results of associates and jointly controlled entities	(146.2)		(187.4)	
Profit before tax	940.0		1,589.2	
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2017: 20%)	178.7	19.0	317.8	20.0
Tax effect of:				
Capital allowances less than depreciation	20.1	2.1	45.6	2.9
Reassessment of capital allowances for previous years	(101.3)	(10.7)	–	–
Increase in restructuring and settlement provisions	4.2	0.5	2.2	0.1
Non-taxable gain on sale of shares	(4.5)	(0.5)	(65.5)	(4.1)
Impact of de-consolidation of Clyde	–	–	(11.8)	(0.7)
Fair value movements on derivatives	23.2	2.5	(50.9)	(3.2)
Pension movements	(8.0)	(0.9)	(8.8)	(0.6)
Relief for capitalised interest and revenue costs	(26.2)	(2.8)	(20.8)	(1.3)
Hybrid equity coupon payments	(18.7)	(2.0)	(23.8)	(1.5)
Expenses not deductible for tax purposes	7.2	0.8	19.6	1.2
Utilisation of tax losses brought forward	(23.2)	(2.5)	(16.8)	(1.0)
Other items	0.7	0.1	(0.3)	–
Losses carried back to earlier years	(24.0)	(2.6)	–	–
Adjustments to tax charge in respect of previous years	(69.9)	(7.4)	(70.1)	(4.5)
Reported current tax charge and effective rate	(41.7)	(4.4)	116.4	7.3
Depreciation in excess of capital allowances	(17.3)	(1.8)	(80.1)	(5.1)
Reassessment of capital allowances for previous years	101.3	10.7	–	–
Increase in provisions	(4.2)	(0.5)	(2.2)	(0.1)
Fair value movements on derivatives	(26.1)	(2.8)	50.9	3.2
Pension movements	8.0	0.9	8.8	0.6
Relief for capitalised interest and revenue costs	26.1	2.8	20.8	1.3
Impact of higher deferred tax rates on Gas Production profits	20.7	2.2	(58.7)	(3.7)
Adjustments to tax charge in respect of previous years	62.0	6.6	(61.3)	(3.9)
Change in rate of UK corporation tax	12.8	1.4	(35.4)	(2.2)
Tax losses carried forward de-recognised	–	–	86.4	5.4
Tax losses utilised	23.2	2.5	16.8	1.1
Other items	1.3	0.1	(1.9)	(0.1)
Reported deferred tax credit and effective rate	207.8	22.1	(58.6)	(3.7)
Group tax charge and effective rate	166.1	17.7	57.8	3.6

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

As noted at Note 3 to the accounts, the Group's results are reported on an 'adjusted' basis in order to allow focus on underlying business performance. The following table explains the adjustments that are made in order to arrive at adjusted profit before tax. This is the measure utilised in calculation of the Group's 'adjusted effective rate of tax'.

	2018 £m	2017 £m
Profit before tax	1,086.2	1,776.6
Add/(less):		
Exceptional items and certain re-measurements	332.7	(266.6)
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	37.2	32.8
Interest on pension scheme liabilities	(2.7)	4.0
Share of interest on net pension liabilities in jointly controlled entities and associates	(0.2)	(0.9)
Adjusted profit before tax #APM	1,453.2	1,545.9

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2018 £m	2018 %	2017 £m	2017 %
Adjusted profit before tax	1,453.2		1,545.9	
Tax on profit on ordinary activities at standard UK corporation tax rate	276.1	19.0	309.2	20.0
Tax effect of:				
Capital allowances in excess of depreciation	(29.6)	(2.1)	(28.2)	(1.8)
Non-taxable gain on sale of shares	(4.7)	(0.3)	(4.0)	(0.3)
Adjustment for profit on internal trading	4.9	0.3	–	–
Increase in restructuring and settlement provisions	4.3	0.3	2.9	0.1
Pension movements	(7.4)	(0.5)	(11.2)	(0.7)
Relief for capitalised interest and revenue costs	(10.7)	(0.7)	(12.3)	(0.8)
Hybrid equity coupon payments	(18.7)	(1.3)	(23.8)	(1.5)
Expenses not deductible for tax purposes	6.5	0.4	13.4	0.9
Relief for brought forward losses	(24.7)	(1.7)	(16.8)	(1.1)
Losses carried back to earlier years	(24.0)	(1.7)	–	–
Adjustments to tax charge in respect of previous years	(42.0)	(2.8)	(71.5)	(4.6)
Other	0.7	0.1	–	–
Adjusted current tax charge and effective rate #APM	130.7	9.0	157.7	10.2

The above reconciling adjustments differ from those analysed in the Group tax charge reconciliation above because they include SSE's share of associates and joint ventures, and are based on adjusted profit before tax.

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2018 (2017:20%). The Group's Gas Production business is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). In addition, profits from the Sean gas field were subject to petroleum revenue tax ('PRT') at 0% which is deductible against corporation tax, giving an overall effective rate for the field of 40%. Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. The rates are determined by Parliament annually and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. During both the year to 31 March 2017 and the previous year, the substantial impairments undertaken in relation to certain of the Group's property, plant and equipment, which are explained at Note 7 meant that the charge to profit for the year significantly exceeded the amount of capital allowances due to the Group.

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

ACCOMPANYING INFORMATION CONTINUED

A2. Taxation *continued*

Reconciliation of tax charge to adjusted underlying current tax *continued*

As explained at Accompanying Information A1 and A6, the Group measures its operating and financing derivatives at fair value under IAS 39.

As a result of the Group's subsidiaries applying the HMRC's 'disregard regulations', the re-measurement movements have no current tax effect impacting only the deferred tax position.

As detailed at Note 22 and explained in the Accompanying Information A1, the Group has issued Hybrid equity securities which are treated as a component of equity. While the coupon payments relating to these securities are treated as distributions to the holders of the equity instruments, tax relief is allowed on the amount paid in the year. These tax credits are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

A3. Related undertakings

A3.1. Subsidiary undertakings

Details of the principal subsidiary undertakings are as follows:

Company	Country of Incorporation	Registered Address (Key)	2018 Holding %	2017 Holding %	Principal Activity
Abernedd Power Company Limited	England and Wales	B	100.0	100.0	Dormant
Ahalia Holdings Limited	Ireland	C	100.0	100.0	Dormant
Airtricity Europe Windfarm Holdings Limited	Ireland	C	100.0	100.0	Holding Company
Airtricity Windfarm Finance Limited	Ireland	C	100.0	100.0	Holding Company
Arklow Offshore Phase II Company Limited	Ireland	C	100.0	100.0	Dormant
Ashdown Control Services Limited	England and Wales	D	100.0	100.0	Dormant
AtlasConnect Limited	Scotland	A	100.0	100.0	Dormant
Bindoo Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Brickmount Limited	Ireland	C	100.0	100.0	Power Generation
Building Automation Solutions Limited	England and Wales	D	100.0	100.0	Dormant
Coire Glas Hydro Pumped Storage Limited	Scotland	A	100.0	–	Power Generation
Comhlacht Gaoithe Teoranta	Ireland	C	100.0	100.0	Power Generation
Coomacheo Wind Farm Limited	Ireland	C	100.0	100.0	Power Generation
Coomatallin Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Curragh Mountain Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
Dedondo Limited	Ireland	C	100.0	100.0	Power Generation
Dorset Lighting Limited	England and Wales	B	100.0	100.0	Dormant (dissolved 15/5/18)
Dromada Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Ealing Lighting Limited	England and Wales	B	100.0	100.0	Dormant (dissolved 15/5/18)
ESG (International) Limited	England and Wales	D	100.0	100.0	Dormant
Evolve Energy Limited	England and Wales	D	100.0	100.0	Dormant
Fibre Fuel Limited	England and Wales	B	100.0	100.0	Dormant
Fibre Power (Slough) Limited	England and Wales	B	100.0	100.0	Power Generation
Forbury Assets Limited	England and Wales	B	100.0	–	Construction of utility projects
Ganderoy Limited	Ireland	C	100.0	100.0	Power Generation
Gartnaneane Limited	Ireland	C	100.0	100.0	Power Generation
Griffin Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Hydro Electric Pension Scheme Trustees Limited	Scotland	A	100.0	–	Pension Services
Islay Offshore Winds Limited	Scotland	A	100.0	100.0	Renewable Development
Islington Lighting Limited	England and Wales	B	100.0	100.0	Dormant (dissolved 15/5/18)
Keadby Developments Limited	England and Wales	E	100.0	100.0	Dormant
Keadby Generation Limited	England and Wales	E	100.0	100.0	Power Generation
Keadby Wind Farm Limited	England and Wales	B	100.0	100.0	Power Generation
Limerick West Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
March Winds Limited	Ireland	C	100.0	100.0	Power Generation
Marsh Systems Limited	England and Wales	D	100.0	100.0	Dormant
Medway Power Limited	England and Wales	B	100.0	100.0	Power Generation
Meentycat Limited	Ireland	C	100.0	100.0	Power Generation
Milane Holdings Limited	Ireland	C	100.0	100.0	Dormant
Mullanalt Wind Farm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Neos Networks Limited	England and Wales	B	100.0	100.0	Telecommunications
Platin Power Limited	Ireland	C	100.0	100.0	Dormant
Power from Waste Limited	England and Wales	B	100.0	100.0	Dormant
Renewable Energy Partners Limited	Northern Ireland	F	100.0	100.0	Renewable Development
Richfield Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation

A3. Related undertakings continued

A3.1. Subsidiary undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2018 Holding %	2017 Holding %	Principal Activity
Scottish and Southern Energy Power Distribution Limited	Scotland	A	100.0	100.0	Holding Company
Scottish Hydro Electric Power Distribution plc	Scotland	A	100.0	100.0	Power Distribution
Scottish Hydro Electric Transmission plc	Scotland	A	100.0	100.0	Power Transmission
SEC Highway Lighting Dorset Limited	England and Wales	B	100.0	100.0	Dormant (dissolved 15/5/18)
Slieve Divena Wind Farm No 2 Limited	Northern Ireland	P	100.0	100.0	Power Generation
Slough Domestic Electricity Limited	England and Wales	B	100.0	100.0	Power Generation
Slough Electricity Contracts Limited	England and Wales	B	100.0	100.0	Electricity Contracting
Slough Energy Supplies Limited	England and Wales	B	100.0	100.0	Dormant
Slough Heat & Power Limited	England and Wales	B	100.0	100.0	Power Generation
Slough Utility Services Limited	England and Wales	B	100.0	100.0	Utility Services
Southern Electric Gas Limited	England and Wales	B	100.0	100.0	Energy Supply
Southern Electric Group Trustee Limited	England and Wales	B	100.0	100.0	Dormant
Southern Electric Power Distribution plc	England and Wales	B	100.0	100.0	Power Distribution
Southern Electric Quest Trustee Limited	England and Wales	B	100.0	100.0	Dormant
SSE Airtricity Limited	Ireland	C	100.0	100.0	Energy Supply
SSE Airtricity Energy Services (NI) Limited	Northern Ireland	F	100.0	100.0	Energy Supply
SSE Airtricity Energy Services Limited	Ireland	C	100.0	100.0	Energy Supply
SSE Airtricity Energy Supply (NI) Limited	Northern Ireland	F	100.0	100.0	Energy Supply
SSE Airtricity Gas (NI) Limited	Northern Ireland	F	100.0	100.0	Energy Supply
SSE Airtricity Gas Limited	Ireland	S	100.0	100.0	Energy Supply
SSE Airtricity Gas Supply (NI) Limited	Northern Ireland	P	100.0	100.0	Energy Supply
SSE Airtricity Utility Solutions Limited	Ireland	C	100.0	100.0	Utility Contracting
SSE Calliachar Limited	Scotland	A	100.0	100.0	Power Generation
SSE CCS Limited	Scotland	A	100.0	100.0	Dormant
SSE Contracting Group Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Contracting Limited	England and Wales	B	100.0	100.0	Contracting
SSE Cumarsáid Teoranta	Ireland	C	100.0	100.0	Telecommunications
SSE E&P UK Limited	Scotland	A	100.0	100.0	Gas Production
SSE Electricity Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Energy Services Group Limited	England and Wales	B	100.0	–	Holding Company
SSE Energy Solutions Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Energy Supply Limited	England and Wales	B	100.0	100.0	Energy Supply
SSE Enterprise Limited	England and Wales	B	100.0	100.0	Corporate Services
SSE EPM Limited	England and Wales	B	100.0	100.0	Energy Trading
SSE Galloper Offshore Windfarm Holdings Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Generation Ireland Limited	Ireland	C	100.0	100.0	Power Generation
SSE Generation Limited	England and Wales	B	100.0	100.0	Power Generation
SSE Green Deal Limited	Scotland	A	100.0	100.0	Dormant
SSE Green Deal Provider Limited	Scotland	A	100.0	100.0	Dormant
SSE Group Limited	Scotland	A	100.0	100.0	Dormant
SSE Heat Networks (Battersea) Limited	England and Wales	B	100.0	100.0	Dormant
SSE Heat Networks Limited	Scotland	A	100.0	100.0	Utility Services
SSE Home Services Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Hornsea Limited	England and Wales	B	100.0	100.0	Gas Storage
SSE Insource Energy Limited	England and Wales	B	100.0	100.0	Dormant
SSE Insurance Limited	Isle of Man	G	100.0	100.0	Insurance
SSE Islay Offshore Windfarm Holdings Limited	Scotland	A	100.0	100.0	Holding Company
SSE Maple Limited	England and Wales	B	100.0	100.0	Investment Holding
SSE Medway Operations Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Metering Limited	Scotland	A	100.0	100.0	Energy Supply
SSE Micro Renewables Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Mineral Solutions Limited	England and Wales	B	100.0	100.0	Dormant
SSE Nuclear Limited	England and Wales	B	100.0	100.0	Dormant
SSE OWS Glasgow Limited	Scotland	A	100.0	100.0	Property Holding
SSE Production Services Limited	England and Wales	B	100.0	100.0	Maintenance Services
SSE Renewables (Ireland) Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Developments (UK) Limited	Northern Ireland	F	100.0	100.0	Renewable Development
SSE Renewables Generation Ireland Limited	Ireland	C	100.0	100.0	Power Generation

ACCOMPANYING INFORMATION CONTINUED

A3. Related undertakings continued

A3.1. Subsidiary undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2018 Holding %	2017 Holding %	Principal Activity
SSE Renewables Holdings (Europe) Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Holdings (UK) Limited	Northern Ireland	F	100.0	100.0	Holding Company
SSE Renewables Holdings Germany GmbH	Germany	H	100.0	100.0	Dormant
SSE Renewables Holdings Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Limited	Scotland	A	100.0	100.0	Holding Company
SSE Renewables Off Shore Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Offshore Windfarm Holdings Limited	Scotland	A	100.0	100.0	Holding Company
SSE Renewables Onshore Windfarm Holdings Limited	Northern Ireland	F	100.0	100.0	Holding Company
SSE Renewables UK Limited	Northern Ireland	F	100.0	100.0	Holding Company
SSE Renewables Walney (UK) Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Retail Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Retail Telecoms Limited	England and Wales	B	100.0	100.0	Dormant
SSE Rogerstone Limited	England and Wales	B	100.0	100.0	Dormant
SSE Seabank Investments Limited	England and Wales	B	100.0	100.0	Dormant
SSE Seabank Land Investments Limited	England and Wales	B	100.0	100.0	Dormant
SSE Secretaries Ireland Limited	Ireland	C	100.0	100.0	Dormant
SSE Services plc	England and Wales	B	100.0	100.0	Corporate Services
SSE Shetland Power Generation Limited	Scotland	A	100.0	100.0	Power Generation
SSE Slough Multifuel Limited	England and Wales	B	100.0	–	Power Generation
SSE Stock Limited	Scotland	A	100.0	100.0	Stock Holding
SSE Telecommunications Limited	Scotland	A	100.0	100.0	Telecommunications
SSE Toddleburn Limited	Scotland	A	100.0	100.0	Power Generation
SSE Trading Limited	England and Wales	B	100.0	100.0	Energy Trading
SSE Trustees Limited	England and Wales	B	100.0	100.0	Dormant
SSE Utility Services Limited	England and Wales	B	100.0	100.0	Dormant
SSE Utility Solutions Limited	England and Wales	B	100.0	100.0	Utility Services
SSE Venture Capital Limited	Scotland	A	100.0	100.0	Investment Holding
SSE Viking Limited	England and Wales	B	100.0	100.0	Renewable Development
SSE Water Limited	England and Wales	B	100.0	100.0	Water Network
SSEPG (Operations) Limited	England and Wales	B	100.0	100.0	Power Generation
Sure Partners Limited	Ireland	C	100.0	100.0	Dormant
TESGL Limited	England and Wales	D	100.0	100.0	Dormant
The Energy Solutions Group Bidco Limited	England and Wales	D	100.0	100.0	Utility Services
The Energy Solutions Group Midco Limited	England and Wales	D	100.0	100.0	Dormant
The Energy Solutions Group Topco Limited	England and Wales	D	100.0	100.0	Holding Company
Tournafula Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation

All shares in subsidiary companies are ordinary share capital, unless otherwise stated.

A3. Related undertakings continued

A3.2. Partnerships

Company	Country of Incorporation	Registered Address (Key)	2018 Holding (%)	2017 Holding (%)	Principal Activity
The Glasa LLP	Scotland	A	90.0	90.0	Renewable Development
Viking Energy (Scottish Partnership)	Scotland	I	50.0	50.0	Renewable Development
Viking Energy Wind Farm LLP	Scotland	I	50.0	50.0	Renewable Development

A3.3. Joint arrangements (incorporated)

Company	Country of Incorporation	Registered Address (Key)	2018 Holding (%)	2017 Holding (%)	Principal Activity
3SE (Barnsley, Doncaster & Rotherham) Holdings Limited	England and Wales	J	25.0	25.0	Holding Company
3SE (Barnsley, Doncaster & Rotherham) Limited	England and Wales	J	25.0	25.0	Waste Management
Aquamarine Power Limited	Scotland	K	30.4	30.4	Renewable Development
Baglan Pipeline Limited	England and Wales	L	50.0	50.0	Dormant
Beatrice Offshore Windfarm Holdco Limited	Scotland	A	40.0	100.0	Holding Company
Beatrice Offshore Windfarm Limited	Scotland	A	40.0	40.0	Renewable Development
Brims Tidal Array Limited	Scotland	M	50.0	50.0	Renewable Development
Cloosh Valley Wind Farm Designated Activity Company	Ireland	N	50.0	50.0	Power Generation
Cloosh Valley Wind Farm Holdings Designated Activity Company	Ireland	N	50.0	50.0	Holding Company
Clyde Windfarm (Scotland) Limited	Scotland	A	65.0	50.1	Power Generation
Derwent Cogeneration Limited	England and Wales	B	49.5	49.5	Dormant
Doggerbank Offshore Windfarm Project 1 Holdco Limited	England and Wales	B	50.0	–	Holding Company
Doggerbank Offshore Windfarm Project 1 Projco Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 1A SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 1B SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 1C SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Offshore Windfarm Project 2 Holdco Limited	England and Wales	B	50.0	–	Holding Company
Doggerbank Offshore Windfarm Project 2 Projco Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 4A SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 4B SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 4C SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Offshore Windfarm Project 3 Holdco Limited	England and Wales	B	50.0	–	Holding Company
Doggerbank Offshore Windfarm Project 3 Projco Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 2A SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 2B SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Doggerbank Project 2C SSER Limited	England and Wales	B	50.0	37.5	Holding Company
Everwind Limited	Ireland	O	49.0	49.0	Power Generation
Ferrybridge MFE 2 Limited	England and Wales	B	50.0	100.0	Development Company
Ferrybridge MFE Ltd	England and Wales	B	50.0	50.0	Power Generation
Forewind Limited	England and Wales	B	50.0	25.0	Dormant
Fusion Heating Limited	Northern Ireland	W	50.0	–	Energy Related Services
Greater Gabbard Offshore Winds Limited	England and Wales	B	50.0	50.0	Power Generation
Green Energy Company Limited	Ireland	O	47.5	47.5	Dormant
Green Way Energy Limited	Ireland	O	50.0	50.0	Holding Company
Kerry Power Limited	Ireland	O	49.0	49.0	Power Generation
Marchwood Power Limited	England and Wales	P	50.0	50.0	Power Generation
Midas Energy Limited	Ireland	O	49.0	49.0	Power Generation
Multifuel Energy 2 Limited	Scotland	A	50.0	–	Power Generation
Multifuel Energy Limited	Scotland	A	50.0	50.0	Power Generation

ACCOMPANYING INFORMATION CONTINUED

A3. Related undertakings continued

A3.3. Joint arrangements (incorporated) continued

Company	Country of Incorporation	Registered Address (Key)	2018 Holding (%)	2017 Holding (%)	Principal Activity
PriDE (Serp) Ltd	England and Wales	Q	50.0	50.0	Estate Maintenance and Improvement
Scotia Gas Networks Limited	England and Wales	U	33.3	33.3	Gas Distribution
Seabank Power Limited	England and Wales	T	50.0	50.0	Power Generation
Seagreen Wind Energy Limited	England and Wales	B	50.0	50.0	Renewable Development

A3.4. Associates

Company	Country of Incorporation	Registered Address (Key (i))	2018 Holding (%)	2017 Holding (%)	Principal Activity
Shetland Land Lease Limited	England and Wales	T	20.0	20.0	Development Company
St Clements Services Limited	England and Wales	U	25.0	25.0	Utilities Software
Walney (UK) Offshore Windfarms Limited	England and Wales	V	25.1	25.1	Power Generation

A3.5. Registered address key

Company	Reference
Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ	A
No 1 Forbury Place, 43 Forbury Road, Reading RG1 3JH	B
Red Oak South, South County Business Park, Leopardstown, Dublin 18	C
Ocean Court, Caspian Road, Atlantic Street, Altrincham, WA14 5HH	D
Keadby Power Station, PO Box 89, Keadby, Scunthorpe, North Lincs DN17 3AZ	E
Millennium House, 17-25 Great Victoria Street, Belfast, BT2 7AQ	F
Tower House, Loch Promenade, Douglas, Isle of Man	G
Büro München, Elektrastrasse 6, 81925, München, Germany	H
The Gutters' Hut, North Ness Business Park, Lerwick, Shetland ZE1 0LZ	I
Dunedin House Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU	J
City Point, 65 Haymarket Terrace, Edinburgh, EH12 5HD	K
16 Axis Way, Mallard Way, Swansea Vale, Swansea, SA7 0AJ	L
Maclay Murray & Spens LLP, 1 George Square, Glasgow G2 1AL	M
6th Floor, South Bank House, Barrow Street, Dublin 4	N
Lissarda Industrial Park, Lissarda, Macroom, County Cork	O
Oceanic Way, Marchwood Industrial Park, Marchwood, Southampton SO40 4BD	P
Capital Tower, 91 Waterloo Road, London, SE1 8RT	Q
St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ	R
Severn Road, Hallen, Bristol, BS10 7SP	S
18th Floor, 10 Upper Bank Street, Canary Wharf, London, E14 5BF	T
4 – 6 Church Walk, Daventry, NN11 4BL	U
5 Horwick Place, London, England, SW1P 1WG	V
Unit 14 Maryland Industrial Estate, Ballygowan Road, Belfast	W

A4. Joint ventures and associates

The Directors have assessed that the investments in the following equity accounted joint ventures and associates are of a sufficiently material impact to warrant additional disclosure on an individual basis. Details of on the financial position and financial results of the Group:

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end	Consolidation basis
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	33.3	33.3	31 March	Equity
Seabank Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Marchwood Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Multifuel Energy Limited	Power Generation	UK	Ordinary	50.0	50.0	31 March	Equity
Walney (UK) Offshore Windfarms Limited	Power Generation	UK	Ordinary	25.1	25.1	31 December	Equity
Clyde Windfarm (Scotland) Limited	Power Generation	UK	Ordinary	65.0	65.0	31 March	Equity

A4. Joint ventures and associates continued

Summary information for material joint ventures and associates from unaudited financial statements is as follows:

	SGN 2018 £m	Seabank Power Limited 2018 £m	Marchwood Power Limited 2018 £m	Multifuel Energy Limited 2018 £m	Clyde Windfarm (Scotland) Limited 2018 £m	Walney (UK) Offshore Windfarms Limited 2018 £m	Other 2018 £m	Total 2018 £m
Revenue	1,174.5	146.9	68.0	71.8	145.5	127.9	58.5	1,793.1
Depreciation and amortisation	(167.4)	(11.5)	(0.2)	(15.7)	(35.8)	(52.5)	(16.9)	(300.0)
Other operating costs	(511.4)	(64.2)	(24.7)	(20.2)	(35.5)	(61.7)	(24.5)	(742.2)
Operating profit	495.7	71.2	43.1	35.9	74.2	13.7	17.1	750.9
Interest expense	(223.3)	(14.4)	(9.5)	(16.8)	(28.0)	(6.6)	(8.4)	(307.0)
Profit before tax	272.4	56.8	33.6	19.1	46.2	7.1	8.7	443.9
Corporation tax	(59.4)	–	(6.1)	(3.8)	(8.4)	(2.1)	3.0	(76.8)
Profit after tax	213.0	56.8	27.5	15.3	37.8	5.0	11.7	367.1
Recognised in other comprehensive income								
Actuarial gain on retirement benefit schemes	171.0	–	–	–	–	–	–	171.0
Taxation	(29.0)	–	–	–	–	–	–	(29.0)
Cash flow hedges	(2.0)	–	–	–	–	–	(15.4)	(17.4)
Taxation	0.5	–	–	–	–	–	2.6	3.1
	140.5	–	–	–	–	–	(12.8)	127.7
Total comprehensive income/(loss)	353.5	56.8	27.5	15.3	37.8	5.0	(1.1)	494.8
SSE share of profit (based on % equity)	71.1	28.4	13.8	7.7	28.9	1.3	(5.0)	146.2
Dividends paid to shareholders	286.0	71.0	25.4	–	13.8	73.7	–	469.9
Non-current assets	7,372.0	141.1	268.3	277.4	653.9	729.3	1,296.7	10,738.7
Current assets	560.5	28.3	27.3	19.7	41.4	13.2	231.1	921.5
Cash and cash equivalents	9.7	27.5	19.4	16.5	41.4	13.5	1.2	129.2
Current liabilities	(314.0)	(17.2)	(44.5)	(28.1)	(26.5)	(24.5)	(236.6)	(691.4)
Non-current liabilities	(6,215.2)	(33.1)	(152.0)	(237.6)	(619.8)	(92.6)	(952.6)	(8,302.9)
Net assets	1,413.0	146.6	118.5	47.9	90.4	638.9	339.8	2,795.1
Reconciliation of the above amounts to the investment recognised in the consolidated financial statements								
Group equity interest	33.3%	50%	50%	50%	65%	25.1%	N/A	N/A
Net assets	1,413.0	146.6	118.5	47.9	90.4	638.9	339.8	2,795.1
Group's share of ownership interest	471.0	73.3	59.3	24.0	58.8	160.4	73.0	919.8
Other adjustments	–	(19.0)	5.0	(7.0)	96.7	12.9	3.9	92.5
Carrying value of group's equity interest	471.0	54.3	64.3	17.0	155.5	173.3	76.9	1,012.3

ACCOMPANYING INFORMATION CONTINUED

A4. Joint ventures and associates continued

	SGN 2017 £m	Seabank Power Limited 2017 £m	Marchwood Power Limited 2017 £m	Multifuel Energy Limited 2017 £m	Clyde Windfarm (Scotland) Limited 2017 £m	Walney (UK) Offshore Windfarms Limited 2017 £m	Other 2017 £m	Total 2017 £m
Revenue	1,144.9	114.3	64.9	64.5	89.4	123.5	15.0	1,616.5
Depreciation and amortisation	(165.3)	(19.4)	(0.2)	(15.1)	(28.3)	(52.9)	(5.9)	(287.1)
Other operating costs	(420.1)	(58.2)	(22.9)	(18.6)	(20.6)	(65.2)	(10.9)	(616.5)
Operating profit	559.5	36.7	41.8	30.8	40.5	5.4	(1.8)	712.9
Interest expense	(212.5)	0.1	(11.4)	(18.2)	(22.9)	(2.1)	–	(267.0)
Profit before tax	347.0	36.8	30.4	12.6	17.6	3.4	(1.8)	445.9
Corporation tax	(7.7)	(6.6)	(7.3)	(2.3)	–	(0.3)	(0.2)	(24.4)
Profit after tax	339.3	30.2	23.1	10.3	17.6	3.1	(2.0)	421.5
Recognised in other comprehensive income	278.8	30.2	23.1	10.3	17.6	3.1	(2.0)	361.1
Actuarial gain on retirement benefit schemes	(64.9)							(64.9)
Taxation	10.3							10.3
Cash flow hedges	(6.6)				(6.4)		0.9	(12.1)
Taxation	0.7				1.2		(0.1)	1.8
	(60.5)	–	–	–	(5.2)	–	0.8	(64.9)
<i>SSE share of profit (based on % equity)</i>	151.2	14.8	12.1	5.0	4.6	0.7	(1.0)	187.4
Dividends paid to shareholders	200.0	46.0	21.9	–	21.7	71.8	–	361.4
Non-current assets	6,967.5	152.2	300.0	282.6	647.0	775.3	561.0	9,685.6
Current assets	162.6	27.7	15.5	14.6	30.7	15.9	34	301.0
Cash and cash equivalents	3.2	30.7	17.7	22.1	24.2	11.2	2.6	111.7
Current liabilities	(303.5)	(14.8)	(40.7)	(15.3)	(58.5)	(20.8)	(42.1)	(495.7)
Non-current liabilities	(5,484.1)	(35.0)	(180.5)	(291.7)	(593.3)	(81.6)	(233.6)	(6,899.8)
Net assets	1,345.7	160.8	112.0	12.3	50.1	700.0	321.9	2,702.8
Group equity interest	33.3%	50%	50%	50%	50.1%	25.1%		
Net assets	1,345.7	160.8	112.0	12.3	50.1	700.0	321.9	2,702.8
Group's share of ownership interest	448.5	80.4	56.0	6.2	25.1	175.7	56.3	848.2
Other adjustments	–	(18.3)	5.5	2.3	122.7	14.6	10.8	137.6
Carrying value of group's equity interest	448.5	62.1	61.5	8.5	147.8	190.3	67.1	985.8

In addition, at 31 March 2018, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £109.1m (2017: £177.8m), Multifuel Energy Limited £128.2m (2017: £144.0m), Marchwood Power Limited £79.8m (2017: £90.3m) and Clyde Windfarm (Scotland) Ltd £357.5m (2017: £343.2m). This represents 79.5% (2017: 96%) of the loans provided to equity-accounted joint ventures and associates.

A5. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

The following transactions took place during the year between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	2018 Sale of goods and services £m	2018 Purchase of goods and services £m	2018 Amounts owed from £m	2018 Amounts owed to £m	2017 Sale of goods and services £m	2017 Purchase of goods and services £m	2017 Amounts owed from £m	2017 Amounts owed to £m
Joint ventures:								
Seabank Power Ltd	14.4	(155.0)	0.1	16.2	11.0	(134.0)	0.1	17.0
Marchwood Power Ltd	8.5	(132.3)	0.2	10.6	16.8	(144.5)	0.5	12.6
Scotia Gas Networks Ltd	41.4	(144.8)	0.6	14.2	45.5	(158.0)	0.9	0.9
Clyde Windfarm (Scotland) Ltd	4.8	(129.3)	6.5	37.7	5.7	(0.1)	–	11.1
Other Joint Ventures	23.3	(186.2)	17.1	52.3	10.4	–	2.3	–
Associates	–	(34.7)	4.5	–	1.4	(53.4)	3.6	3.9

The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to joint ventures and associates are shown in Note 16.

A6. Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk Committees in the Wholesale and Retail divisions, both of which report directly to the Executive Committee to support the Group's risk management responsibilities by reviewing the strategic, market, credit operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation, energy supply and treasury operations. The Risk Committees of Wholesale and Retail are designed to ensure strict business separation requirements are maintained.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk Committees in Wholesale and Retail.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.1. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's Networks businesses is performed in accordance with industry standards as set out by the Regulator and is financially controlled by the individual business units. The Group's greatest credit risks lie with the operations of the Energy Supply business, the Wholesale procurement activities conducted by Energy Portfolio Management ('EPM') under a trust arrangement and the activities carried out by the Group's Treasury function. In all cases, specific credit risk controls that match the risk profile of those activities are applied. Exposure to credit risk in the retail supply of electricity and gas to end user customers arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

- holds an investment grade credit rating; or
- can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or
- can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
- can be allocated a non-standard credit limit approved by the relevant Risk or Treasury Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. As part of its normal activities, EPM transacts significant volumes of commodity derivative products through cleared exchanges to mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2018, EPM had pledged £222.0m (2017: £178.0m) of cash collateral and letters of credit and had received £41.0m (2017: £66.0m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Tax and Treasury Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

A6. Financial risk management continued

A6.2. Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2018 £m	2017 £m
Networks		
Electricity Distribution	61.7	59.5
Electricity Transmission	1.5	27.2
	63.2	86.7
Retail		
SSE Energy Services – Energy Supply	325.9	327.6
SSE Energy Services – Energy-related Services	7.3	6.9
Business Energy	171.8	129.6
Airtricity	122.2	79.9
Enterprise	91.4	129.6
	718.6	673.6
Wholesale		
Electricity Generation	68.1	70.7
EPM	1,829.5	1,746.9
Gas Storage	1.1	1.0
Gas Production	2.5	0.3
	1,901.2	1,818.9
Corporate Unallocated	15.8	19.4
Total	2,698.8	2,598.6

The Retail segment accounts for 26.6% (2017: 25.9%) of the Group's trade receivables. Trade receivables associated with the Group's 7.6 million electricity and gas customers are recorded in this segment. The Group also has significant receivables associated with its Wholesale activities which are generally settled within two to four weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual retail customers totalling >10% of trade receivables. The biggest customer balance, due from a wholesale customer (also a wholesale supplier), is 10% (2017: 9%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2018 £m	2017 £m
Not past due	2,439.6	2,374.6
Past due but not individually impaired:		
0 – 30 days	153.8	133.8
31 – 90 days	77.2	49.4
Over 90 days	151.8	160.8
	2,822.4	2,718.6
Less: allowance for impairment	(123.6)	(120.0)
Net Trade receivables	2,698.8	2,598.6

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate. Those debts which are neither past due nor impaired are considered to be good and are expected to be recoverable.

The Group has other receivables which are financial assets totalling £5.0m (2017: £16.6m).

The movement in the allowance for impairment of trade receivables was:

	2018 £m	2017 £m
Balance at 1 April	120.0	147.5
Increase in allowance for impairment	55.0	21.7
Impairment losses recognised	(51.4)	(49.2)
Balance at 31 March	123.6	120.0

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade receivables which will not be paid by customers after the balance sheet date. This amount is calculated by reference to the age, status and risk of each class of receivable.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management *continued*

A6.3. Liquidity risk and going concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can be exposed to significant movements in its liquidity position due to changes in commodity prices, working capital requirements, the impact of the seasonal nature of the business and phasing of its capital investment and recycling programmes.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Tax and Treasury Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses cash flow forecasts to monitor its ongoing borrowing requirements. Typically, the Group will fund any short term borrowing positions by issuing commercial paper or borrowing from committed and uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the Group's borrowings are disclosed at Note 21. In addition to the borrowing facilities listed at Note 21.3, the Group has £150m of uncommitted bank lines and a £15m overdraft facility.

The refinancing requirement in the 18/19 financial year is £625.0m being the £500.0m 5% Eurobond maturing on 1 October 2018 and £125.0m 3.52% EMTN loan maturing on 18 October 2018. The view of the Directors that the Group's 105% funding policy is currently met out to March 2019 while refinancing the maturing debt will see the 105% test met out to September 2020.

Given the committed bank facilities of £1.5bn maintained by the Group and the current commercial paper market conditions, the Directors have concluded that the Group has sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have also taken into account the successful issuance of £7.0bn of medium to long term debt and Hybrid equity since February 2012, and the Group's credit rating. The statement of going concern is included in the Audit Committee Report on page 112.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the Group's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2018, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £75.1m (2017: £105.2m).

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

A6. Financial risk management continued

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

	2018 Carrying Value £m	2018 Contractual Cash Flows £m	2018 0-12 months £m	2018 1-2 years £m	2018 2-5 years £m	2018 > 5 years £m	2017 Carrying Value £m	2017 Contractual Cash Flows £m	2017 0-12 months £m	2017 1-2 years £m	2017 2-5 years £m	2017 > 5 years £m
Liquidity Risk												
Financial Liabilities												
Loans and Borrowings												
Loans – floating	757.7	(805.9)	(9.8)	(117.6)	(465.0)	(213.5)	556.2	(576.9)	(111.7)	(4.8)	(460.4)	–
Loans – fixed	1,777.3	(2,258.8)	(186.4)	(121.3)	(559.9)	(1,391.2)	1,783.7	(2,332.0)	(72.5)	(186.5)	(322.3)	(1,750.7)
Unsecured bonds – fixed	5,787.1	(7,698.0)	(731.8)	(206.6)	(2,798.4)	(3,961.2)	5,208.2	(7,674.8)	(220.9)	(726.5)	(1,821.1)	(4,906.3)
Fair value adjustment	37.3	–	–	–	–	–	257.4	–	–	–	–	–
	8,359.4	(10,762.7)	(928.0)	(445.5)	(3,823.3)	(5,565.9)	7,805.5	(10,583.7)	(405.1)	(917.8)	(2,603.8)	(6,657.0)
Finance lease obligations	251.1	(383.8)	(53.3)	(53.0)	(151.1)	(126.4)	276.9	(439.1)	(55.5)	(53.3)	(153.0)	(177.3)
	8,610.5	(11,146.5)	(981.3)	(498.5)	(3,974.4)	(5,692.3)	8,082.4	(11,022.8)	(460.6)	(971.1)	(2,756.8)	(6,834.3)
Derivative Financial Liabilities												
Operating derivatives designated at fair value	1,338.1	(7,751.9)	(6,976.9)	(752.2)	(22.8)	–	1,443.1	250.3	820.6	(509.9)	(60.4)	–
Interest rate swaps used for hedging	168.3	(168.3)	(61.5)	(34.4)	(70.7)	(1.7)	40.9	(40.9)	(17.4)	(11.0)	(9.2)	(3.3)
Interest rate swaps designated at fair value	311.7	(311.7)	(19.0)	(17.3)	(49.7)	(225.7)	362.6	(362.6)	(22.2)	(21.1)	(58.6)	(260.7)
Forward exchange contracts held for hedging	0.9	(42.7)	(42.7)	–	–	–	9.8	(538.6)	(538.6)	–	–	–
Forward exchange contracts designated at fair value	1.0	(109.6)	(108.3)	(1.3)	–	–	–	–	–	–	–	–
	1,820.0	(8,384.2)	(7,208.4)	(805.2)	(143.2)	(227.4)	1,856.4	(691.8)	242.4	(542.0)	(128.2)	(264.0)
Other financial liabilities												
Trade payables	2,562.6	(2,562.6)	(2,562.6)	–	–	–	2,606.7	(2,606.7)	(2,606.7)	–	–	–
	2,562.6	(2,562.6)	(2,562.6)	–	–	–	2,606.7	(2,606.7)	(2,606.7)	–	–	–
Total	12,993.1	(22,093.3)	(10,752.3)	(1,303.7)	(4,117.6)	(5,919.7)	12,545.5	(14,321.3)	(2,824.9)	(1,513.1)	(2,885.0)	(7,098.3)
Derivative Financial Assets												
Financing derivatives	(310.8)	151.4	(47.2)	59.9	126.5	12.2	(518.0)	86.2	(63.0)	(46.8)	134.5	61.5
Operating derivatives designated at fair value	(1,085.7)	6,532.1	6,153.2	377.2	1.7	–	(1,279.8)	(1,487.5)	(1,027.9)	(410.3)	(49.3)	–
	(1,396.5)	6,683.5	6,106.0	437.1	128.2	12.2	(1,797.8)	(1,401.3)	(1,090.9)	(457.1)	85.2	61.5
Net total (iii)	11,596.6	(15,409.8)	(4,646.3)	(866.6)	(3,989.4)	(5,907.5)	10,747.7	(15,722.6)	(3,915.8)	(1,970.2)	(2,799.8)	(7,036.8)

(iii) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures'.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.4. Commodity risk

The Group's Energy Portfolio Management ('EPM') business manages the Group's exposure to energy commodity price movements and requirement for the delivery of its physical commodity needs as part of its normal course of business. The risk management activity carried out by EPM arises from the Group's requirement to source gas, electricity or other commodities such as renewable obligation certificates for SSE Energy Services – Energy Supply, Business Energy and Airtricity, and to procure fuel and other commodities and provide a route-to-market for Electricity Generation.

The Group's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of Value at Risk (VaR) models. The exposure is subject to financial limits established by the Board and managed by reference to guidance agreed by the Risk Committees of Retail and Wholesale. Exposures are reported to the Committees on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the Group manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the Group's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IAS 39 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IAS 39 will be accounted for as 'own use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall Group VaRs associated with commodity risk will be monitored for internal risk management purposes and is outside the scope of IAS 39.

In EPM, the economic volatility that the Group is exposed to related to this risk is managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and carbon allowances, the arm's length arrangements with the Group's gas production business and through flexibility from the Group's fleet of generation assets including assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and contracts with the gas storage business.

Short-term exposures will arise from the requirement to match volumes of procured gas and electricity with demand for gas and electricity by Energy Supply customers. In addition, exposures can arise from matching fuel and other commodity procurement with demand for these commodities arising from the Group's Generation assets. Both can vary from expectations and result in a requirement to close the contracted positions at unfavourable prices. Longer-term exposures are managed by EPM through longer term contracts (including forwards, futures contracts and other financial instruments). These, in turn, are used to reduce short-term market exposures.

As noted, certain commodity contracts are entered into primarily for own use purposes to supply to customers or to provide fuel to power stations. However, as noted, a number of these contracts do not qualify for own use treatment under IAS 39 and are subject to fair value measurement through the income statement. In addition to this, the Group enters into certain contracts to manage commodity price and volume risk. These are also subject to fair value measurement through the income statement. Finally, other physical contracts can be treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with such items are explained in the Accompanying Information section A1.

The consequential commodity risk which derives from these activities is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Group's forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Board and monitored and managed by the Risk Committees of Retail and Wholesale. The Group's exposure to Commodity risk is subsequently reported to and monitored by the relevant Risk Committees and to the Executive Committee by exception.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IAS 39 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

A6. Financial risk management continued

A6.4. Commodity risk continued

	2018		2017	
	Base Price (i)	Reasonably possible increase/decrease in variable	Base Price (i)	Reasonably possible increase/decrease in variable
Commodity prices				
UK gas (p/therm)	45	+/-11	43	+/-11
UK power (£/MWh)	45	+/-11	40	+/-10
UK coal (US\$/tonne)	74	+/-12	65	+/-10
UK emissions (£/tonne)	13	+/-5	5	+/-2
UK oil (US\$/bbl)	61	+/-10	54	+/-9

(i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2018 Impact on profit and equity (£m)	2017 Impact on profit and equity (£m)
Incremental profit/(loss)		
Commodity prices combined – increase	(333.8)	(239.0)
Commodity prices combined – decrease	333.8	239.0

The sensitivity analysis provided is hypothetical and is based on the Group's commodity contracts under IAS 39. This is analysis only and should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced. It should also be noted that these sensitivities impacts provided are indicative only and are based on calculations which do not consider all interrelationships, consequences and effects of such a change in those prices.

A6.5. Currency risk

The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Tax and Treasury Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2018 £m	2017 £m
Forward foreign exchange contracts	2,581.5	2,580.2

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.5. Currency risk continued

The Group's exposure to foreign currency risk was as follows:

	2018							2017						
	¥m	DKK (million)	SEK (million)	€m	\$m	NOK (million)	CHF (million)	¥m	DKK (million)	SEK (million)	€m	\$m	NOK (million)	CHF (million)
Loans and borrowings	15,000.0	–	–	2,975.0	1,974.0	–	–	15,000.0	–	–	2,375.3	1,994.0	–	–
Purchase and commodity contract commitments	–	25.3	80.7	179.7	(869.1)	5.9	–	–	390.1	360.2	540.2	(843.2)	–	41.8
Gross exposure	15,000.0	25.3	80.7	3,154.7	1,104.9	5.9	–	15,000.0	390.1	360.2	2,915.5	1,150.8	–	41.8
Forward exchange/ swap contracts	15,000.0	25.3	80.7	1,899.0	1,126.4	5.9	–	15,000.0	390.1	360.2	1,700.3	1,144.0	–	41.8
Net exposure (in currency)	–	–	–	1,255.7	(21.5)	–	–	–	–	–	1,215.2	6.8	–	–
Net exposure (in £m)	–	–	–	1,102.8	(15.3)	–	–	–	–	–	1,036.5	5.4	–	–

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2018 £m	At 31 March 2017 £m	At 31 March 2018 £m	At 31 March 2017 £m
US Dollars	–	–	1.4	(0.5)
Euro	108.7	87.1	(9.4)	6.2
DKK	–	–	–	–
¥	–	–	–	–
SEK	–	–	–	–
NOK	–	–	–	–
CHF	–	–	–	–
	108.7	87.1	(8.0)	5.7

The impact of a decrease in rates would be an identical reduction in the annual charge.

A6.6 Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise cash advances from the European Investment Bank (EIB).

A6. Financial risk management continued

A6.6. Interest rate risk continued

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2018 Carrying Amount £m	2017 Carrying Amount £m
Interest bearing/earning assets and liabilities:		
– fixed	(8,269.1)	(7,529.7)
– floating	(287.3)	942.6
	(8,556.4)	(6,587.1)
Represented by:		
Cash and cash equivalents	232.2	1,427.0
Derivative financial (liabilities)/assets	(178.1)	68.3
Loans and borrowings	(8,359.4)	(7,805.5)
Finance lease obligations	(251.1)	(276.9)
	(8,556.4)	(6,587.1)

Following from this, the table below represents the expected impact of a change of 100 basis points in short term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2018 £m	2017 £m
Income statement	4.4	4.9
	4.4	4.9

The impact of a decrease in rates would be an identical reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the Group's covered position.

ACCOMPANYING INFORMATION CONTINUED

A7. Fair value of financial instruments

A7.1. Fair value of financial instruments within the Group

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2018 Amortised Cost or Other (i) £m	2018 Classified as trading (ii) £m	2018 Total Carrying Value £m	2018 Fair Value £m	2017 Amortised Cost or Other (i) £m	2017 Classified as trading (ii) £m	2017 Total Carrying Value £m	2017 Fair Value £m
Financial Assets								
Current								
Trade receivables	2,698.8	–	2,698.8	2,698.8	2,598.6	–	2,598.6	2,598.6
Other receivables	5.0	–	5.0	5.0	16.6	–	16.6	16.6
Cash collateral and other short term loans	75.1	–	75.1	75.1	105.2	–	105.2	105.2
Cash and cash equivalents	232.2	–	232.2	232.2	1,427.0	–	1,427.0	1,427.0
Derivative financial assets	–	1,060.1	1,060.1	1,060.1	–	1,269.5	1,269.5	1,269.5
	3,011.1	1,060.1	4,071.2	4,071.2	4,147.4	1,269.5	5,416.9	5,416.9
Non-current								
Unquoted equity investments	4.8	–	4.8	4.8	9.6	–	9.6	9.6
Loans to associates and jointly controlled entities	781.0	–	781.0	781.0	788.4	–	788.4	788.4
Derivative financial assets	–	336.4	336.4	336.4	–	528.3	528.3	528.3
	785.8	336.4	1,122.2	1,122.2	798.0	528.3	1,326.3	1,326.3
	3,796.9	1,396.5	5,193.4	5,193.4	4,945.4	1,797.8	6,743.2	6,743.2
Financial Liabilities								
Current								
Trade payables	(2,562.6)	–	(2,562.6)	(2,562.6)	(2,606.7)	–	(2,606.7)	(2,606.7)
Loans and Borrowings (iii)	(626.3)	–	(626.3)	(662.8)	(118.8)	–	(118.8)	(122.3)
Finance lease liabilities	(24.0)	–	(24.0)	(24.0)	(23.6)	–	(23.6)	(23.6)
Derivative financial liabilities	–	(1,253.1)	(1,253.1)	(1,253.1)	–	(1,153.2)	(1,153.2)	(1,153.2)
	(3,212.9)	(1,253.1)	(4,466.0)	(4,502.5)	(2,749.1)	(1,153.2)	(3,902.3)	(3,905.8)
Non-current								
Loans and Borrowings	(7,695.8)	(37.3)	(7,733.1)	(8,776.5)	(7,429.3)	(257.4)	(7,686.7)	(8,876.5)
Finance lease liabilities	(227.1)	–	(227.1)	(227.1)	(253.3)	–	(253.3)	(253.3)
Derivative financial liabilities	–	(566.9)	(566.9)	(566.9)	–	(703.2)	(703.2)	(703.2)
	(7,922.9)	(604.2)	(8,527.1)	(9,570.5)	(7,682.6)	(960.6)	(8,643.2)	(9,833.0)
	(11,135.8)	(1,857.3)	(12,993.1)	(14,073.0)	(10,431.7)	(2,113.8)	(12,545.5)	(13,738.8)
Net financial liabilities	(7,338.9)	(460.8)	(7,799.7)	(8,879.6)	(5,486.3)	(316.0)	(5,802.3)	(6,995.6)

(i) Recorded at amortised cost or loans and receivables.

(ii) IAS 39 financial instruments.

(iii) Includes non-recourse borrowings.

A7.1.1 Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are loans and receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and foreign currency denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not financial instruments.

A7. Fair Value of financial instruments continued

A7.2. Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Energy derivatives	246.3	839.4	–	1,085.7
Interest rate derivatives	–	301.9	–	301.9
Foreign exchange derivatives	–	8.9	–	8.9
	246.3	1,150.2	–	1,396.5
Financial Liabilities				
Energy derivatives	(249.7)	(1,088.4)	–	(1,338.1)
Interest rate derivatives	–	(480.0)	–	(480.0)
Foreign exchange derivatives	–	(1.9)	–	(1.9)
Loans and borrowings	–	(37.3)	–	(37.3)
	(249.7)	(1,607.6)	–	(1,857.3)

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2018.

A8. Hedge accounting

A8.1. Cash flow hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IAS 39. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

	2018 Carrying amount	2018 Expected cash flows	2018 0-12 months	2018 1-2 years	2018 2-5 years	2018 > 5 years	2017 Carrying amount	2017 Expected cash flows	2017 0-12 months	2017 1-2 years	2017 2-5 years	2017 > 5 years
Cash flow hedges												
Interest rate swaps:												
Assets	2.4	2.4	0.3	0.3	0.8	1.0	1.8	1.8	0.2	0.2	0.5	0.9
Liabilities	–	–	–	–	–	–	(4.0)	(4.0)	(0.4)	(0.4)	(1.2)	(2.0)
	2.4	2.4	0.3	0.3	0.8	1.0	(2.2)	(2.2)	(0.2)	(0.2)	(0.7)	(1.1)
Forward exchange contracts:												
Assets	5.9	(176.8)	(145.7)	(22.9)	(8.2)	–	42.2	(474.0)	(321.2)	(122.1)	(30.7)	–
Liabilities	(0.9)	(42.7)	(42.7)	–	–	–	(9.8)	(538.6)	(538.6)	–	–	–
	5.0	(219.5)	(188.4)	(22.9)	(8.2)	–	32.4	(1,012.6)	(859.8)	(122.1)	(30.7)	–

A8.2. Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business and the thermal plants and wind farms in Ireland. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2018: £18.3m loss, 2017: £22.5m loss). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2018: £nil, 2017: £nil).

COMPANY BALANCE SHEET

AS AT 31 MARCH 2018

	Note	2018 £m	2017 £m
Assets			
Equity investments in joint ventures and associates	3	126.5	126.5
Loans to joint ventures and associates	3	315.5	439.0
Other investments	3	–	2.9
Investments in subsidiaries	4	2,873.7	2,817.9
Trade and other receivables	5	11,286.5	9,124.8
Derivative financial assets	11	217.5	287.7
Retirement benefit assets	10	572.1	525.4
Non-current assets		15,391.8	13,324.2
Trade and other receivables	5	4,189.2	4,364.8
Cash and cash equivalents	8	72.2	1,250.7
Derivative financial assets	11	84.3	194.8
Current assets held for sale		32.8	–
Current assets		4,378.5	5,810.3
Total assets		19,770.3	19,134.5
Liabilities			
Loans and other borrowings	8	626.3	118.8
Trade and other payables	6	8,393.0	7,271.4
Current tax liabilities	7	21.8	17.6
Derivative financial liabilities	11	81.1	48.3
Current liabilities		9,122.2	7,456.1
Loans and other borrowings	8	6,044.5	6,107.7
Deferred tax liabilities	7	141.0	132.2
Derivative financial liabilities	11	392.8	347.5
Non-current liabilities		6,578.3	6,587.4
Total liabilities		15,700.5	14,043.5
Net assets		4,069.8	5,091.0
Equity			
Share capital	9	511.5	507.8
Share premium		890.3	885.7
Capital redemption reserve		34.8	26.5
Hedge reserve		10.4	15.6
Retained earnings		1,453.1	1,445.7
Equity attributable to ordinary share holders of the parent		2,900.1	2,881.3
Hybrid equity	9	1,169.7	2,209.7
Total equity		4,069.8	5,091.0

These financial statements were approved by the Board of Directors on 24 May 2018 and signed on their behalf by

Gregor Alexander
Finance Director

Richard Gillingwater
Chairman

SSE plc Registered No: SC117119

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2017	507.8	885.7	26.5	15.6	1,445.7	2,881.3	2,209.7	5,091.0
Total comprehensive income for the year	—	—	—	(5.2)	1,067.7	1,062.5	98.5	1,161.0
Dividends to shareholders	—	—	—	—	(926.1)	(926.1)	—	(926.1)
Scrip dividend related share issue	12.0	(12.0)	—	—	331.6	331.6	—	331.6
Distributions to Hybrid equity holders	—	—	—	—	—	—	(98.5)	(98.5)
Redemption of Hybrid	—	—	—	—	(92.4)	(92.4)	(1,040.0)	(1,132.4)
Issue of shares	—	16.6	—	—	—	16.6	—	16.6
Share repurchase	(8.3)	—	8.3	—	(371.6)	(371.6)	—	(371.6)
Credit in respect of employee share awards	—	—	—	—	18.0	18.0	—	18.0
Investment in own shares	—	—	—	—	(19.8)	(19.8)	—	(19.8)
At 31 March 2018	511.5	890.3	34.8	10.4	1,453.1	2,900.1	1,169.7	4,069.8

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid Capital £m	Total £m
At 1 April 2016	503.8	880.4	22.0	14.2	901.0	2,321.4	2,209.7	4,531.1
Total comprehensive income for the year	—	—	—	1.4	1,344.4	1,345.8	119.3	1,465.1
Dividends to shareholders	—	—	—	—	(906.6)	(906.6)	—	(906.6)
Scrip dividend related share issue	7.9	(7.9)	—	—	237.9	237.9	—	237.9
Distributions to Hybrid equity holders	—	—	—	—	—	—	(119.3)	(119.3)
Issue of shares	0.6	13.2	—	—	—	13.8	—	13.8
Share repurchase	(4.5)	—	4.5	—	(131.5)	(131.5)	—	(131.5)
Credit in respect of employee share awards	—	—	—	—	13.1	13.1	—	13.1
Investment in own shares	—	—	—	—	(12.6)	(12.6)	—	(12.6)
At 31 March 2017	507.8	885.7	26.5	15.6	1,445.7	2,881.3	2,209.7	5,091.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Principal accounting policies

1.1 General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Company financial statements present information about the Company as a separate entity and not about the Group.

1.2 Basis of preparation

The financial statements have been prepared in accordance with FRS 101 (Reduced Disclosures) ('FRS 101') and its interpretations as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('adopted IFRS'). This represents a change in accounting standards adopted as the Company previously adopted IFRS, as a result of the change no transitional adjustments were identified.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

It has also taken advantage of the following disclosure exemptions available under FRS 101.

- A Cash flow statement and related notes;
- Related party disclosures;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosure:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures.

In the prior year the Company assessed that, on the basis of materiality, the disclosures required under IFRS 2 Share-based Payment should be removed. The Company has assessed that at 31 March 2018 these disclosures continue to be immaterial to the Company's financial statements.

Going concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Basis of measurement

The financial statements of the Company are prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets and assets of the Company pension scheme which are stated at their fair value, and liabilities of the Company pension scheme which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Company are presented in pounds sterling.

Critical accounting judgements and estimation uncertainty

In the process of applying the Company's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted in Note 4.1 of the consolidated financial statements, with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately.

Significant accounting policies

The significant accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments

In the Company, investments in subsidiaries are carried at cost less any impairment charges.

Interests in joint arrangements and associates

Associates are those investments over which the Company has significant influence but neither control nor joint control.

The Company's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Company's share of the revenue will be eliminated as it relates to its purchased share of the output from the arrangement.

The Company's joint ventures and associates are accounted for using the equity method of accounting where the joint venture and associate investments are carried at historical cost plus the Company's share of post-acquisition results, less any impairment in value. The Company recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Applicable Group accounting policies

The following significant accounting policies are consistent with those applied for the Group consolidated financial statements:

- Equity and equity-related compensation benefits (Supplementary information A1.2, page 206)
- Defined benefit pension scheme (Supplementary information A1.2, page 206)
- Taxation (Supplementary information A1.2, page 201)
- Financial instruments (Supplementary information A1 and A6, pages 206 and 217)

2. Supplementary financial information

2.1 Result for the year

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £1,138.0m (2017: £1,144.3m).

2.2 Auditor remuneration

The amounts paid to the Company's auditor in respect of the audit of these financial statements was £0.3m (2017: £0.3m).

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

2.3 Employee numbers

The average number of people employed by the Company (including Executive Directors) during the year was 3 (2017: 2).

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

2.4 Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 120 to 137. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

3. Investments

3.1 Associates and joint ventures

	2018			2017		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
Share of net assets/cost						
At 1 April	126.5	439.0	565.5	190.0	538.9	728.9
Increase in shareholder loans	–	77.0	77.0	–	155.1	155.1
Repayment of shareholder loans	–	(86.6)	(86.6)	–	(14.3)	(14.3)
Disposal (i)	–	(11.6)	(11.6)	(63.5)	(90.3)	(153.8)
Transfer of loans to subsidiary	–	(69.5)	(69.5)	–	(150.4)	(150.4)
Transfer to Held for Sale	–	(32.8)	(32.8)	–	–	–
At 31 March	126.5	315.5	442.0	126.5	439.0	565.5

(i) In September 2017 the Group disposed of a 5% equity stake in Clyde Windfarm (Scotland) Limited to the existing joint venture partners, which included a partial disposal of the loan due to the Company.

In the prior year the Group completed the disposal of a 16.7% equity stake in Scotia Gas Networks (SGN) to wholly owned subsidiaries of the Abu Dhabi Investment Authority (ADIA). After transaction costs and adjustments, cash consideration received was £615.1m and an exceptional gain on sale of £462.9m was recognised on disposal. Following the divestment, the Group will retain a 33.3% equity stake in SGN.

3.2 Other investments

	2018 £m (i)	2017 £m (i)
At 1 April	2.9	6.8
Disposals in the year	(2.9)	(3.9)
At 31 March	–	2.9

(i) Other investments consist of Faroe Petroleum, which was fully disposed in the year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

4. Subsidiary undertakings

Details of the Company's subsidiary undertakings are disclosed in the Accompanying Information section (A3) on page 210.

Investment in subsidiaries

	2018 £m	2017 £m
At 1 April	2,817.9	2,728.8
Increase in existing investments (i)	55.8	89.1
At 31 March	2,873.7	2,817.9

(i) The increase in existing investments held by the Company relates to the capitalisation of loan stocks held by the Company in SSE Home Services Limited (£39.5m); the write off of the investment in SSE Retail Limited (£5.4m); and the equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as an increase in the cost of investment in those subsidiaries as directed by IFRIC 11 (2018: £21.7m, 2017: £16.2m (both before tax)).

5. Trade and other receivables

All current and non-current trade and other receivable balances in the current and prior financial year represent amounts owed by subsidiary undertakings.

6. Trade and other payables

All current and non-current trade and other payable balances in the current and prior financial year represent amounts due to subsidiary undertakings.

7. Taxation

Current tax liabilities

	2018 £m	2017 £m
Corporation tax	21.8	17.6

Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting periods:

	Fair value gains/ (losses) on derivatives £m	Retirement benefit obligations £m	Other £m	Total £m
At 31 March 2016	(37.1)	1.8	(21.1)	(56.4)
Charge/(credit) to income statement	10.0	3.4	(4.4)	9.0
Charge/(credit) to equity	(2.1)	178.7	3.0	179.6
At 31 March 2017	(29.2)	183.9	(22.5)	132.2
Charge/(credit) to income statement	(7.1)	5.6	(4.6)	(6.1)
Charge/(credit) to equity	0.5	10.7	3.7	14.9
At 31 March 2018	(35.8)	200.2	(23.4)	141.0

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £m	2017 £m
Deferred tax liabilities	141.0	132.2
Deferred tax assets	–	–
Net deferred tax asset	141.0	132.2

The deferred tax assets disclosed include the deferred tax relating to the Company's pension scheme liabilities.

8. Loans and borrowings

	2018 £m	2017 £m
Current		
Other short-term loans	626.3	118.8
	626.3	118.8
Non-current		
Loans	6,044.5	6,107.7
	6,044.5	6,107.7
Total loans and borrowings	6,670.8	6,226.5
Cash and cash equivalents	(72.2)	(1,250.7)
Unadjusted Net Debt	6,598.6	4,975.8
Add/(less):		
Hybrid equity (Note 9)	1,169.7	2,209.7
Adjusted Net Debt and Hybrids	7,768.3	7,185.5

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of six months or less.

8.1 Borrowing facilities

In September 2017, SSE issued an inaugural Green Bond – an 8 year €600m Euro Bond with a coupon of 0.875% and an all in cost of 0.98%. The total Bond will be denominated in euros to be used as a net investment hedge against the Group's assets in the Republic of Ireland. In order to maintain the correct level of euro denominated debt against the Republic of Ireland assets, €400m of the 2% June 2020 Bond was swapped to Sterling prior to issuance of the bond which increased the all in cost of that portion of the €600m bond to 2.99%.

The Company has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling) and as at 31 March 2018 no commercial paper was outstanding (2017: £nil). The Company has £1.5bn (2017: £1.7bn) of committed credit facilities in place. During the year to 31 March 2018 SSE exercised the second, and last, one year extension option on the £1.3bn revolving credit facility meaning this will mature in July 2022. The £200m bilateral facility has a similar extension option, which was exercised in October 2017 meaning this will mature in November 2022. The £200m EIB facility that was signed in March 2017 was drawn in the year and became a 10 year term loan.

Included within loans and borrowings at 31 March 2018 is £1.0bn (March 2017: £1.0bn) of hybrid debt securities issued on 16 March 2017 with an issuer first call date on 16 September 2022. The dual tranche issuance comprised £300m with a coupon of 3.625% and \$900m with a coupon of 4.75%. The \$900m tranche was swapped to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches of 3.02% per annum. The proceeds of these instruments were used to replace SSE's hybrid equity instruments issued in 2012 (at an all-in rate of 5.6%) on 2 October 2017 (see Note 9). Due to the instruments having a fixed redemption date, they have been accounted for as debt and are included within loans and borrowings. This is in contrast to the previous hybrid issues which have had no fixed redemption date and were accounted for as equity.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

8. Loans and borrowings continued

8.1 Borrowing facilities continued

Analysis of borrowings

	2018 Weighted average interest rate	2018 Face value £m	2018 Fair value £m	2018 Carrying amount £m	2017 Weighted average interest rate	2017 Face value £m	2017 Fair value £m	2017 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	3.5%	126.6	153.7	126.6	1.8%	106.0	106.1	106.0
5.00% Eurobond repayable 1 October 2018	5.0%	500.0	509.2	499.7	–	–	–	–
US Private Placement 16 April 2017	–	–	–	–	3.2%	12.8	16.2	12.8
Total current		626.6	662.9	626.3	–	118.8	122.3	118.8
Non-current								
Bank Loans – non-amortising (i)	1.7%	507.7	514.0	507.7	2.1%	526.6	558.2	526.6
5.00% Eurobond repayable 1 October 2018	–	–	–	–	5.0%	500.0	530.0	499.2
US Private Placement 16 April 2019	3.7%	67.0	76.1	66.9	3.7%	67.0	86.4	66.9
US Private Placement 16 April 2022	4.3%	162.7	186.8	162.4	–	–	–	–
2.00% 600m Eurobond repayable 17 June 2020 (iii)	2.7%	545.5	567.4	543.8	2.0%	511.8	540.1	509.4
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	326.0	298.7	4.3%	300.0	339.2	298.2
2.375% €500m Eurobond repayable 10 February 2022 (iv)	2.4%	415.0	447.4	414.6	2.4%	415.0	453.8	414.5
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	352.4	298.8	–	–	–	–
Between two and five years		2,297.9	2,470.1	2,292.9	–	2,320.4	2,507.7	2,314.8
Bank Loans – non-amortising (i)	1.4%	100.0	100.6	100.0	–	–	–	–
US Private Placement 16 April 2022	–	–	–	–	4.3%	162.7	213.8	162.4
US Private Placement 28 April 2023	2.8%	35.0	35.7	34.3	2.8%	35.0	36.6	34.3
US Private Placement 6 September 2023	2.9%	120.0	121.6	117.6	2.9%	120.0	124.8	117.1
US Private Placement 16 April 2024	4.4%	204.1	234.0	203.8	4.4%	204.1	268.0	203.7
US Private Placement 8 June 2026	3.1%	64.0	65.9	62.7	3.1%	64.0	68.0	62.5
US Private Placement 6 September 2026	3.2%	247.1	244.7	241.8	3.2%	247.1	270.7	241.2
US Private Placement 6 September 2027	3.2%	35.0	36.1	34.3	3.2%	35.0	37.4	34.2
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	753.8	495.6	8.4%	500.0	800.9	495.1
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	516.6	346.7	6.3%	350.0	536.5	346.6
5.875% Eurobond repayable 22 September 2022	–	–	–	–	5.9%	300.0	368.9	298.5
1.75% €700m Eurobond repayable 8 September 2023 (iv)	1.8%	514.6	544.2	513.5	1.8%	514.6	544.7	513.2
0.875% €600m Eurobond repayable 8 September 2025	0.9%	527.0	516.8	522.8	–	–	–	–
4.75% \$900 NC5.5 Hybrid maturing 16 September 2077 (v)	4.8%	745.4	750.7	742.4	4.8%	730.9	734.0	727.9
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	307.2	298.8	3.6%	300.0	300.0	298.8
Over five years		3,742.2	4,227.9	3,714.3	–	3,563.4	4,304.3	3,535.5
Fair value adjustment (ii)				37.3		–	–	257.4
Total non-current		6,040.1	6,698.0	6,044.5	–	5,883.8	6,812.0	6,107.7
Total		6,666.7	7,360.9	6,670.8	–	6,002.6	6,934.3	6,226.5

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.

(ii) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.

(iii) The 2.00% €600m Eurobond maturing 17 June 2020 has been partly swapped to Sterling giving an effective interest rate of 2.67%.

(iv) The 2.375% €500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.

(v) The 1.75% €700m eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.

(vi) The 4.75% \$900m NC5.5 Hybrid maturing 16 September 2077 has been swapped to Euros (\$605m) and Sterling (\$295m) giving an effective interest rate of 2.25% and 3.29% respectively.

9. Equity

Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2017	1,015.6	507.8
Issue of shares (i)	24.1	12.0
Share repurchases (ii)	(16.7)	(8.3)
At 31 March 2018	1,023.0	511.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 63.9p per ordinary share (in relation to year ended 31 March 2017) and the interim dividend of 28.4p (in relation to the current year under the terms of the Company's scrip dividend scheme. This resulted in the issue of 23,497,675 and 546,613 new fully paid ordinary shares respectively (2017: 9,395,092 and 6,324,986). In addition, the Company issued 1.4m (2017: 1.2m) shares during the year under the savings-related share option schemes (of which 1.3m were settled by shares held in Treasury) for a consideration of £16.6m (2017: £13.8m).
- (ii) Under the share buyback programme announced on 11 November 2016, 16.7m shares were repurchased and cancelled in the year to 31 March 2018 for a total consideration of £245.5m (2017: 8.9m shares repurchased and cancelled for a total consideration of £131.5m). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve.

As part of the same share buyback programme the Group has purchased 9.2m shares (2017: nil) for total consideration of £126.1m (including stamp duty and commission) in the year to 31 March 2018 to be retained as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

In total, since the announcement of the share buyback scheme on 11 November 2016, the Group has purchased 34.8m shares for consideration of £503.1m (inclusive of stamp duty and commission).

During the year, on behalf of the Company, the employee share trust purchased 1.4m shares for a total consideration of £19.8m (2017: 0.8m shares, consideration of £12.6m). At 31 March 2018, the trust held 3.3m shares (2017: 2.9m) which had a market value of £41.8m (2017: £42.5m).

Capital redemption reserve

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

Hybrid equity

	2018 £m	2017 £m
USD 700m 5.625% perpetual subordinated capital securities	–	427.2
EUR 750m 5.625% perpetual subordinated capital securities	–	598.2
GBP 750m 3.875% perpetual subordinated capital securities	748.3	748.3
EUR 600m 2.375% perpetual subordinated capital securities	421.4	436.0
	1,169.7	2,209.7

On 2 October 2017, the Company redeemed the 12 September 2012 \$700m and €750m capital securities at their principal amount. The funding has been replaced by a debt-accounted £1.0bn instrument issued on 16 March 2017 (see Note 8).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

10. Retirement benefit obligations

Defined benefit scheme

The Company has a funded final salary pension scheme which provides defined benefits based on final pensionable pay. The scheme is subject to an independent valuation at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The scheme operated by the Company the Scottish Hydro Electric scheme.

Pension summary:

	Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension asset	
		2018 £m	2017 £m	2018 £m	2017 £m
Scottish Hydro Electric	Defined benefit	30.5	235.4	572.1	525.4
IFRIC 14 movement		–	262.7	–	–
Net actuarial gain and movement in IFRIC 14 liability		30.5	498.1	572.1	525.4

IFRIC 14

During the prior year the Scottish Hydro Electric pension scheme amended the rules of its scheme in order to be clear of the rights to a surplus upon final winding up of the scheme. This amendment presented a change in circumstance meaning the Company believes that it is no longer required to apply IFRIC 14 to the Scottish Hydro Electric pension scheme surplus or liability. This had the effect of no longer restricting the pension scheme assets from the prior financial year onwards. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2018 was equal to £572.1m (2017: net asset of £525.4m presented after an IFRIC 14 minimum funding requirement of £262.7m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric
Latest formal actuarial valuation	31 March 2015
Valuation carried out by	Hymans Robertson
Value of assets based on valuation	£1,916.0m
Value of liabilities based on valuation	£1,964.7m
Valuation method adopted	Projected Unit
Average salary increase	Inflation curve plus 1.0% pa
Average pension increase	RPI
Value of fund assets/accrued benefits	97.5%

10.1 Pension scheme assumptions

The scheme has been updated to 31 March 2018 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in the scheme were:

	At 31 March 2018	At 31 March 2017
Rate of increase in pensionable salaries	4.2%	4.3%
Rate of increase in pension payments	3.2%	3.3%
Discount rate	2.7%	2.7%
Inflation rate	3.2%	3.3%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2017 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

	At 31 March 2018 Male	At 31 March 2018 Female	At 31 March 2017 Male	At 31 March 2017 Female
Currently aged 65	23	24	23	24
Currently aged 45	25	27	25	28

10. Retirement benefit obligations continued

10.1 Pension scheme assumptions continued

The impact on the scheme's liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2018		At 31 March 2017	
	Increase/decrease in assumption	Effect on scheme liabilities	Increase/decrease in assumption	Effect on scheme liabilities
Pensionable salaries	0.1%	+/-0.2%	0.1%	+/- 0.2%
Pension payments	0.1%	+/-1.6%	0.1%	+/- 1.2%
Discount rate	0.1%	+/-2.1%	0.1%	+/- 2.2%
Longevity	1 year	+/-3.5%	1 year	+/- 4.5%

These assumptions are considered to have the most significant impact on the scheme valuations.

10.2 Valuation of pension scheme

	Quoted £m	Unquoted £m	Value at 31 March 2018 £m	Long-term rate of return expected at 31 March 2018 %	Quoted £m	Unquoted £m	Value at 31 March 2017 £m	Long-term rate of return expected at 31 March 2017 %
Equities	279.0	–	279.0	5.9	513.8	–	513.8	5.5
Government bonds	892.9	–	892.9	1.2	752.0	–	752.0	–
Corporate bonds	633.8	–	633.8	2.7	645.0	–	645.0	2.7
Insurance contracts	–	210.8	210.8	2.7	–	221.3	221.3	2.7
Other investments	20.1	–	20.1	2.6	118.5	–	118.5	3.4
Total fair value of plan assets	1,825.8	210.8	2,036.6		2,029.3	221.3	2,250.6	
Present value of defined benefit obligation			(1,464.5)				(1,725.2)	
Surplus in the scheme			572.1				525.4	
Deferred tax thereon			(200.2)				(183.9)	
Net pension asset			371.9				341.5	

Movements in the defined benefit asset obligations and assets during the year:

	2018			2017		
	Assets £m	Obligations (i) £m	Total £m	Assets £m	Obligations (i) £m	Total £m
At 1 April	2,250.6	(1,725.2)	525.4	1,880.9	(1,608.2)	272.7
Included in Income Statement						
Current service cost	–	(26.8)	(26.8)	–	(25.4)	(25.4)
Past service cost	–	(0.3)	(0.3)	–	(3.4)	(3.4)
Interest income/(cost)	56.5	(42.2)	14.3	65.9	(56.0)	9.9
	56.5	(69.3)	(12.8)	65.9	(84.8)	(18.9)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	33.5	33.5	–	174.7	174.7
Financial assumptions	–	25.1	25.1	–	(341.5)	(341.5)
Experience assumptions	–	(39.2)	(39.2)	–	5.6	5.6
Return on plan assets excluding interest income	11.1	–	11.1	396.6	–	396.6
	11.1	19.4	30.5	396.6	(161.2)	235.4
Other						
Contributions paid by the employer	29.0	–	29.0	36.2	–	36.2
Benefits Paid	(310.6)	310.6	–	(129.0)	129.0	–
	(281.6)	310.6	29.0	(92.8)	129.0	36.2
Balance at 31 March	2,036.6	(1,464.5)	572.1	2,250.6	(1,725.2)	525.4

(i) The retirement benefit obligations are stated before IFRIC 14 liabilities, application of this standard was amended within the prior year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

10. Retirement benefit obligations continued

10.3 Pension scheme contributions and costs

Charges/(credits) recognised:

	2018 £m	2017 £m
Current service cost (charged to operating profit)	27.1	28.8
	27.1	28.8
Charged/(credited) to finance costs:		
Interest from pension scheme assets	(56.5)	(65.9)
Interest on pension scheme liabilities	42.2	56.0
	(14.3)	(9.9)

The return on Pension Scheme assets is as follows:

	2018 £m	2017 £m
Return on Pension Scheme assets	67.6	462.5

Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation EFRB was £0.1m (2017: £5.4m increase). This is included in other provisions.

Further discussion of the pension scheme assets, liabilities, policies, risk and strategy can be found on page 193 of the Group consolidated financial statements.

11. Financial instruments

For financial reporting purposes, the Company has classified derivative financial instruments as financing derivatives. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The derivative financial assets and (liabilities) are represented as follows:

	2018 £m	2017 £m
Derivative Financial Assets		
Non-current	217.5	287.7
Current	84.3	194.8
	301.8	482.5
Derivative Liabilities		
Non-current	(392.8)	(347.5)
Current	(81.1)	(48.3)
Total derivative liabilities	(473.9)	(395.8)
Net (liability)/asset	(172.1)	86.7



Information on the Group's Financial risk management and the fair value of financial instruments is available at A6 and A7.

12. Commitments and contingencies

Guarantees, indemnities and other contingent liabilities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2018				2017
	SSE on behalf of Subsidiary £m	SSE on behalf of Joint Operations and Ventures £m	SSE on Behalf of Partnerships £m	Total £m	Total £m
Bank Borrowing	754.6	–	–	754.6	654.4
Performance of contracts	1,506.6	422.0	0.7	1,929.3	1,785.3
Purchase of Gas	–	–	–	–	10.0

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2018 £m	2017 £m
Bank borrowing	1,862.8	1,773.9

During the year, SSE plc provided a £300m guarantee in favour of SSE Generation Ltd and a £1.5bn guarantee in favour of SSE Energy Supply Ltd. Both guarantees are required to support a Moody's requirement to maintain the standalone credit rating of the SSE Subsidiaries. The guarantees are available on sse.com.

In the prior year to 31 March 2017, the Group had drawn down £50m from its European Investment Bank facility. SSE plc had entered into a guarantee with the European Investment Bank in relation to this facility to guarantee the obligations of Scottish Hydro Electric Transmission Plc. In relation to bank borrowings the guarantee amounts outlined include accrued interest

Unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to eight contracts in respect of performance of work and any liabilities arising. SSE Services Plc, a wholly owned subsidiary of the Company, has provided a guarantee to Group Trustee Independent Trustees in respect of Southern Electric Group of the Electricity Supply Pension Scheme in respect of funding required by the Scheme. SSE Contracting Limited, a wholly owned subsidiary, has provided a guarantee to Tay Street Lighting (Leeds) Ltd, Tay Valley Lighting (Newcastle & North Tayside) Ltd and Tay Valley Lighting (Stroke on Trent) Ltd in respect of provision and maintenance of public street lighting and illuminated traffic signage. SSE E&P (UK) Limited, a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the acquisition of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of a Sale and Purchase Agreement for the Minerva, Apollo and Mercury Fields. Scottish Hydro Electric Transmission Plc, a wholly owned subsidiary of the Company, has provided a guarantee to ABB Limited in connection with the use of HVDC Replica Control Panels for Caithness-Moray Project.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

13. Post balance sheet events

On 1 April 2018, the Group undertook a reorganisation of the existing combined domestic and business energy supply businesses to create a new GB domestic energy supply and services sub-group headed by SSE Energy Services Group Limited, in advance of the proposed demerger. Through this reorganisation, various customers, employees, businesses and individual assets or liabilities were transferred between subsidiaries of SSE plc. Initial consideration for the transfers has been set, with final transfer values to be agreed once completion adjustments finalised. Whilst there is no consolidated impact from this internal reorganisation, SSE plc expects to recognise within its individual financial statements an undistributable gain on sale between £700m and £900m.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC

1 Our opinion is unmodified

We have audited the financial statements of SSE plc ('the Company') for the year ended 31 March 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Balance sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in notes 1 and A1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders during the period of the Company's incorporation in 1998. The period of total uninterrupted engagement is for the 20 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017 in relation to the Group audit), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our approach
Carrying value of certain consolidated non-current assets Refer to page 112 (Audit Committee Report), pages 155 and 203 (accounting policy) and page 179 (financial disclosures). Risk direction: (unchanged)	Forecast-based estimate Certain consolidated non-current assets (tangible and intangible) being the Group's exploration and production interests, the Group's Great Island gas fired power station and the Glendoe hydro electric plant are significant and at risk of impairment due to a number of global and national factors reducing their value triggering an impairment assessment. These include ongoing low commodity prices, the unpredictability of reserves in relation to exploration and production assets, the uncertainty arising from implementation of a new wholesale electricity market in Ireland and additional unrecovered costs sustained in construction. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows	Our procedures included: <ul style="list-style-type: none"> – Assessing methodology: Assessing the principles of the cash flow model and agreeing certain of the underlying inputs (such as prices, gas and oil reserves, capacity payments and operating costs adopted in the estimate) to source documents; – Our sector experience: Using our sector experience and specialists, assessing and challenging the directors' judgement on the discount rate adopted and on the net present value arising from the models; – Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of non-current assets. Our results <ul style="list-style-type: none"> – We found the carrying values of the non-current assets to be acceptable (2017: acceptable).

	The risk	Our approach
<p>Accounting for estimated revenue recognition (£1.1bn; 2017: £0.8bn)</p> <p>Refer to page 112 (Audit Committee Report), pages 155 and 200 (accounting policy) and page 186 (financial disclosures).</p> <p>Risk direction: (unchanged)</p>	<p>Subjective estimate</p> <p>A portion of the revenue recognised on the Group's energy sales is based on estimates of the values of electricity and gas supplied to customers between the date of the last meter reading and the year end ('estimated revenues').</p> <p>The method of estimating such revenues is complex and judgemental and requires estimates and assumptions to:</p> <ol style="list-style-type: none"> 1. estimate the volumes of energy consumed by customers subsequent to the meter reading. The Group calculates the volumes of unbilled starting with the closing unbilled volume reflected within the financial statements in the prior year, and then seeking to reflect annual usage of gas or electricity by the Group's customers (as identified from the industry wide settlements system) making adjustments as necessary for amounts for which the Group may not be able to raise bills, and then deducting gas or electricity billed during the year to customers (as identified from the Group's billing system) to derive the estimate of unbilled income at the end of the year; and 2. assess the value to be ascribed to that volume given the range of tariffs. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Test of detail: We agreed the opening unbilled income debtor to last year's audit file, agreed the volume data for customer usage of energy for the year used in the calculations to the external settlements systems and agreed the volume data in relation to customer billings for the year to SSE's internal billing systems. We compared the prices applied to that volume with current actual internal billing trends and data and investigated any material differences identified; – Benchmarking assumptions: in order to assess the estimated revenue made by the Group, we compared this estimated volume with benchmarks, based entirely on externally derived settlements data for the period preceding the year end that the Group has developed over a number of years. As it has, as its basis, externally derived settlements data for the period when the unbilled income is most likely to have arisen, this is considered to be the most reliable method of benchmarking the annual calculation. We have analysed, sought and assessed explanations for variances from that; – Analytical procedures: We set expectations as to the likely level of total revenue (including unbilled revenue) and compared this with actual revenue (including unbilled revenue) obtaining explanations for any significant differences; – Assessing transparency: Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the estimated revenue. <p>Our results</p> <ul style="list-style-type: none"> – We found the level of estimated revenue to be acceptable (2017: acceptable).
<p>Group and parent pension obligation (Group: £3.9bn; 2017: £4.3bn; Parent: £1.5bn; 2017: £1.7bn)</p> <p>Refer to page 112 (Audit Committee Report), pages 156 and 206 (accounting policy) and page 193 (financial disclosures).</p> <p>Risk direction: (unchanged)</p>	<p>Subjective valuation</p> <p>Small changes in the assumptions and estimates used to value the Group's and parent's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of the Group's pension obligation. The valuation of this is inherently subjective.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Assessing valuer's credentials: We assessed the independence and competence of the Group's external actuaries – Benchmarking assumptions: We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, mortality and inflation rate by comparing against externally derived data. In order to assess the reasonableness of these assumptions, we performed a benchmarking exercise against other companies' assumptions; and – Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to these assumptions <p>Our results</p> <ul style="list-style-type: none"> – We found the estimate of the pension scheme obligation to be acceptable (2017: acceptable).

In our audit report for the year ended 31 March 2017 we included provision for GB retail receivables as a key audit matter. We continue to perform audit procedures in this area. However, we have assessed this year, reflecting the age of GB retail receivables and the provisioning applied, that a material misstatement is not likely and, as a result, we have not assessed this as a risk that is a key audit matter and, therefore, this is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £74m (2017: £75m), determined with reference to a benchmark of Group profit before taxation, before exceptional items and certain re-measurements (mainly fair value movements on derivatives) as disclosed on the face of the income statement, of which it represents 5% (2017: 5%). We consider Profit before tax before exceptional items and certain re-measurements to be the most appropriate benchmark because it excludes the non-recurring distorting impact of exceptional items such as reorganisation costs and impairment charges and of certain re-measurements and therefore produces a more stable benchmark than profit before tax. Materiality for the parent company financial statements as a whole was set at £70m (2017: £70m), determined with reference to a benchmark of company net assets, of which it represents 2% (2017: 1.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3m (201: £3m), in addition to any other identified misstatements that warranted reporting on qualitative grounds. This level was selected and agreed with the Audit Committee as, given the nature and scale of operations, adjustments under this level were not deemed to be of specific interest to them.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Of the Group's 147 (2017: 165) reporting components, audits for group reporting purposes were performed by the Group team at 113 (2017: 136) components in the UK and by 1 component team in the UK (2017: 3 components in the UK and Ireland). These represent all components that we considered to be individually financially significant. These audits accounted for the following percentages of the Group's results: 96% (2017: 97%) of Group revenue, 98% (2017: 99%) of Group profit before tax; and 94% (2017: 98%) of Group net assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed one (2017: three) component auditor in relation to the audit of the Group's most significant joint arrangement as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality for this component, which amounted to £30m, (2017: £25m) having regard to the mix of size and risk profile of the Group across the components.

Telephone calls were held with the component auditor (including with the partner of the component auditor) as part of the assessment of the audit risk and strategy. As part of the close out process further calls were held with component auditors and on these calls the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors. The Group team reviewed the audit file of the component auditor.

4 We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1.2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 112 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Group Principal Risks and Viability Statement that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Group Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Group Principal Risks and Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

- Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 140, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of utilities regulation recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

William Meredith (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
24 May 2018

CONSOLIDATED SEGMENTAL STATEMENT

Consolidated segmental statement audit opinion

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of SSE plc as at 31 March 2018 in accordance with the terms of agreement dated 12 February 2015. The CSS has been prepared by the Directors of SSE plc based on the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together the 'Licences') and the basis of preparation on pages 245 to 248.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 246 to 247 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £30m for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of SSE plc as at 31 March 2018 is prepared, in all material respects, in accordance with:

- (i) the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences; and
- (ii) the basis of preparation on pages 245 to 248.

Basis of accounting and restriction of distribution

Without modifying our opinion, we draw attention to pages 245 to 248 of the CSS, which describes the basis of preparation. The CSS is prepared in order for SSE plc and its Licensees to meet the Licence requirements rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 245 to 248. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting under UK GAAP or IFRS as relevant. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of SSE plc, in accordance with the agreement between us, to assist the Directors in reporting the CSS to the Regulator Ofgem. We permit this report to be disclosed on the Company's website to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and SSE plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

The maintenance and integrity of the SSE plc website is the responsibility of SSE plc; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that might have occurred to the CSS since it was initially presented on the website.

KPMG LLP
30 May 2018

SSE consolidated segmental statement for the year ended 31 March 2018

Year ending 31 March 2018	Unit	Electricity Generation		Aggregate Generation Business 2018	Electricity Supply		Gas Supply		Aggregate Supply Business 2018
		Conventional 2018	Renewable 2018		Domestic 2018	Non-domestic 2018	Domestic 2018	Non-domestic 2018	
Total revenue	£m	1,524.2	836.2	2,360.4	2,402.5	2,279.1	1,408.1	225.0	6,314.7
Revenue from sales of electricity and gas	£m	1,065.4	775.0	1,840.4	2,388.2	2,278.8	1,407.9	225.0	6,299.9
Other revenue	£m	458.8	61.2	520.0	14.3	0.3	0.2	0.0	14.8
Total operating costs	£m	1,402.1	223.9	1,626.0	2,257.8	2,209.8	1,254.9	231.0	5,953.5
Direct fuel costs	£m	697.6	0.0	697.6	867.5	972.1	633.3	135.5	2,608.4
Transportation costs	£m	64.6	87.1	151.7	597.8	586.2	334.1	53.6	1,571.7
Env. & social obligation costs	£m	224.7	0.0	224.7	424.9	535.6	18.3	0.0	978.8
Other direct costs	£m	254.1	(2.9)	251.2	24.1	53.3	17.8	28.9	124.1
Indirect costs	£m	161.1	139.7	300.8	343.5	62.6	251.4	13.0	670.5
EBITDA	£m	122.1	612.3	734.4	144.7	69.3	153.2	(6.0)	361.2
DA	£m	33.9	162.2	196.1	22.5	0.3	15.0	0.0	37.8
EBIT	£m	88.2	450.1	538.3	122.2	69.0	138.2	(6.0)	323.4
Volume	TWh, mTherms	20.9	7.9	28.8	14.8	20.1	1,208	294	
WACOF/E/G	£/MWh, p/th	44.10	0.00		58.75	48.39	52.4	46.0	
Customer numbers	'000s				3,913	395	2,591	69	6,968

Please refer to the notes below to gain a full understanding of how the CSS numbers have been prepared.

Basis of preparation and disclosure notes

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. On 8 November 2017, SSE announced its intention to dispose of its GB domestic supply and energy related services business in a demerger with nPower. Following this announcement, the presentation of financial information to the Board changed, resulting in a change of the operating segments. During the review of operating segments triggered by the Retail transaction, it was also assessed that the Energy Portfolio Management activity should also be presented as a standalone segment to reflect its contribution to the Group. The types of products and services from which each reportable segment derives its revenues are:

Business area	Reported segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England.
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England.
Retail	SSE Energy Services – Supply	The supply of electricity and gas to residential customers in GB.
	SSE Energy Services – Energy Related Services	The provision of energy related goods and services to residential customers in GB including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services.
	Business Energy	The supply of electricity and gas to business customers in GB.
	Airtricity	The supply of electricity, gas and energy related services to residential and business customers in the Republic of Ireland and Northern Ireland.
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.
Wholesale	Electricity Generation	The generation of power from renewable and thermal plant in the UK and Ireland.
	Energy Portfolio Management (EPM)	The optimisation of SSE's power and gas and other commodity requirements.
	Gas Storage	The operation of gas storage facilities in the UK.
	Gas Production	The production and processing of gas and oil from North Sea fields.

The Group's reportable operating segments for 'Retail' and 'Wholesale' are substantially aligned to the business segments reported in the Consolidated Segmental Statement (CSS). However, it should be recognised that there are differences between the two disclosures, primarily driven by the Licence requirements – these are described in the notes below and shown in the table reconciling the CSS to the financial statements.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED

Basis of preparation and disclosure notes continued

The financial information presented in the CSS is based on operating activities of a GB electricity generation business (part of the reported 'Electricity Generation' segment described above) and four GB energy supply businesses (part of the reported 'SSE Energy Services – Supply' and 'Business Energy' segments described above).

How the accounts are presented

The paragraphs that follow describe how SSE's generation, EPM and supply business interact with each other, defines the revenues, costs and profits of each business and describe in more detail the transfer pricing arrangements in place for the financial year ended 31 March 2018.

Summary

The Generation business sells power in respect of coal, gas and renewable generation and Renewable Obligation Certificates (ROCs) from wind and qualifying hydro to EPM. It also receives external income in respect of ancillary services and balancing market participation. It purchases its requirement for gas, coal, oil and carbon from EPM.

SSE Energy Services – Energy Supply sells electricity and gas to 6.5m domestic customers and Business Energy sells electricity and gas to 0.5m business customers in Great Britain. It procures power, gas, ROCs and LECs from EPM.

EPM acts as a trading intermediary for Generation and SSE's energy supply businesses. It acts as a route to market for Generation and as counterparty with the external market for the procurement of energy for SSE's energy supply businesses. Note – EPM does not form part of the CSS but its turnover and EBIT is included in the table on page 12 which shows the reconciliation to the SSE Financial Statements.

The forward hedging policies for Generation and SSE's energy supply businesses are determined by SSE's Risk and Trading Committees for the Wholesale and Retail divisions, whose responsibilities and roles are described on page 217 of SSE Financial Statements for the year ended March 2018.

Generation

Generation does not engage in the trading of energy; it receives its revenue selling power to EPM. Power is sold at arm's length at wholesale market prices prevailing at the time the generation output is committed in accordance with Generation hedging policies. Any difference or reconciliations are priced at the spot price on the day. Revenue includes the sale of ROCs generated from qualifying plant to EPM. Other revenues include ancillary services, capacity income, balancing market participation and other miscellaneous income. Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long term external purchase contracts and the impact of financial hedges. Transportation costs include Use of System charges and market participation costs. Environmental and social costs include carbon costs (EUETS and Carbon Price Floor). Other direct costs include PPA costs, site costs and management charges from EPM. Indirect costs include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (which are reported in the environmental and social obligations cost line in the CSS).

Generation as presented in the CSS includes revenue and operating profit for wholly owned thermal and renewable generation and also a proportion of turnover and operating profit in respect of Joint Ventures, Joint Operations and Associate generation companies¹. The principal Joint Ventures, Joint Operations and Associates included are Seabank Power Ltd, Marchwood Power Ltd, Multifuel Energy Ltd, Walney (UK) Offshore Windfarms Ltd and Greater Gabbard Offshore Winds Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The depreciation shown in the CSS is the underlying amount and excludes exceptional generation asset impairments made at March 2018 (see paragraph at end of the CSS on exceptional items and certain re-measurements). Generation volumes are the volume of power that can actually be sold in the wholesale market.

The Generation profitability statements bear the risks and rewards for plant performance and renewable generation output, changes in market 'spark' and 'dark' (the marginal profit for generating electricity by gas and coal), changes in the power price achieved for renewable generation, changes in government and EU policy particularly surrounding emissions and in respect of renewable generation and the impact of weather.

The Generation profit and loss account above is presented split between Conventional and Renewable generation. Conventional generation is considered to be any generation where fuel is consumed to produce electricity and includes gas, coal and biomass/waste fuelled generation. Renewable generation is considered to be where no fuel is consumed to produce electricity and includes wind, hydro and pump storage powered generation.

Energy supply

Revenues are the value of electricity and gas supplied to domestic and business customers in Great Britain during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end. Total sales volumes are based on national external settlements data. Revenue is expressed net of discounts, loyalty products and Warm Home Discount (WHD) and other social tariff costs. Retail volumes are expressed at customer meter point net of transmission and distribution losses. Other revenue includes other trading income.

The energy supply businesses do not engage in the trading of electricity and gas and procure all of their electricity and gas from EPM. The method by which EPM procures energy at an arm's length arrangement on behalf of SSE's energy supply businesses is governed by the forward hedging policy. The forward trades between SSE's energy supply businesses and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. Domestic WACOE (weighted average cost of electricity) also includes payments in respect of a legacy Power Purchase Agreement in place until 31 March 2018. Domestic WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas (Nexus). The WACOE and WACOG for non-domestic electricity and gas supply also consist of trades marked to wholesale prices when committed at the point of sale for fixed price customer contracts or when a customer instructs SSE to purchase energy in respect of flexi-priced contracts. This transfer pricing methodology reflects how SSE actually acquired its energy.

¹ The tolling arrangements that SSE has with its joint venture companies Seabank Power Ltd and Marchwood Power Ltd provide SSE with contractual entitlement to 100% of the output of the power stations. Accordingly, SSE has reported its rights to those volumes within its Generation statistics and has also, as mandated by Ofgem, included 50% of the JV revenue in the CSS.

Basis of preparation and disclosure notes continued

Energy supply continued

Transportation (network) costs include: electricity transmission and distribution use of system costs; gas transportation; the transportation cost element of RbD; and market participation costs. Environmental and social costs relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Levy Exempt Certificates, Feed In Tariff, Energy Company Obligation (ECO), charges under the capacity mechanism and CfD schemes and charges in relation to 'assistance for areas with high electricity distribution costs' (AAHEDC). The cost of the liabilities for ROCs, Feed in Tariff and AAHEDC are allocated between the domestic and non-domestic electricity segments based on reported volume at customer meter.

Other direct costs include: settlement costs, wider Smart Metering costs, management charges from EPM and commissions paid to Third Party Intermediaries and Internet Comparison Sites.

Indirect costs include: sales and marketing, customer service, bad debts, commercial costs, central costs – including information technology, property, corporate, telecoms costs, metering asset and meter reading costs and operational Smart Metering costs (net of revenues). Where costs cannot be directly allocated to a particular customer segment (domestic/non-domestic) or fuel (electricity/gas), they have been allocated using costing models based on activity, customer billing or customer numbers – whichever is the most appropriate. Depreciation charges relate to Smart Metering Systems and IT assets.

SSE's energy supply businesses' profit and loss account bear the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. In addition they are exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

EPM

As well as acting as an intermediary for Generation and SSE's energy supply businesses, EPM also conducts some additional activities including risk managed trading of energy related commodities in GB and Ireland. The EBIT for EPM for the financial year ended March 2018 was a profit of £46m.

Business functions

The business functions in SSE have already been described in this document. The column headed 'Not included in the CSS' principally relates to EPM.

Business function	Note	Generation	Supply	Not included in CSS
Operates and maintains generation assets		✓		
Responsible for scheduling decisions	1	P/L		F
Responsible for interactions with the Balancing Market	2	P/L		F
Responsible for determining hedging policy	3	✓	✓	
Responsible for implementing hedging policy/makes decisions to buy/sell energy	4	P/L	P/L	F
Interacts with wider market participants to buy/sell energy	5			✓
Holds unhedged positions (either short or long)		✓	✓	✓
Procures fuel for generation		P/L		F
Procures allowances for generation		P/L		F
Holds volume risk on positions sold (either internal or external)		✓	✓	
Matches own generation with own supply	6			✓
Forecasts total system demand	7	P/L	P/L	F
Forecasts wholesale price		P/L	P/L	F
Forecasts customer demand	8		P/L	F
Determines retail pricing and marketing strategies			✓	
Bears shape risk after initial hedge until market allows full hedge	9	P/L	P/L	F
Bears short term risk for variance between demand and forecast	10		✓	

Key:

- ✓ function and P&L impacting that area;
- P/L profit/losses of function recorded in that area;
- F function performed in that area.

Glossary and notes

- 1 'Scheduling decisions' means the decision to run individual generation units.
- 2 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 3 Hedging policy is the responsibility of the Supply Risk and Trading Committee and the Wholesale Risk and Trading Committee which are sub committees of the SSE Executive Committee.
- 4 SSE EPM implements the hedging policy determined by the Risk and Trading Committees on behalf of Generation and Energy Supply.
- 5 'Interacts with wider market participants to buy/sell energy' means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 6 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. The total electricity demand for Energy Supply (expressed at NBP) was 37.1TWh and the total Generation output was 22.5TWh (61%).
- 7 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 8 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 9 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 10 'Bears short term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED

Reconciliation of CSS to SSE Financial Statements 2017/18

There are some differences between SSE's financial statements and the CSS. There are items which are in the financial statements and not in the CSS, and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements. The table below shows the differences and reconciles the CSS to the adjusted revenue and adjusted earnings before interest and tax (EBIT) reported in the Segmental note in SSE's financial statements for the year ended March 2018 (see Note 5 of SSE's audited financial statements):

Reconciliation of CSS to SSE Financial Statements	Note	Revenue £m	EBIT £m
Retail Segment			
SSE Energy Services – Energy Supply		3,810.6	260.4
Business Energy		2,504.1	63.0
CSS Supply TOTAL		6,314.7	323.4
Metering income in SSE Financial Statement but not in CSS	1	40.0	0.0
Airtricity	2	1,036.8	33.0
SSE Energy Related Services – Energy Related Services	3	304.0	18.3
Enterprise	4	535.1	26.9
ESG	5	35.2	1.2
Total Retail Segment in SSE Financial Statement		8,265.8	402.8
Wholesale Segment			
CSS Generation TOTAL		2,360.4	538.3
CSS Non-GB Generation	6	311.4	40.6
JVs/Associate revenue in CSS	7	(254.1)	0.0
EPM	8	25,380.1	46.0
Gas Storage	9	317.6	(6.5)
Gas Production	10	252.0	34.0
Total Wholesale Segment in SSE Financial Statements		28,367.4	652.4

Notes

- Metering costs are reported net of revenues in the CSS but not in the financial statements;
- Airtricity sells gas and electricity to customers in the Republic of Ireland and Northern Ireland;
- SSE Energy Services – Energy Related Services consists of SSE's Metering, Home Services, Retail Telecoms and Energy Solutions businesses;
- Enterprise relates to the provision of services in competitive markets for industrial and commercial customers;
- ESG results are included within the Business Energy segment within the annual report but excluded from the CSS non-domestic reported figures;
- Non-GB Generation relates to SSE's Generation business in the Republic of Ireland and Northern Ireland;
- SSE applies equity accounting for its investments in JVs and Associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The Ofgem mandated basis of preparation of the CSS requires that the proportionate share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and Associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary;
- EPM optimises SSE's power, gas and other commodity requirements;
- Gas Storage relates to the operation of gas storage facilities in the UK;
- Gas Production relates to the production and processing of gas and oil from North Sea fields.

Exceptional items and certain re-measurement. SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, re-measurements arising from IAS 39 and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IAS 39. Therefore, exceptional items have been excluded from the CSS.

SHAREHOLDER INFORMATION

Shareholder enquiries

The Company's register of members is maintained by our appointed Registrar, Link Asset Services. Shareholders with queries relating to their shareholdings should contact Link directly:

Link Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0345 143 4005

Financial calendar

Publication of Annual Report	15 June 2018
AGM (Perth) and Trading Statement	19 July 2018
Ex-dividend date for final dividend	26 July 2018
Record date for final dividend	27 July 2018
Final date for Scrip elections	23 August 2018
Payment date	21 September 2018
Notification of Close Period by	30 September 2018
Results for six months to 30 September	14 November 2018

Website

SSE's website, sse.com, contains a wide range of information including a dedicated investors section where you can find further information about shareholder services including:

- share price information;
- dividend history and trading graphs;
- the Scrip Dividend Scheme;
- telephone and internet share dealing; and
- downloadable shareholder forms.

Digital news

SSE uses a dedicated news and views website (available at sse.com/newsandviews) and Twitter (www.twitter.com/sse) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

Dividends

The Company typically pays dividends twice yearly. Interim dividends are paid in March, and final dividends are paid in September once approved by shareholders at the AGM. SSE encourages its shareholders to have dividends paid directly into their bank/building society account, to ensure secure payment of funds on payment date whilst reducing the environmental impact through reduced print and paper use. Shareholders who elect to receive their dividend payment in this way will only receive an annual dividend confirmation at the end of each financial year. Any shareholder who requires a separate dividend confirmation for each dividend payment should contact Link Asset Services.

Manage your shares online/ eCommunications Programme

To manage your holding online, simply register through the Signal Portal, the online platform provided by Link Registrars sse-shares.com/welcome which allows shareholders to:

- view their shareholding;
- have dividends paid into their bank account;
- update personal details;
- sign up for electronic shareholder communication;
- buy and sell shares online using Link's share dealing service; and
- vote in advance of company general meetings.

If you have not used this service before, you will require your Investor Code (IVC) to register. You will find this on your share certificate or on recent items of communication.

SSE encourages its shareholders to elect for electronic communications. By joining our eCommunications Programme, shareholders can help us to reduce our impact on the environment and save paper by choosing to receive shareholder documents electronically. Shareholders are notified by email that documents such as the Annual Report or Notice of Annual General Meeting are available on our website.

Amalgamation of multiple share accounts

Many shareholders receive several copies of the Annual Report and dividend documentation who could merge their shareholdings. If you receive more than one copy of these documents you could help SSE reduce its impact on the environment and save paper by merging your accounts into one. Please contact Link Asset Services to amalgamate your accounts.

Keep us informed

Keep us informed of changes to your email address by visiting sse.com/investors/ecommsprogramme and follow the instructions under 'how to register or update your email address'.



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For further information about SSE,
please contact:

SSE plc

Corporate Affairs
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
UK
+44 (0)1738 456000
info@sse.com
Registered in Scotland No. 117119

sse.com

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