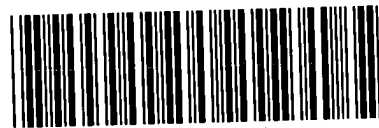


# FOR A BETTER WORLD **OF ENERGY**

SSE plc Annual Report 2019

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# SSE IS FOR A BETTER WORLD OF ENERGY

## About SSE

Formed in 1998, SSE is an energy company listed on the London Stock Exchange. It is engaged in the provision of energy and related services in the United Kingdom and Ireland, and the developing, operating and owning of energy and related infrastructure.

## About this report

This Annual Report includes a Strategic Report, Directors' Report and Financial Statements and is intended to set out the performance of SSE in the 2018/19 financial year and other material issues of interest to SSE's shareholders and other stakeholders. It is complemented by a Sustainability Report 2019, a Risk Report 2019 and other information on [sse.com](http://sse.com). The following act as a guide to the Report and other sources of information:

- online at [sse.com/annualreport2019](http://sse.com/annualreport2019)
- in other SSE publications
- within another section of this report

Our **strategy** is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

Page 11

Front cover image: Operations Supervisor Lesley Speedie at work on one of the 206 turbines at Clyde wind farm. Clyde, a 50% joint venture in southwest Scotland, has an installed capacity of 522MW and is a key part of SSE's renewables portfolio.

**Alistair Phillips-Davies**  
Chief Executive

Operating profit  
Adjusted APM

**£1,137.6m**

Reported

**£1,692.2m**

Earnings per share  
Adjusted APM

**67.1p**

Reported

**135.2p**

Economic contribution  
UK

**£8.9bn**

Ireland

**€689m**

Dividend

Recommended full-year dividend

**97.5p**

EBITDA

Adjusted APM

**£1,868.6m**

#### Operational highlight

SSE has brought together the development and operation of its renewable energy assets under a new management team in a business to be known as SSE Renewables.

## CREATING SSE RENEWABLES

Pages 5, 11, 48

#### APM Alternative Performance Measures

SSE assesses the performance of the Group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed "non-GAAP" measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented on pages 143 to 147. The alternative performance measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

## MANAGING THE YEAR'S KEY DEVELOPMENTS

Political uncertainty	Pages 10, 13, 71
Commodity risk	Pages 13, 36, 68-71, 92, 112
SSE Energy Services	Pages 4, 12, 60, 72, 88-92
Capacity market standstill	Pages 8, 15
A record year for safety	Pages 9, 16, 34, 113
Excellence in project delivery	Pages 18-21
£1bn gain on disposals	Pages 8, 12, 189

#### Strategic highlight

SSE has adopted four fundamental business goals that align with UN action on climate change and underpin the Group's vision to be a leading energy company in a low-carbon world.

## SETTING SUSTAINABLE GOALS FOR 2030

Page 24

## Strategic overview

# OUR VISION, PURPOSE AND STRATEGY

### STRATEGIC PILLAR #1

#### Focusing on the core



SSE's core, low-carbon businesses are the engine rooms of its strategic delivery. Earnings derived from *renewable sources of energy and regulated energy networks* account for the majority of Group operating profit, and it is these businesses that are best placed to seize the opportunities presented by decarbonisation and electrification.

Changes to SSE's business structure implemented from 1 April 2019 have created strong focus for individual business units and clear visibility of value. In particular, SSE is consolidating the development and operation of all its renewable energy assets under single management in a business to be known as SSE Renewables. This new model also gives greater focus to the specific requirements of SSE's Distribution and Transmission networks businesses, which are vital low-carbon enablers.

These low-carbon renewables and networks businesses are supported by thermal generation plant that provides vital flexibility complementing the variability of renewables output during the low-carbon transition, and retail operations that provide key energy services for customers and secure valuable routes to market for SSE's generation fleet.

#### Earnings composition (£m) in 2018/19

See page 4

### STRATEGIC PILLAR #2

#### Developing, operating, owning



At the very heart of SSE's strategy is a commitment to developing, operating and owning the assets that create lasting value and are vital to the low-carbon transition. It has world-class assets, a coveted pipeline of opportunities, and skills and sector experience in project development, procurement, construction management, operations, customer service and finance that enhance value for both shareholders and society.

An increased investment appetite for low-carbon electricity assets presents opportunities to form new financial partnerships and create value from successful development and operation of assets. This fits with a strategy of developing and operating, but not always wholly owning assets. Timely capital recycling will continue to be an important feature to realise value from development while retaining key stakes so SSE can add value from operations and retain options for future growth.

Growth could also come from areas beyond SSE's home markets in Great Britain and the island of Ireland, where new or adapted technologies might provide opportunities for growth subject to SSE's strict capital discipline.

#### Investment and capital expenditure 2018-19

# £1.42bn

See page 18



SSE's vision is to be a leading energy company in a low-carbon world. Its purpose is to provide the energy needed today while building a better world of energy for tomorrow. And its strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure in a sustainable way. This strategy, which is underpinned by a commitment to strong financial management, is built on four pillars.

#### STRATEGIC PILLAR #3

### Creating value



A strategy of developing, operating and owning creates value for shareholders. A dividend commitment built on world-class assets, growth options and the skills and experience SSE has in low-carbon technologies fairly remunerates shareholders for their continued investment. As was seen in 2018/19, successful transactions can also create substantial value to finance further investment for growth and discretionary share buybacks, or contribute to the management of net debt.

The same strategy also creates real, lasting value for society. SSE makes a significant contribution to the economies it operates in by paying the right amount of tax, at the right time, in the right place. SSE also makes significant economic contribution to the countries in which it operates by sustaining and creating quality jobs, paying fair wages, committing to tax transparency, supporting indigenous supply chains, providing community investment funds and delivering infrastructure to support the transition to a low-carbon economy.

#### Delivering the five-year dividend plan

\* 2019 – recommended;  
2020 – intend to recommend.

See page 6

#### STRATEGIC PILLAR #4

### Being sustainable



A sustainable company is one that offers profitable solutions to the world's problems. In support of its vision, purpose and strategy, SSE has adopted four fundamental business goals for 2030 which are directly aligned to the United Nations' Sustainable Development Goals.

Through its goals, the UN has created a blueprint for a sustainable world – and it is one that SSE is putting at the forefront of its business, with a strategy that is geared to delivering decarbonisation and to enabling the Group to realise its vision of being a leading energy company in a low-carbon world.

**Climate action:** Reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150g/kWh.

**Affordable and clean energy:** Develop and build by 2030 enough renewable energy to treble renewable output to 30TWh a year.

**Industry, innovation and infrastructure:** Build electricity network flexibility and infrastructure that helps accommodate 10m electric vehicles in GB by 2030.

**Decent work and economic growth:** Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

See page 24

## Our business explained

# FOCUSING ON THE LOW-CARBON TRANSITION

## What SSE does today

SSE has operations and investments across the UK and Ireland and is involved in the generation, transmission, distribution and supply of electricity, the production, storage, distribution and supply of gas and in the provision of energy-related services. It is a developer (which includes being a builder), an operator and an owner of energy assets and businesses.

### WHOLESALE BUSINESSES

SSE creates value by sourcing and producing energy. It is a leading generator of electricity from renewable sources in the UK and Ireland under the banner of SSE Renewables. Its interests in renewable energy are complemented by ownership and operation of flexible thermal power stations. It owns and operates gas storage facilities in the UK, operates an energy portfolio management division and invests in gas production in the North Sea and west of Shetland. These wholesale businesses contribute significantly to electricity and gas systems of the UK and Ireland.

**17%**

of Group  
adjusted  
operating  
profit

For more on Wholesale see page 48 

### NETWORKS BUSINESSES

SSE delivers energy safely to homes and businesses in GB through its Scottish and Southern Electricity Networks (SSEN) businesses. It 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 a one-third stake in the gas distribution company, SGN. These businesses distribute energy to homes and workplaces in Scotland and the south of England and are subject to regulatory controls set by Ofgem.

**73%**

of Group  
adjusted  
operating  
profit

For more on Networks see page 54 

### RETAIL BUSINESSES

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.

**11%**

of Group  
adjusted  
operating  
profit

For more on Retail see page 60 

### Retail (held for disposal)

SSE supplies energy and other services to the GB household market through SSE Energy Services. In December 2018 the decision was taken not to proceed with a proposal to create a new independent company through the merger of SSE Energy Services with another energy supplier. SSE believes the best future for SSE Energy Services lies outside the SSE Group and it has a management team in place to secure a listing or a new, alternative ownership.

#### Energy supply

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

#### Energy-related services

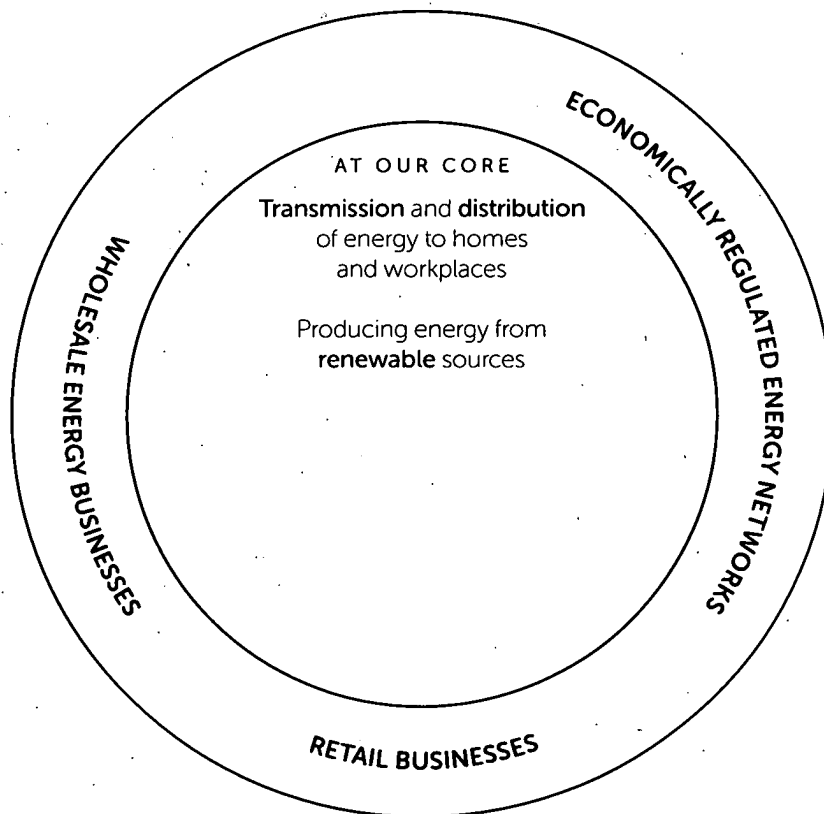
Providing energy-related products and services to GB households as part of SSE Energy Services.

**Electricity generation**  
Using turbines to convert energy from water and wind (SSE Renewables), gas, coal, oil and multifuel into electricity.

**Energy portfolio management**  
Managing energy procurement and contracts.

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

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



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

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

**Gas distribution**  
SSE holds a one-third stake in SGN, a gas distribution company that sits outside of the core and complementary businesses that make up the Group.

**Energy supply (Business)**  
Supplying electricity and gas to business, commercial and public sector organisations across GB through its Business Energy division.

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

**Enterprise**  
Providing innovative energy solutions to business and the public sector through the SSE Enterprise business.

## Transforming SSE to create sustainable value

SSE has implemented a series of changes to give added focus to the core and complementary businesses that drive delivery of its strategy, and to improve visibility of the clean, low-carbon assets that shareholders want to invest in.

A new Group operating model reflects the fact that the majority of SSE's operating profit is derived from regulated electricity networks and renewable sources of energy.

The new structure has been designed to allow decision-making to be as effective and efficient as possible and, most notably, it consolidates the development and operation of renewables assets under a single management team in a business known as SSE Renewables.

This gives greater focus to renewable energy and is intended to maximise SSE's contribution to the ongoing decarbonisation of the electricity system. The changes also take greater account of the differences between SSE's Distribution and Transmission networks businesses, while still recognising what they have in common.

Businesses that complement the low-carbon transition are part of the mix too. Thermal generation provides flexibility for the electricity system; B2B (in the UK and Ireland) and B2C (in Ireland) customer businesses offer a valuable route to market; energy trading balances risk; and SSE Enterprise is building opportunities in distributed energy, facilitating the growth of electric vehicles and creating value through its telecoms partnership.

From 1 April 2019, seven business units operating under seven dedicated management teams make up the SSE Group of businesses, giving investors greater visibility of assets and earnings. The governance framework for this revised structure can be seen on pages 78-79.

SSE's businesses are expected to evolve with stakeholder expectations and create sustainable value. While they have distinctive features, they are bound by SSE's four strategic pillars and rely on the material inputs set out on page 7.

## Our business explained continued

# WORKING TO CREATE SUSTAINABLE VALUE

INPUTS ..... WHAT SSE DOES .....

## FINANCIAL CAPITAL

To maintain its strategic focus on developing, operating and owning assets and businesses, SSE must be a well-financed company, with the financial strength to remunerate shareholders for their investment and the ability to secure funding from debt investors at competitive and efficient rates.

## PUBLIC SERVICES

Companies like SSE rely on good public services, such as emergency services, public infrastructure and health and education services, to enable their business to function and thrive.

## HUMAN CAPITAL

SSE is a responsible employer that recognises that its strategy and success is dependent on the shared talent, skills and values of the people within the organisation as well as those in its supply chain.

## INFRASTRUCTURE

SSE depends on infrastructure to fulfil its strategic objectives. This includes energy infrastructure, such as electricity generation plant and electricity networks, as well as transport infrastructure, including roads and ports, which enable SSE to carry out its operations and complete its investments.

## NATURAL RESOURCES

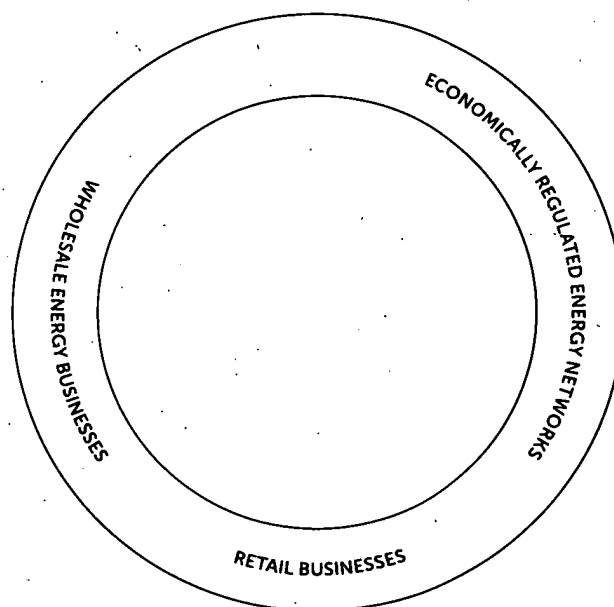
The principal natural resources used by SSE are wind, water, gas, coal and carbon dioxide. It is the requirement for a sustainable use of natural resources that lies behind SSE's 2030 goals for a sustainable business.

## GOODS AND SERVICES

Beyond expenditure on capital projects, SSE relies on a wide range of goods and services to support its business operations. Failure to secure supply would impact SSE's ability to do business.

SSE is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas and in other energy services.

Read more about our business on pages 48-64 [\[1\]](#)



## INCORPORATING STAKEHOLDER VIEWS

SSE's ability to create sustainable value depends on its success in engaging with stakeholders and incorporating their views into business decision-making. SSE has six key stakeholder groups: energy customers; employees; shareholders; government and regulators; suppliers and contractors; and civil society, communities and NGOs. Detail of SSE's approach to working with its stakeholders can be found on page 22 [\[1\]](#)

## SSE'S COMPETITIVE ADVANTAGE

## CREATING LONG-TERM VALUE

### Focusing on the core



SSE has a unique portfolio of world-class low-carbon assets that account for the majority of Group operating profit. As of May 2019, it had an overall renewable capacity of 4,002MW and a combined onshore/offshore wind development pipeline of around 8GW. SSE has a pipeline of transmission connections that could increase the Regulated Asset Value (RAV) to around £5bn by 2026 and distribution networks with scope to grow by supporting electrification of transport and heat.

### Developing, operating and owning



SSE has a proven track record in asset development, including construction and the expertise to navigate complex policy, planning and regulation issues. Maintenance, engineering and customer service know-how comes to the fore in the operation of assets, while SSE takes a pragmatic approach to ownership with partnering and recycling of capital when value-creating opportunities arise.

### Creating value



SSE is putting its assets, skills and experience to work in creating value. Two decades of dividend growth has fairly remunerated shareholders and that commitment continues with a five-year dividend plan to 2023. At the same time, the UK and Irish economies benefited from SSE's economic contribution, which last year was £8.9bn and €689m respectively.

### Being sustainable



Quality low-carbon assets and the associated skills and experience give SSE a clear advantage when it comes to going with the grain on climate change. It has halved the carbon intensity of electricity it generates since 2006 and is a leader in good corporate governance. The adoption of four business goals that align with the UN Sustainable Development Goals and link to executive remuneration underpin that commitment.

## SSE'S VALUES

SSE's six core values are the guide to responsible behaviour and decision-making at every level in SSE. Widely known as the SSE SET, the values are Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. See page 9.

### Generating returns for shareholders

**97.5p**

Full-year dividend per share

### Paying a fair share of tax

**£404m/**

**€14.6m**

Total taxes paid the UK/Ireland

### Building a skilled workforce

**1,239**

Number of employees on a "pipeline" programme to develop skills

### Supporting the low-carbon transition

**6,236MW**

Generators' renewable capacity connected to SSE's electricity transmission network

### Reducing environmental impacts

**284gCO<sub>2</sub>e/kWh**

Carbon intensity of electricity generated by SSE

### Creating economic value

**£8.9bn/**

**€689m**

Contribution to UK/Irish GDP (PwC analysis)

Statement by the Chair of the Board

# TRANSFORMING THE SSE GROUP FOR SUCCESS

This Strategic Report for 2018/19 charts the progress being made by SSE in realising its vision to be a leading energy company in a low-carbon world while meeting its responsibilities as a public-listed company acting in the public interest.

## Introduction to the Strategic Report

The following pages describe what SSE's businesses do; the external forces impacting them; their outcomes; the associated risks and opportunities; the societal and environmental influences on decision-making by the Board and the executive team; the value created for shareholders and society, and supporting performance indicators.

This report details our responses to a range of headline issues that we have dealt with over the course of the year, including the introduction of domestic energy price caps (page 64), the suspension of the electricity generation Capacity Market (page 13) and the prolonged uncertainty over the terms of the UK leaving the EU (page 13). In addition, SSE's Energy Portfolio Management (EPM) division incurred a significant operating loss that was not expected at the start of the financial year, and we responded by adopting a new approach to hedging (pages 13, 92). Also, after careful consideration, the Board did not feel it right to pursue the SSE Energy Services transaction with npower. The decision has now been taken, and the right management team is in place, to secure a listing or new, alternative ownership. You can read more on page 88.

The fact that financial performance for 2018/19 fell well short of what we anticipated at the start of the financial year is disappointing and regrettable, and means aspects of this year's Strategic Report and Financial Statements make for uncomfortable reading. Nevertheless, the Board believes the response to the issues faced has been pragmatic, comprehensive and appropriate, and there were number of significant positives in the year including outstanding safety performance, excellence in project delivery and creation of significant value through well-timed disposals.

SSE remains a robust and resilient business that across its core is making material operational and strategic progress. It is also undergoing rapid evolution. A keener focus has been placed on SSE's core, low-carbon renewable generation and regulated electricity networks businesses and greater visibility has been given to the assets that create sustainable value. The shift in focus, and the commitment to greater visibility of assets and earnings, are leading to significant change in the way SSE's businesses are structured and managed, but all of the changes seen in 2018/19 were guided by a singular purpose and a determination to maintain a healthy culture that promotes the highest standards of conduct. Everything that we have seen in the past year reflects a socially-responsible strategy that supports a clear financial objective.

The Strategic Report set out on pages 1 to 71 has been approved by the Board of Directors in accordance with the companies Act 2006.

By order of the Board.

Richard Gillingwater CBE  
Chair, SSE plc Board



### A singular purpose

In formulating our response to a complex and fast-moving energy sector, we are playing our part in tackling the global problem of climate change. We strongly believe that decarbonisation presents opportunities for a leading developer, operator and owner of low-carbon energy technologies like SSE. We have the assets, the skills and the experience required to seize the opportunities on offer, and the work done by people right across the Company is contributing to our purpose of providing the energy needed today while building a better world of energy for tomorrow.

As SSE's core low-carbon and complementary businesses go about delivering on Group strategy and fulfilling that purpose, they are being held to account by specific, far-reaching goals. In March 2018 the Group set itself ambitions for 2030 that are directly linked to the United Nations' Sustainable Development Goals. More is said about these ambitions on page 24 [14](#), but in essence they aim to cut carbon intensity of electricity generated by SSE by 50% (following on from cutting 2006 carbon intensity levels in half by 2018), help accommodate 10m electric vehicles in the energy system, develop and build by 2030 enough renewable energy to treble renewable output to 30TWh a year, and champion payment of Fair Tax and the real Living Wage.

### A healthy business culture

An ethos of "doing the right thing" is at the very heart of SSE's ethical business culture and this is embodied in the vision, purpose and strategy set by the Board. This ethos is guided by the SSE SET of core values, which are defined as Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. Of these, Safety is regarded as SSE's No 1 value, and good safety behaviour is heavily promoted and measured. While safety performance improved markedly in 2018/19, it continues to be monitored closely by the Board given the inherent hazards faced by the electricity industry and the potential impact on people. More detail on SSE's safety performance can be found on pages 16, 113 and its approach to managing safety as one of SSE's Group Principal Risks can be found on page 71 [15](#).

Transparency is vital to a healthy culture, and I am proud that SSE continues to stand out among FTSE 100 companies when it comes to disclosure of material issues like our response to the gender pay gap (page 34 [16](#)), payment of Fair Tax (page 34 [16](#)), allocation of Green Bond proceeds and SSE's contribution to the UK and Irish economies (page 16 [15](#)).

A healthy business culture requires careful consideration at all levels of the Company to the interests of the people who rely on it. In SSE's 2018 Annual Report we described in great detail the interactions between the Group and its many and varied stakeholders. This has been enhanced in this year's Strategic Report (pages 2 to 71 [14](#)) and the Governance Report sets out the considerations taken by the Board of stakeholder interests when making strategic decisions. For SSE, this is about good corporate citizenship rather than compliance, and we aim to be consistent with Section 172 of the Companies Act 2006, which imposes on Directors the duty to promote the success of the company. Section 172 is just one of the many regulatory responsibilities the Board is cognisant of.

### Our commitment to Section 172

SSE looks after assets that were built from the 1950s and we have developed and are developing assets that will be operational in the 2050s. Decision-making requires a long-term perspective, and this is typified by our sustainable development ambitions for 2030. Sustainable success is dependent on the skills, talent and values of employees, and as you can see on pages 32 to 35 [14](#), SSE is committed to being a responsible employer.

A values-based code of ethical business conduct takes account of all of SSE's stakeholders, and the need to foster constructive and respectful relationships with them. SSE's "Doing the right thing" guide (see page 94 [16](#)) helps employees faced with difficult ethical judgements. It recommends appropriate steps to prevent issues growing into unsafe or unfair decisions that have an adverse impact on society or the environment.

SSE aims to be a company in which people want to invest, from which people want to buy, with which people want to partner and for which people want to work. This requires the Board, Group Executive Committee, senior managers and other employees to maintain an approach to strategic, financial and operational decision-making that is values-based and sustainable in approach, and therefore aligned to the requirements and expectations of Section 172.

A key objective of this Strategic Report, the Directors' Report and SSE's separate Sustainability Report, and SSE's associated commitment effective reporting, is to help stakeholders to assess whether SSE is the type of company envisaged by Section 172.

"A keener focus has been placed on core businesses and greater visibility has been given to assets."

### A socially responsible strategy

The culture of doing the right thing that I have described above underpins a strategy of creating value for not just shareholders, but for society more widely, from developing, operating and owning energy and related infrastructure and services in a sustainable way.

SSE has an enviable portfolio of renewable energy assets, a valuable pipeline of future projects and ambitions to develop much more renewable energy capacity over the next decade. Renewables capacity is complemented by our flexible thermal power stations, which have an important role to play in a smooth transition to complete decarbonisation by offsetting renewables output variability. Electricity networks, meanwhile, are critical enablers of a low-carbon economy. Our distribution networks are central to the electrification of transport and accommodating increasing numbers of electric vehicles on the system over the coming years offers the opportunity for sustainable growth. The transmission network, meanwhile, will continue to expand to connect renewable energy schemes to the GB electricity system and this too will create significant opportunities.

Developing, operating and owning these assets provides the foundation for the better world of energy that we strive for. We are part-way through a capital and investment spending programme of around £6bn for the five years to March 2023, giving an annual average of £1.2bn across the period. But it is important to note that recent transactions show SSE is not fixed on asset ownership; the development risk that SSE is able to manage attracts a premium and, when the market is right, capital recycling is a key part of our strategy for growth. Likewise, full ownership is not seen as a prerequisite for shareholder or societal value and we have a strong record of working with others to deliver mutually beneficial partnering, in which SSE's skills as an operator play a critical part.

## Statement by the Chair of the Board continued

This strategy is played out amid the twists and turns of an uncertain political and regulatory environment. Ofgem's proposals for the next network price controls (RIIO-2), the debate around the role of the state ownership in the sector, the suspension of the GB Capacity Market, price caps in both domestic retail and CfD auctions for low-carbon generation and, of course, Brexit, have all posed challenges for SSE.

As a public listed company working in the public interest we must provide good stewardship of the critical assets and infrastructure that we develop, operate and own. We have to improve outcomes for energy consumers through prudent investment in low-carbon technologies and best-in-class customer service. And all the while we have a duty to engage in an open and constructive way with government and regulators. This extends to responding, in an objective, progressive and responsible way, to the Labour Party's proposals to renationalise electricity networks. Details of how this was done can be found on [page 13](#), and we will continue to engage in the best interests of all stakeholders.

#### A clear financial objective

SSE has maintained an unwavering focus on a low-carbon strategy through a period of significant change and transition. The progress we have seen in 2018/19 is testament to the talent, skills and values of the people at SSE. There is a collective belief that a strategy that sets out to seize the opportunities presented by decarbonisation, while helping to solve the problem of climate change, remains the best way to achieve SSE's primary financial objective of delivering on our five-year dividend plan, and this is underlined by the 97.5p full-year dividend we are recommending for 2018/19. This will be the first step in delivering our five-year dividend plan to 2023.

**Richard Gillingwater CBE**  
Chair, SSE plc Board  
21 May 2019

"We have a duty to engage in an open and constructive way with government."

## EXECUTING OUR STRATEGY

In 2019/20, SSE will continue to work to a number of key priorities linked to its core Group strategy.

### STRATEGIC PILLAR #1

#### Focusing on the core...

...by maintaining safe and efficient operation of low-carbon and flexible thermal assets.



### STRATEGIC PILLAR #2

#### Developing, operating and owning...

...applying world-class skills and experience to the low-carbon infrastructure needed now and in the future.



### STRATEGIC PILLAR #3

#### Creating value...

...through investment and partnerships that contribute to its primary financial objective.



### STRATEGIC PILLAR #4

#### Being sustainable...

...by pursuing targets aligned to four UN Sustainable Development Goals.





# BUILDING A BETTER WORLD OF ENERGY

In an energy sector characterised by complexity and uncertainty, SSE has chosen to focus on the role it can play in decarbonising the economies in which it operates.

Alistair Phillips-Davies  
Chief Executive

"2018/19 presented challenges...  
but the Company has emerged  
with a clear purpose and  
opportunities for the future."

## Reaffirming our strategy

SSE recognises that the transition to a low-carbon world is its greatest opportunity. Our strategy – of creating value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way – is in step with the opportunities created by the transition to a low-carbon economy. We stand ready to play our part in building a better world of energy; we see our purpose as part of the solution to climate change.

Financial performance for the year to 31 March 2019 fell well short of what we had anticipated at the outset of the year, mainly as a result of the significant and unexpected operating loss relating to our Energy Portfolio Management division. That said, we had a good year in terms of safety performance, project delivery and the gains we made on disposals. We also met our commitment to shareholders and the 97.5p full-year dividend we are recommending is the first step in delivering on our five-year dividend plan to 2023.

The commitment to remunerating shareholders for their investment is unwavering but the industry is changing, and SSE is changing with it. Change brings challenges, and SSE had its share of those in 2018/19, but I am encouraged by the promise that change holds, and the progress made in delivery of our strategic objectives.

## A world of low-carbon opportunity

The opportunities afforded by decarbonisation are being driven by a number of key trends. More is written about these on page 14 [14](#), but I would summarise them as: electrification of heat and transport in the energy system; carbon pricing, legally-binding carbon targets and associated support mechanisms; a wave of innovation that is making the technological enablers of decarbonisation more affordable; and an inflow of capital into the sector, which is increasingly drawn to lower-emission assets and technologies.

As you can see on page 2 [2](#), our strategy mirrors these trends and "goes with the grain" of wider investor and societal expectations on decarbonisation generally. Our low-carbon renewables and networks businesses, and the range of businesses that complement them, are aligned with that strategy and as I have outlined below, they are delivering on it.

SSE's businesses are held to account by stretching sustainability goals that are at the heart of our strategy. Having focused our strategy for growth on meeting the low-carbon challenge, in March 2019 we set ambitious goals for 2030 that align with UN Sustainability Goals, and these are covered on page 24 [24](#).

## Chief Executive's review continued

### Delivering on our strategy

The decision to not proceed with the planned SSE Energy Services transaction and our September Trading Statement of losses incurred in our Energy Portfolio Management business understandably attracted a lot of attention in 2018, and you can read more about both on pages 89 and 92 [1](#), but behind the headlines we saw a number of significant achievements and delivery milestones attributable to the passion of the many people at SSE who are committed to the Company's purpose of providing the energy needed today while building a better world of energy for tomorrow.

For the year to 31 March 2019, investment and capital expenditure totalled £1.42bn and this included £684m in the electricity networks that are enablers of the low-carbon, renewables technologies. A notable high point was the completion of the single biggest project undertaken by SSE to date, the £1bn Caithness-Moray transmission link that came in on time and on budget. This has us on course to take net Regulated Asset Value (RAV) of SSE regulated networks businesses (including SGN) to £10bn by 2023. Meanwhile, we made good progress in the transition from Distribution Network Operator to Distribution System Operator and continued to improve performance and customer service. Electricity networks are low-carbon enablers and design, operation and regulation in both Transmission and Distribution is evolving to support renewables growth and the integration of localised energy.

Around £326m investment in renewable energy saw completion of the 228MW Stronelaig onshore wind farm and excellent progress on Beatrice offshore wind farm, in which SSE has a 235MW share. The sale of stakes in both Stronelaig and Dunmaglass wind farms (£635m) in the year – like the sales of stakes in Clyde wind farm (£202m), SSE Telecoms (£215m), and the full sale of Indigo Pipelines (£70m) – showed that a strategy of developing and operating, as well as owning, quality assets gives SSE the opportunity to create value for shareholders through well-timed disposals.

Flexible thermal generation is important to the low-carbon transition, and SSE continues to invest in this area, most notably through our partnership with Siemens on the Keadby 2 project. This represents a £350m investment in first-of-its-kind CCGT in the UK with Siemens' industry-leading 900HL class turbine, and enabling work progressed well in 2018/19 ahead of the scheduled handover of the plant in early 2022.

### Focus and visibility

In 2018/19 we reviewed our Group operating model and the ensuing changes have given added focus to the core and complementary businesses that drive delivery of our strategy, and will improve visibility of the assets and earnings that shareholders want to invest in.

The new Group operating model recognises that most of SSE's operating profit is derived from regulated energy networks and renewable sources of energy. It has been designed to allow decision-making to be as effective and efficient as possible and, most notably, it consolidates the development and operation of all renewable energy assets under a single management team in a business to be known as SSE Renewables. The new model also takes greater account of the differences between our Distribution and Transmission networks businesses, while still recognising what they have in common.

### SSE Energy Services' future

While our strategic focus is on renewable energy and regulated energy networks, our commitment to securing the right future for SSE Energy Services is clear. In a year dominated by the introduction of the Default Tariff Cap, the business was profitable and cashflow positive, and it delivered excellent customer service against various measures.

The proposal to create a new independent company through the merger of SSE Energy Services with another energy supplier was impacted by a number of factors, including the level of the cap. A new company would have faced very challenging market conditions, especially during the period when it would have incurred the bulk of integration costs. Taking account of the interests of customers, employees and shareholders, not proceeding with the transaction was the right decision.

To help ensure the right future for Energy Services, Katie Bickerstaffe has been appointed Executive Chair of the business with a mandate to secure for it the best future outside the SSE Group and to support the management team in the delivery of strategy. Gordon Boyd has also been appointed Interim Chief Financial Officer for the business and will work with Katie to continue progress towards securing a listing or new, alternative ownership.

Further progress has been made on the structural separation of this business from the Group, and the creation of a new, dedicated SSE Energy Services Board and Executive Committee will enable it to operate with further autonomy and become more agile and responsive to customer needs.

**"We stand ready to play our part... we see our purpose as part of the solution to climate change."**

More detail on SSE Energy Services can be found in Group Principal Risks (page 69 [1](#)), the Directors' Report (page 89 [1](#)) and the Financial Overview (page 63 [1](#)).

### Strategic priorities for 2019/20 and beyond

SSE's long-term future lies in developing, operating and owning world-class low-carbon assets. Partnering will increasingly become a feature of this as we seek to draw on new sources of capital and technical expertise. And we will look beyond our home markets for opportunities in jurisdictions where SSE's skills and experience can create lasting value for shareholders.

I believe we are giving our businesses the best platforms for success. Their management teams will be empowered to develop their own business plans, and be accountable for their delivery.

### A clear purpose

There is no doubt that 2018/19 presented a series of challenges for SSE; but the Company has emerged from them with a clear purpose and strategy and opportunities for the future. The people who make up SSE are proud of our collective efforts to build a reputation for being a responsible company, having a societal and environmental purpose, and doing the right thing.

We are entrusted with the critical infrastructure that powers economies. We pay dividends, we pay our taxes and we pay people fairly for the time and skills they contribute. We engage with customers, shareholders, elected officials, regulators and communities. We give our employees a voice and opportunities to develop. To this list, we can add a clear purpose – one that aims to build a better world of energy while creating lasting value for all stakeholders.

**Alistair Phillips-Davies**  
Chief Executive  
21 May 2019

## Engaging on Brexit, nationalisation and carbon pricing

SSE takes seriously its responsibility as a public listed company working in the public interest. It proactively and openly engages with politicians and public officials in an effort to balance the interests of customers with political priorities.

SSE has a clear Political Engagement Statement that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf. The fair and open way in which its advocacy is conducted was recognised in the "B" rating awarded to SSE by Transparency International's Corporate Political Engagement Index in November 2018.

### Brexit

This approach naturally extended to SSE advocating a stable transitional policy environment in the UK and Ireland throughout the protracted negotiations over the UK's exit from the European Union and making the case that a disorderly Brexit would not be in the best interests of SSE's stakeholders and the wider economy.

In the year to 31 March 2019, SSE engaged directly with the UK's Department of Business, Energy and Industrial Strategy on Brexit on 13 occasions. SSE also engaged with officials from the Department for Exiting the European Union, HM Treasury, the Department for Digital, Culture, Media and Sport, the Scottish Government's Energy and Climate Analysis Team and the Department for Communications, Climate Action and Environment in Ireland. Contingency planning included analysis of the possible impact of any of the plausible leave scenarios on the Group with regards the value of sterling, interest

rates, debt markets, costs of commodities and consumables required for electricity generation, and GDPR implications. SSE will continue to engage, in line with its established principles, with policymakers and regulators to advocate a long-term collaborative relationship between the UK and EU on energy issues.

### Nationalisation

The Brexit impasse created wider political uncertainty and with it a focus on the policies of major political parties. The Labour Party's support for state control of energy networks has been well known for some time and details of its plans to pass a Nationalising Bill emerged in a policy document in mid-May 2019. SSE believes that Labour's goal of community-focused and decarbonised energy systems is already being delivered through economically-regulated private sector companies that work in the public interest. Nationalisation would jeopardise its wider policy goals, especially in relation to decarbonisation.

In the course of 2018/19, SSE took part in around 100 meetings with senior political leaders, MPs, MSPs, officials and stakeholders in order to better understand Labour's proposals, and make the case for private ownership and operation of energy networks and set out proposals for future reform. That advocacy has included reiteration of the fact that £100bn has been invested since privatisation by progressive, successful networks companies like SSE, without incurring any public debt. The dialogue is continuing, with the objective of respectfully demonstrating to the Labour Party why state control is not needed to tackle climate change and achieve its wider energy policy goals.

### Carbon pricing

There remains a broad political consensus in the UK on the need to decarbonise and in 2018/19 SSE focused on advocating for the right mechanisms to remain in place to enable investment in renewables. It welcomed the UK Government's commitment to a strong carbon price, a pipeline of CfD auctions and agreement of the Offshore Wind Sector Deal. SSE continues to argue for the inclusion of onshore wind in the CfD auctions to provide a route to market for the lowest cost form of renewable energy. More broadly, SSE advocated for advanced economies like the UK to aim for "Net Zero" emissions by 2050 at the latest.

### Capacity Market standstill

Following a decision by the European Court, the UK Capacity Market was suspended in 2018/19 pending the outcome of a European Commission inquiry into the legality of the mechanism under state aid rules. In terms of payments restarting, this is likely to be a timing issue only with expectation of a final European Commission decision in early autumn. SSE submitted evidence to the EC supporting the UK Government's position that the Capacity Market, in its current form, is the best way to ensure security of supply in the most cost-effective way.

- ☐ SSE's social contract can be found on page 26.
- ☐ SSE's 10 Group Principal Risks can be found on page 68.
- ☐ SSE's Political Engagement Statement can be found on sse.com.

## Managing commodity price exposure

In 2018/19, SSE's Energy Portfolio Management (EPM) division incurred a significant operating loss that was not expected at the start of the financial year.

In response to this, in November 2018, SSE published a new approach to managing energy commodity price exposures and giving shareholders enhanced visibility over it.

The stated objective of this is to take a more systematic approach to managing SSE's exposure to volatility in the volume and

price of five principal commodities (power, gas, coal, oil and carbon emissions allowances) and so make their impact on shorter-term earnings more visible.

This means SSE will now generally seek to hedge its broad exposure to commodity price variation 12 months in advance of delivery and aims to have this approach fully in place from the start of the 2020/21 financial year. SSE published an update on its approach to hedging on sse.com ☐ in May 2019.

- ☐ SSE's approach to hedging can be read in full on sse.com.
- ☐ More on SSE's risk appetite with regards to commodities can be found on page 68.
- ☐ Further information about managing commodity price exposure can be found on page 92.
- ☐ Preliminary Full-year Results statement can be found on pages 37-64.

## Market review

# ADAPTING TO A CHANGING OPERATING ENVIRONMENT

Clean, affordable and reliable energy is critical for society. SSE is playing a central role in providing this with a focus on developing, operating and owning the renewable energy and regulated electricity networks that are crucial to the low-carbon transition, along with a range of businesses which complement these.

## Decarbonisation

### Big challenge. Bigger opportunity

The imperative to decarbonise has effected significant change in the electricity sector and over 30% of UK power generation now comes from renewable sources compared to just 5% in 2008, while networks have been developed to support this.

Supportive policies have given confidence to investors, developers and the supply chain. The UK Government has committed to auctions for CfDs to support 1-2 GW per year of renewables deployment through the 2020s. Carbon pricing continues to drive emissions reductions. In Ireland, a new auction scheme is being finalised to deliver 13 GWhs (c5GW wind equivalent) of new renewables over five years.

The design, operation and regulation of both transmission and distribution networks is evolving rapidly to support low-carbon generation along with integration of localised energy and meeting new demands from customers.

## Electrification

### A bright, electric future

Heat and transport combined still account for two thirds of emissions. Decarbonisation of these sectors is key and SSE is positioned to play a driving role. The UK Government's commitment on electrification of transport signals the end the diesel and petrol car sales before 2040 and there could be 9m electric vehicles (EV) on UK roads by 2030, adding around 20TWh (10-20%) to electricity demand.

Progress remains slow on decarbonisation of heat, with the UK Government planning to publish a roadmap by Summer 2020. But recent research estimates that heating homes from electric sources such as heat pumps would more than treble power demand from the heat sector to 100 TWh/year by 2050, from around 27 TWh/year today\*.

This electrification creates opportunities: from building new low-carbon generation, to network upgrades, to installing EV charging points and creating new retail propositions.

## Innovation

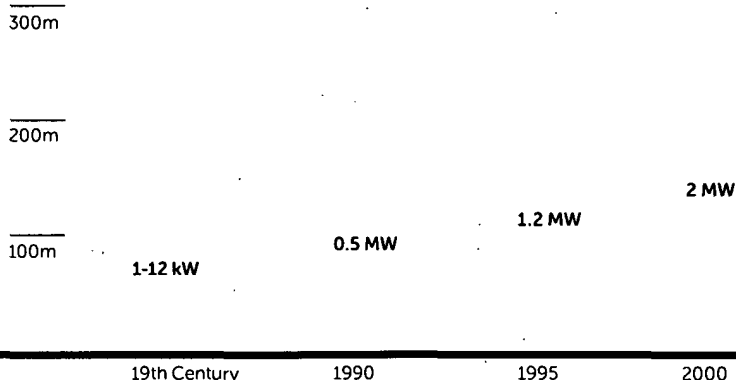
### Technology for a better world

Another positive trend is technology. Fast-paced innovation is helping to rapidly reduce costs, enabling an affordable transition to a low-carbon world for consumers. In the decade since 2010, onshore and offshore wind costs have fallen by more than 30% and 50% respectively, driven by advances in technology and larger turbine capacities. (see graphic below).

Meanwhile, transmission High-Voltage Direct Current technology continues to improve with high power capacities, voltages and distances covered. Digitalisation and the growth of internet-connected and smart devices are also creating opportunities for more efficient operations and better customer service. This includes more active management of distribution networks as they manage more localised energy and EVs.

## Evolution of wind turbine heights and outputs

Technology is leading the sector to a better world of energy



## Regulation

### A challenging environment

Amid the energy sector's strong, positive trends, the political and regulatory environment continues to be challenging, as mentioned on page 8. The next set of network price controls (RIIO-2) are being made in this context. Ofgem's current proposals are challenging and SSE will be seeking a more balanced settlement which supports investment, innovation and strong customer service, before they commence in 2021 for Transmission and Gas Distribution. Meanwhile, 2018/19 also saw the introduction of price caps in the domestic

energy market, the unexpected suspension of the GB Capacity Market and a tightening of this year's CfD auctions for low-carbon generation.

## Finance

### Going with the grain

The inherent value in developing and operating low-carbon infrastructure is increasingly recognised by investors. This is demonstrated by the influx of capital to the electricity sector, with increased interest from oil majors and greater direct investment from infrastructure funds and institutional investors. This is creating strong opportunities

for SSE in financial partnering and it supports creating value from successful development and operation of assets.

At the same time, both debt and equity investors are beginning to recognise the risks and opportunities from climate change, supported by initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD). This means capital is increasingly flowing to assets that are well-positioned to benefit from the low-carbon transition, and less exposed to the downsides that more emissions-intensive competitors face.

## SSE is positioned to seize opportunities

**In offshore wind** SSE has more than 15 years of experience and holds a consented pipeline of over 3.6GW. SSE has a total development pipeline of 6GW in GB, which is the world's largest offshore wind market, with more than 30GW of new build possible by 2030 if supportive policy is place.

**Onshore wind** remains the lowest cost form of low-carbon generation and it has a strong future globally. SSE has an excellent track record in the onshore wind sector, having developed more than 2GW in the past decade, with a build current pipeline of around 1GW. While at present there is no revenue support in mainland GB, there are options for build in the Scottish Islands and some "subsidy free" development potential, while there are opportunities in Ireland and internationally.

**Hydro and thermal** generation both have a key role to play in providing the flexible generation needed to complement the growth of variable wind and solar. SSE continues to invest in the flexibility of its existing hydro and thermal fleet, and is constructing a "first-of-a-kind" high-efficiency CCGT facility at Keadby 2.

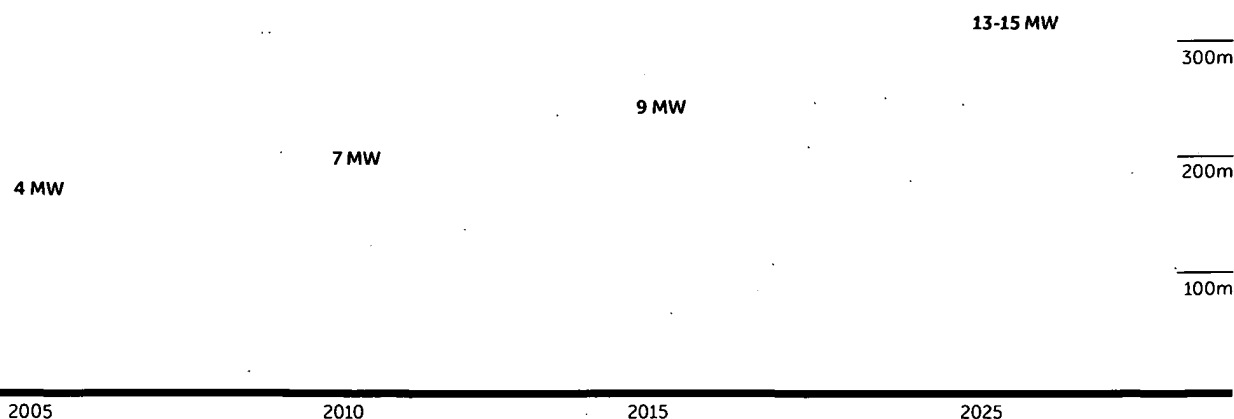
**Transmission** efficiently and safely transports renewable electricity to urban centres. The Regulated Asset Value (RAV) of SSE's Transmission business has grown tenfold over the past decade – largely driven by connection of 6GW of renewables. SSE is well-placed for further growth through new renewables build, electrification and potential Scottish Islands connections.

**Distribution** is set to transform and grow with the transition to localised energy, electrification and a Distribution System Operator model. SSE is positioned to thrive in this world with sector-leading innovation projects such as a "live" DSO network in Oxfordshire and experience in developing and operating flexible networks.

SSE's **customer** businesses are innovating too, seizing on technological advances in energy optimisation and demand-side response where there are opportunities to use data solutions to improve outcomes for consumers.

**SSE Enterprise** has exposure to a range of fast-growing markets in low-carbon infrastructure: including EV charging infrastructure, local heat/electricity networks and "energy as a service" propositions with embedded generation.

\* Aurora Energy Research, March 2019.



## Strategy in action

# PERFORMANCE

## AGAINST OUR STRATEGY

SSE uses a number of financial and non-financial measures to track progress against its strategy to create value from developing, operating and owning energy-related assets and businesses.

### Progress during the year

In 2018/19, SSE's financial results were materially affected by the unexpected adjusted operating loss in relation to its Energy Portfolio Management activities. This was disappointing and regrettable.

Nevertheless, SSE delivered a full-year dividend of 97.5 pence per share; and made good progress in its programme of capital and investment expenditure in support of future value creation. This is already reflected in the Regulatory Asset Value (RAV) of its

energy networks and in its capacity for generating renewable electricity.

In operational terms, SSE secured a 20% reduction in the Total Recordable Injury Rate and reduced the carbon intensity of the electricity it generated by 7%.

An important part of Executive Directors' remuneration relates to SSE's financial and non-financial performance, and the impact of this is set out in the Remuneration Report on page 116.

### Economic contribution in UK/Ireland

**Strategic relevance:** SSE depends on a healthy and thriving economy to enable its business success, which is why it calculates the value it adds to UK and Irish GDP each year.

**Performance:** SSE has added a total of £75.4bn and €6.8bn (in 2018/19 prices) of value to the UK and Irish economies since 2011/12.

### Taxes paid in the UK/Ireland

**Strategic relevance:** Taxes support the public services everyone relies on. When companies do well, they should share their success with society through the payment of taxes.

**Performance:** Total taxes paid reduced significantly in 2018/19. This was driven by lower profits earned yet capital allowances received as a result of significant ongoing investment.

### Renewable output (inc. pumped storage) (GWh)

**Strategic relevance:** Renewables are core to SSE's business strategy which is centred around the low-carbon transition.

**Performance:** 2018/19 was a record year for SSE Renewables, with output increasing to 9,779GWh. This was mainly driven by an increase in average generation capacity as Stronelairg and Beatrice began to operate.

### Total recordable injury rate per 100,000 hours worked (employees and contractors combined)

**Strategic relevance:** Safety is SSE's number one core value, and everybody in the company operates to the safety licence of "if it's not safe, we don't do it".

**Performance:** 2018/19 is SSE's best ever safety performance making significant progress in achieving its target of halving its TRIR by 2020/21 since 2017/18.

### Carbon intensity of electricity generated (gCO<sub>2</sub>e per kWh)

**Strategic relevance:** As a significant generator of electricity, SSE has a responsibility to reduce its carbon intensity in line with climate science.

**Performance:** The carbon intensity of the electricity generated reduced by 7% last year, contributing to the company's target to halve its carbon intensity by 2030.

### Jobs supported in UK and Ireland

**Strategic relevance:** SSE relies on the people that work for it in order to operate, with its activities supporting jobs in both urban and rural areas.

**Performance:** Across its operations in the UK and Ireland, SSE supports 101,170 and 4,080 jobs respectively.

## KEYS FOR CHARTS

### Dividend Per Share (pence)

**Strategic relevance:** The first financial objective of SSE's strategy is to remunerate shareholders' investment through the payment of dividends.

**Performance:** In 2018/19, SSE delivered on the first step in its five-year dividend plan.

### Adjusted <sup>APM</sup> and Reported Earnings Per Share (£m)

**Strategic relevance:** In order to provide a meaningful measure of underlying financial performance over the medium-term, SSE focuses on adjusted EPS.

**Performance:** SSE's Earnings Per Share of 67.1p reflects mainly the loss incurred by Energy Portfolio Management.

### Adjusted <sup>APM</sup> and Reported profit before tax (£m)

**Strategic relevance:** SSE's objective is to earn a sustainable level of profit over the medium term.

**Performance:** Adjusted PBT reflects the operating loss incurred by Energy Portfolio Management.

### Adjusted <sup>APM</sup> and Reported operating profit by segment (£m)

**Strategic relevance:** The Wholesale, Networks and Retail segmental structure reflects how SSE's businesses were managed in 2018/19.

**Performance:** The majority of SSE's Operating Profit is derived from renewable energy and regulated electricity networks.

### Adjusted <sup>APM</sup> capital and investment expenditure (£m)

**Strategic relevance:** SSE applies strict financial discipline that supports investment in assets that provide returns that are greater than the cost of capital.

**Performance:** Investment Expenditure in 2018/19 of £1.42bn included more than £1bn investment in renewable energy and regulated electricity networks.

### Adjusted <sup>APM</sup> EBITDA (£m)

**Strategic relevance:** Extracting interest, tax, depreciation and amortisation from earnings provides a useful measure of SSE's operational performance.

**Performance:** Adjusted EBITDA for the core renewable energy and regulated electricity networks businesses was more than £1.5bn, or 83% of Group total.

### Investment and capital expenditure by segment (£m)


**Strategic relevance:** The main focus of SSE's investment and capital expenditure is on low-carbon renewable energy and regulated electricity networks.


**Performance:** SSE is one year into a five-year, £6bn spending programme, 70% of which is expected to be devoted to renewables and networks.


### Regulated Asset Value (£m)


**Strategic relevance:** SSE has an ownership interest in five economically-regulated networks, each of which has a Regulated Asset Value or RAV.


**Performance:** Completion of the Caithness-Moray link helped take Transmission RAV to more than £3.25bn.

SSE's social contribution – page 26 

Financial overview – page 36 

Wholesale operating review – page 48 

Networks operating review – page 54 

Retail operating review – page 60 

## Strategy in action continued

# DEVELOPING, OPERATING, OWNING

## CAITHNESS-MORAY TRANSMISSION LINK

In 2018/19, SSE's Transmission business completed the construction, commissioning and energisation of the new Caithness-Moray electricity transmission link.

Caithness-Moray is the largest single investment ever undertaken by the SSE group and represents the most significant investment in the North of Scotland electricity system since the 1950s. Total spend on the project was around £1bn.

The link uses HVDC (High Voltage Direct Current) technology to transmit power through a 113km subsea cable in the Moray Firth between new converter stations at Spittal in Caithness and Blackhillock in Moray. The four-year project involved work at eight electricity substation sites and required two overhead electricity line reinforcement projects.

Completed on time and within the allowance approved by energy regulator Ofgem, the Caithness-Moray link provides

up to 1,200MW of capacity to transmit power from the increasing sources of renewable energy from across the far North of Scotland, demonstrating SSE's focus as a leading provider of infrastructure to enable the transition to a low-carbon economy.

The Caithness-Moray project was highly complex, requiring very high standards of project design, development, construction and commissioning and was delivered by a team of committed and skilled people, working closely with contractors and other stakeholders.

The completion of the link and other electricity transmission projects has taken the Regulatory Asset Value (RAV) of SSN Transmission to over £3.25bn.

## 1,200MW

The transmission capacity of the 113km Caithness-Moray subsea link

## BEATRICE OFFSHORE WIND FARM

In 2018/19, the first electricity was generated by the Beatrice offshore wind farm. Beatrice is a joint venture between SSE (40%), Copenhagen Infrastructure Partners (25%) and Red Rock Power Ltd (25%), and represents a £2.6bn total investment. The wind farm secured an investment Contract for Difference from the UK Government in 2014.

Completed in May 2019, Beatrice is the largest offshore wind farm off the coast of Scotland. At its nearest point, it is located around 13km from the Caithness coast, and features 84 turbines with a nominal power of 7MW and a total generation capacity of 588MW.

Beatrice is also the largest offshore wind farm in the world built using jacket foundations. The jackets are also amongst the deepest water-fixed foundations of any offshore wind farm and are installed in depths of up to 56 metres.



In the year to 31 March 2019, SSE made important strides in the execution of its strategy of creating value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

Wick Harbour, which is around 45 minutes by crew transfer vessel from the turbines, is home to the operations and maintenance base. The base itself is located in Wick's Lower Pultneytown in buildings first developed by renowned engineer Thomas Telford in 1807. Around 90 people will be required to safely operate and maintain the wind farm during its forecast 25-year lifespan.

The Beatrice Community Investment Fund is worth a total of £6m and is intended to benefit communities in the Highlands and Moray.

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**84**

The number of 7MW turbines constructed 13km offshore at Beatrice

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## STRONELAIRG ONSHORE WIND FARM

A team that is now part of SSE Renewables completed the construction and commissioning of the 66-turbine/228MW Stronelairst onshore wind farm near Fort Augustus in 2018/19. With a total investment of around £350m, Stronelairst is SSE's final wind farm to be accredited under the Renewables Obligation.

Stronelairst was completed ahead of schedule and on budget, despite the additional challenges associated with its altitude and weather conditions experienced in the winter of 2017/18. This reflects the skills and professionalism of the teams that designed, developed and built the wind farm.

It is situated within a natural bowl on a plateau that is on average 600m above sea level. Its load factor, on a P50 basis, is expected to be over 40% in a typical year. This is similar to the load factors of many existing offshore wind farms. It is set well back from Loch Ness, so that no turbines are visible from the main tourist

routes. In line with SSE's commitment to sharing value, communities will benefit from investment of around £28m in local projects between 2017 and 2042.

Following completion of Stronelairst, SSE agreed to sell a 49.9% stake in it and the neighbouring Dunmaglass onshore wind farm to Greencoat UK Wind Plc (equivalent to 160.6MW of capacity) for a total consideration of £635m. In line with its strategy to create value from development and operation, as well as ownership, of assets, SSE will continue to operate both wind farms.

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**>40%**

The estimated load factor of Stronelairst in a typical year

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Strategy in action continued

# DEVELOPING, OPERATING, OWNING

## KEADBY 2

SSE decided in 2018/19, in collaboration with Siemens, to proceed with a unique commercial opportunity to introduce to the UK a first-of-a-kind high efficiency gas-fired electricity generation technology. It will invest around £350m in a combined cycle gas turbine (CCGT) power station at Keadby in Lincolnshire, adjacent to SSE's existing power station and close to SSE's Keadby wind farm, which is the largest in England.

Once completed, expected to be in 2022, Keadby 2 will be the most efficient CCGT on the electricity system in the UK (at around 63%), helping to enable the country to move away from coal-fired electricity generation in the 2020s and to integrate into the system more electricity from renewable sources.

SSE and Siemens are collaborating to deliver this project at the most competitive cost. Siemens will provide its 9000HL technology and will manage technical and construction risk until the power station is handed over to SSE, as well as providing appropriate performance guarantees.

The decision to invest in Keadby 2, with its high thermal efficiency, is compatible with SSE's new ambition to achieve a further 50% reduction in the carbon intensity of the electricity it generates and is also expected to cut carbon emissions for the overall electricity system by reducing the need for older, lower efficiency CCGTs as well as single cycle thermal generators, all of which produce higher carbon emissions when running.

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# 63%

The expected efficiency rate of Keadby 2 once completed in 2022

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## SSE ENTERPRISE TELECOMS

SSE entered into an agreement in 2018/19 with Infracapital to sell a 50% stake in SSE Enterprise Telecoms for a total consideration of up to £380m. SSE Enterprise Telecoms is one of the UK's leading connectivity suppliers, with a growing 12,000km UK-wide fibre network. It is committed to helping the UK realise its digital ambitions through infrastructure investment and innovation.

SSE Enterprise Telecoms will retain the SSE Group as a key funder and anchor customer whilst gaining from Infracapital's experience of driving rapid growth, deep telecoms expertise and access to additional capital.

The transaction will create a shared ownership structure designed to accelerate SSE Enterprise Telecoms' plans for growth in the fibre sector, reaffirming its ambition to establish itself as a leading UK telecoms provider. The partnership supports SSE Enterprise Telecoms' commitment to innovation and new technologies which are

redefining the market. The business will be in an ideal position to propel its existing projects and partnerships in areas such as 5G and smart cities. The investment also provides an opportunity to further enhance the company's customer service and delivery approach which is already a core differentiator in the market.

This transaction aligns with SSE Group strategy to create value for shareholders and society by focusing on its core energy businesses along with its commitment to give each of its businesses, such as SSE Enterprise Telecoms, the best platform from which to realise its full potential and maximise its future success.

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**12,000km**

The current span of SSE Telecoms' UK-wide fibre network

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## FERRYBRIDGE MULTIFUEL 2

2018/19 on the construction of Ferrybridge Multifuel 2 (FM2), a waste-to-energy plant with capacity of up to 70MW developed and constructed by Multifuel Energy Ltd, a joint venture between SSE and Wheelabrator Technologies Ltd.

FM2 represents an investment of £325m and the local economic impact of the project, which commenced in mid-2016, has been estimated at around £10m. It is located near Knottingley in West Yorkshire, on land adjacent to the existing Ferrybridge Multifuel 1 plant, which entered commercial operation in 2015.

Scheduled for operational handover in Q3 2019, FM2 will treat up to 675,000 tonnes of fuel a year. The waste-to-energy operations of FM1 and FM2 combined will divert an estimated 1.3m tonnes of waste from landfill per annum.

Planning for FM2 followed the Development Consent Order process for nationally significant infrastructure projects, and as such it included two stages of public consultation.

In keeping with its commitment to positive stakeholder involvement in major projects, SSE has engaged with the local community through a quarterly Community Liaison Group. This group includes representatives from each of the local parishes along with the local MPs and other community representatives.

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**1.3m**

The weight, in tonnes, of waste that FM2 and FM1 combined will be able to treat

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## Our role in society

# WORKING WITH SSE'S STAKEHOLDERS

Successful delivery of SSE's strategy depends on effective engagement with stakeholders. SSE's stakeholders are people, communities and organisations with an interest or concern in its purpose, strategy, operations and actions and who may be affected by them. SSE engages with six key groups – energy customers; employees; shareholders; government and regulators; suppliers and contractors; and civil society, communities and NGOs.

## Stakeholder led business strategies

There is a growing recognition amongst the business community and within the energy industry of the value of high-quality stakeholder relationships. SSE seeks to embrace this trend recognising the better the stakeholder input, the greater the legitimacy and sustainability of its business strategy.

Engagement with stakeholders informs decision making at both the micro and macro level. For example, on a day-to-day basis important feedback and engagement occurs through Customer Forums in Energy Services. Feedback is received on the performance of customer service operations as well as testing new initiatives in advance of their implementation.

At a strategic level, methods of engagement can vary depending on the issue and the business unit involved. However, senior leaders regularly and actively participate in government, industry and customer forums and events, listening carefully to the perspectives of customers, suppliers, energy users and policy-makers. In 2018/19 the most material issues of focus included: the emerging case for enhanced carbon targets for the UK; UK (including Scottish) content within the renewables supply chain; and, the reform of the electricity distribution network into an active local system operator.

Detail of how SSE engages with its six stakeholder groups, and how this influences SSE's business operations, can be found on page 93 [\[6\]](#).

## Supporting the ethos of Section 172

Meaningful engagement with these stakeholder groups supports the ethos of Section 172 of the Companies Act which sets out that Directors should have regard to stakeholder interests when discharging their duty to promote the success of the company. Details of the key stakeholder engagement undertaken at different levels within SSE to inform decision-making and enhance Board understanding are set out on page 93 [\[6\]](#).

## Recognising the role of stakeholders in the future of energy networks

The future of energy networks is of key concern to SSE's stakeholders. Under the RIIO-2 framework for energy network regulation published by Ofgem in 2018, an important and enhanced role for the stakeholder has been designed into the price control process. This is a welcome development supporting the formulation of business plans that reflect the needs of stakeholders within electricity network boundaries.

In the case of SSE's Transmission business an independent User Group has been established under Ofgem guidance to scrutinise its business plans for the period 2021-2026. The process for the distribution price control will follow with the appointment of a Customer Engagement Group to undertake a similar role for the 2023-2028 period.

These price-control-specific groups supplement the Stakeholder Advisory Panel which exists so Scottish and Southern Electricity Networks business executives and the SSEN Board ensure that SSE's Transmission and Distribution businesses respond early to the needs of their stakeholders.

The UK's Labour Party believes that there should be state control of networks. Throughout 2018/19 SSE sought constructive engagement with politicians, policy-makers and representatives of the energy industry in response to this focus on the ownership structure of public utilities, and energy networks (see page 13 [\[6\]](#)).

Senior business leaders actively participated in several public events to put forward the

case that the independent regulation of electricity networks and private ownership has worked in the public interest for over two decades.

Furthermore, SSE recognises that the rapid transition to a more flexible electricity network poses an important challenge to empower local energy users. As a result, SSE has sought to lead a debate about progressive reform to bring about greater decentralisation and democratisation of the system as electricity continues to be decarbonised.

In addition, SSE is seeking to demonstrate that a renationalisation of energy networks would result in poorer outcomes for customers and seriously jeopardise progress towards decarbonisation of the energy system.

## ENERGY CUSTOMERS

SSE provides energy and related services to millions of domestic and business customers.

In a rapidly-changing sector, energy distribution and energy supply customers expect a service they can rely on. Engagement provides a better understanding of customer needs, as well as how continuous improvement in service can be delivered. More broadly, SSE takes account of the current and future needs of all energy customers across the UK and Ireland, and this is one of the key issues in its stakeholder engagement generally.

### Material issues

- Affordable and accessible energy (pages 58 and 64 [📄](#))
- Responsiveness to need and vulnerability (pages 58 and 64 [📄](#))
- Quality customer service (pages 58, 63 to 64 [📄](#))
- Using energy efficiently (pages 63 to 64 [📄](#))
- Impact of industry change (pages 60 to 64 [📄](#))

## GOVERNMENT AND REGULATORS

SSE works constructively with government and regulators.

Governments and regulators play a central role in shaping the energy sector. Engagement is especially important in delivering an energy system that supports the achievement of long-term carbon targets. SSE works constructively with the governments and regulators in the UK and Ireland in order to protect the long-term interests of energy customers and keep pace with the emerging expectations of society as a whole.

### Material issues

- Cost-effective decarbonisation (pages 28 to 31 [📄](#))
- Fair treatment of customers (pages 58 and 64 [📄](#))
- Security of energy supplies (page 70 [📄](#))
- Economic impact of investments (page 26 [📄](#))
- Conduct of large businesses (pages 24 to 35 [📄](#))
- Brexit and its impacts on industry (page 13 [📄](#))

## EMPLOYEES

SSE directly employs around 20,000 people in the UK and Ireland.

SSE depends on the shared talent, skills and values of its employees. It has a framework for ongoing two-way feedback and engaging employees at all levels about the key issues that affect them. SSE aims to be a supportive and inclusive employer for which people want to work. In line with that, SSE also monitors the perspectives on the workplace and on employment issues of people beyond its existing workforce.

### Material issues

- Opportunities for development and progression (page 33 [📄](#))
- Flexible, agile and family-friendly working patterns (page 34 [📄](#))
- Inclusion and diversity (page 34 [📄](#))
- The opportunity to have a say and make a difference within SSE (page 35 [📄](#))
- Communications with employees in relation to issues such as Brexit (page 13 [📄](#))

## SUPPLIERS AND CONTRACTORS

SSE works with around 8,000 suppliers and contractors.

SSE relies on its supply chain to deliver projects and ensure it operates successfully. SSE aims to build strong relationships with suppliers and contractors so it can maximise cost efficiencies and enhance positive economic, social and environmental outcomes, which is essential to deliver a "Just Transition" from a high-carbon world to a low-carbon one.

### Material issues

- Fair expectation in the delivery of projects (page 27 [📄](#))
- Manage and mitigate health and safety risks on sites (pages 34, 113 to 115 [📄](#))
- Deliver economic opportunities to local supply chains (page 27 [📄](#))
- Ensure social and environmental impacts are managed and mitigated (pages 24 to 35 [📄](#))

## SHAREHOLDERS

SSE has a large and diverse shareholder base, including many UK-based pension funds.

SSE's shareholders own the company and expect to earn a return on their investment. SSE is committed to maintaining constructive dialogue with shareholders and engages with them regularly to understand their perspectives and ensure these are considered in its decision-making. SSE is also concerned to ensure that the way it makes decisions through the governance of the Group is of the standard that shareholders would expect.

### Material issues

- Financial performance (pages 36 to 47 [📄](#))
- Investment plans (page 43 [📄](#))
- Operational performance (pages 48 to 64 [📄](#))
- Strategic direction of the company (pages 8 to 13 [📄](#))
- Environmental, social and governance (ESG) performance (pages 24 to 35 [📄](#))

## CIVIL SOCIETY, COMMUNITIES AND NGOS

SSE works in partnership with many third-party organisations.

NGOs and civil society bring specialist and distinctive perspectives, contributing to business decision-making. SSE engages with groups that focus on social, environmental and other energy- and business-related issues on behalf of energy customers and wider society. Mature two-way relationships with SSE's community neighbours in the places where its energy assets are located are key in supporting SSE's day-to-day operational obligations.


### Material issues


- Environmental protection and decarbonisation (pages 28 to 31 [📄](#))
- Customer vulnerability and fuel poverty (pages 58 and 64 [📄](#))
- Employment standards including the real Living Wage and the gender pay gap (pages 33 to 35 [📄](#))
- SSE's economic contribution and its approach to tax (pages 26 to 27 [📄](#))


Our role in society continued


# ADVANCING A SUSTAINABLE BUSINESS

The UN has created a blueprint for a sustainable world which SSE is placing at the centre of its business. Four new 2030 Goals, aligned to the UN's Sustainable Development Goals (SDGs) underpin SSE's strategic focus on being a developer, operator and owner of long-term, low-carbon and sustainable assets.

**Climate Action:** Reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150gCO<sub>2</sub>e/kWh.  
More on page 30 

**Affordable and Clean Energy:** Develop and build by 2030 enough renewable energy to treble renewable output to 30TWh a year.  
More on page 51 

**Industry, Innovation and Infrastructure:** Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.  
More on pages 58 and 59 

**Decent Work and Economic Growth:** Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.  
More on pages 27 and 35 


## Four fundamental goals for 2030

SSE's strategic focus on core businesses that support and enable the transition to a low-carbon electricity system provided an important opportunity to ensure SSE's drive to be a sustainable business is not in addition to its core strategy, but at the heart of it.


Following a year of consultation with employees and key external stakeholders, the Board agreed to align SSE's sustainability framework with the UN's SDGs. Employees considered it important that SSE places itself within the context of a greater global effort, particularly in the fight against climate change. External stakeholders were particularly keen to encourage visibility of progress against set targets and to ensure clear accountability for progress against them.

A detailed materiality assessment was undertaken mapping SSE's impacts to the 17 UN SDGs and in January 2019, the SSE plc Board agreed the most material goals are Goal 13 Climate Action; Goal 7 Affordable and Clean Energy; Goal 9 Industry, Innovation and Infrastructure; and, Goal 8, Decent Work and Economic Growth.

Decisions followed to define ambitious business goals for 2030 that aligned to each of the most material SDGs and – most importantly – that are core to SSE's business purpose and strategy. SSE's 2030 Goals have been set to deliver: reduced carbon intensity of electricity generated; the trebling of renewable energy output; flexible electricity networks that can accommodate the electrification of vehicles; and an ongoing commitment to champion Fair Tax and a real Living Wage.

SSE will report comprehensively against its four fundamental 2030 Goals from 2019/20. SSE's Remuneration Committee has agreed to align a proportion of executive remuneration to the achievement of those four goals. See page 139 .


## The wider SDG framework

SSE recognises that while long-term sustainability is dependent on the achievement of its material long-term goals, there remain many other ways that SSE can enhance the sustainability of its business overall. The 17 SDGs provide a lens from which SSE can assess these further social and environmental risks and opportunities. It therefore reports against additional SDGs material to its business in its Sustainability Report 2019 .

SSE also specifically recognises the significance of SDG 17: Working in Partnership. The importance of listening to and engaging with SSE's stakeholders is key, but so too is the development of business and financial partners in supporting the delivery of each of its own four fundamental goals.

## Beyond the goals

SSE recognises and welcomes an increasing focus from stakeholders, shareholders and regulators on company performance against non-financial performance. SSE's approach to the disclosure of social and environmental impacts is to integrate them throughout its Annual Report at the same time as reporting in greater detail in its annual Sustainability Report.

Furthermore, in the pursuit of comprehensive integration of the sustainability pillars across SSE, there is a deliberate effort seeking to improve its performance against environmental, social and governance (ESG) criteria commonly used by both investors and stakeholders. See page 29  for detail of SSE's new Revolving Credit Facility, with new criteria agreed with funding partners linked to an improving and independently judged ESG score.

## NON-FINANCIAL INFORMATION STATEMENT

SSE welcomes an increasing focus from both regulators and shareholders on its non-financial performance. One of the reasons for this, is that SSE believes good performance in non-financial indicators ultimately supports creation of value for both shareholders and society. The Non-Financial Reporting requirements of the Companies Act 2006 necessitate additional disclosure of non-financial impacts. The table below signals where relevant information can be found within SSE's Annual Report 2019 on how SSE is meeting these requirements. Further disclosure can be found in SSE's Sustainability Report 2019.

A description of SSE's business model and the way it creates value can be found on pages 6 to 7.

Reporting requirement and SSE's material areas of impact	Relevant principal risks, pages 68 to 71	Policy embedding, due diligence, outcomes and key performance indicators
<b>Environmental matters</b> <ul style="list-style-type: none"> <li>Contribution to climate change</li> <li>Wider environmental impacts</li> </ul>	Politics, Regulation and Compliance  Safety and the Environment	Strategic overview, pages 2 to 3 Our business model, pages 6 to 7 Market review, pages 14 to 15 Advancing a sustainable business, page 24 Working with SSE's stakeholders, pages 22 to 23 Climate change and environment, pages 28 to 31 SHEAC Report, pages 113 to 115
<b>Employees</b> <ul style="list-style-type: none"> <li>Health and safety</li> <li>Impact of operational changes</li> <li>Fair work practices</li> <li>Training, skills and development</li> <li>Inclusion and diversity</li> </ul>	People and Culture  Safety and the Environment	Strategic overview, pages 2 to 3 Our business model, pages 6 to 7 Advancing a sustainable business, page 24 Working with SSE's stakeholders, pages 22 to 23 People, pages 32 to 35 Remuneration Report, page 117 SHEAC Report, pages 113 to 115
<b>Social matters</b> <ul style="list-style-type: none"> <li>Inclusive service provision</li> <li>Responsible approach to tax</li> <li>Contributing to the economy</li> <li>Sharing value with communities</li> </ul>	Politics, Regulation and Compliance  Energy Affordability  Development and Change	Strategic overview, pages 2 to 3 Our business model, pages 6 to 7 Advancing a sustainable business, page 24 Working with SSE's stakeholders, pages 22 to 23 Social contribution, pages 26 to 27
<b>Human rights; anti-corruption and anti-bribery</b> <ul style="list-style-type: none"> <li>Reinforcing an ethical business culture</li> <li>Approach to human rights and modern slavery</li> </ul>	People and Culture  Large Capital Projects Quality	Chairman's introduction, page 8 to 10 Working with SSE's stakeholders, pages 22 to 23 People, pages 32 to 35 Culture and engaging outside of the Boardroom, pages 94 to 96

## Our role in society continued

## SOCIAL CONTRIBUTION

SSE's strategic goal is to create value for shareholders and society in a sustainable way. Value is delivered for shareholders in dividends and for society it is reflected in economic contribution, taxes paid, jobs created, sustained investment and the long-term stewardship of infrastructure.

## Performance summary

	Unit	2018/19	2017/18
Contribution to GDP (UK/Ireland) <sup>1</sup>	£bn/€m	8.9/689	8.6/806
Total jobs supported (UK/Ireland) <sup>2</sup>	Number	101,170/4,080	99,000/4,520
Total investment and capital expenditure	£bn	£1.4	£1.5
Total taxes paid (UK/Ireland)	£m/€m	403.6/14.6	484.1/22.6
Investment in communities <sup>3</sup>	£m	8.5	6.5



1 Total direct, indirect and induced Gross Value Added, from PwC analysis.

2 Measured as headcount, from PwC analysis.

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

## Relevant policies and documents

- Annual PwC economic contribution report
- Group tax strategy
- Annual Talking Tax booklet
- Sustainability Policy
- Procurement Policy
- Responsible Procurement Charter
- Annual Community Investment Review

For more information see the Sustainability Report 2019  and [sse.com/sustainability](https://sse.com/sustainability) .

## Working in the public interest

SSE understands that the way it conducts its business activities has an impact on society and that, to be successful in the long-term, private companies must work in the public interest to deliver value in its widest sense. This is reflected in SSE both aligning its business strategy with the UN's Sustainable Development Goals (SDGs) and embedding the ten principles of the UN Global Compact, which focus on human rights, labour, environment and anti-corruption, into its operations.

Private investment in the energy sector has a clear focus on efficiency and delivering for customers and society. Billions have been invested to facilitate the rapid decarbonisation and localisation of the power sector, and the

UK's energy networks are among the highest performing in the world, with networks costs on electricity bills falling by 17% since 1990. SSE knows however that meeting the public interest of customers and communities means going beyond lowering costs, increasing reliability and ensuring decarbonisation.

As well as setting a series of ambitious 2030 Goals for a low-carbon future, SSE has placed SDG 8, "Decent Work and Economic Growth", front and centre of its approach to business. Through this, SSE has committed to being the leading company championing the payment of Fair Tax and a real Living Wage across the UK and Ireland. As part of that, throughout 2018/19, SSE worked with Ofgem to explore new ways of ensuring

that all energy network companies in Great Britain operate firmly in the public interest and fulfil their social contract with society. Read more about this in the Sustainability Report 2019.

## Contributing to GDP and jobs

With over 20,000 employees and operations embedded throughout the UK and Ireland, SSE's business and its supply chain is large, complex and continually changing. This activity drives a significant economic contribution each year, in cities as well as in many rural areas across these countries.

To better understand the impact it makes each year in terms of GDP and jobs, SSE has worked with professional services



firm PwC since 2011/12 to quantify the economic contribution it makes through its direct operations and supply chain. PwC found that in 2018/19, SSE contributed £8.9bn to UK GDP and €689m to Irish GDP, supporting a total of 105,250 jobs across these countries. SSE publishes these figures alongside its financial results each year, understanding that the wider economic contribution it makes goes beyond profits. SSE is committed to long-term value creation and growth in the countries it operates in. It has added a total of £75.2bn and €6.8bn (in 2018/19 prices) of value to the UK and Irish economies since 2011/12.

SSE's continued investment in infrastructure is a key component of the economic value it adds. This investment helped deliver major projects, such as Stronelairg onshore wind farm (SSE share: 50.1%) and Beatrice Offshore Wind Farm Limited (SSE share: 40%), which are key in the transition to a low-carbon economy.

### **Maintaining a fair approach to tax**

SSE has long made the case that tax is the fundamental way in which businesses contribute to the societies that enable their business success. SSE continues to be one of the largest tax payers in the UK, and was ranked 26th out of 97 participating companies in PwC's Total Tax Contribution 2018 Survey for the 100 Group. In 2018/19, SSE gained Fair Tax Mark accreditation for the fifth consecutive year and remained the only FTSE 100 company to have obtained it. The Fair Tax Mark is an independent verification that companies pay the right amount of tax, in the right place, at the right time and rule out the use of artificial tax avoidance schemes or tax havens.

SSE's total tax contribution across the UK and Ireland remained relatively unchanged between 2017/18 and 2018/19, at £1,013m compared to £1,000m the year before. However, this consistency overall was a result of total taxes collected increasing from £499m to £597m and total taxes paid decreasing from £501m to £417m. The rise in taxes collected was primarily driven by an £85m increase in net VAT collected from customers, while the reduction in taxes paid was primarily driven by £97m less paid in corporation tax in 2018/19.

SSE's approach to paying tax remained consistent in 2018/19 as in previous years. SSE's corporation tax payment fell significantly this year for two important reasons. Firstly, corporation tax is a tax on the profits companies make – this means that when companies do well, the public purse should grow too. After a challenging year for

its business, SSE's profits were less in 2018/19 than in 2017/18. Secondly, the Government encourages companies to invest in capital projects because it is good for the economy and good for jobs. One way they do that is incentivising this business behaviour with tax relief by way of capital allowances. SSE continued to invest significantly throughout 2018/19, with capital and investment expenditure of £1.4bn in 2018/19, in line with its plans for investment and capital expenditure of around £6bn across the five years to March 2023.

### **Focus on fair work**

Respect, recognition and reward of employees is a central element of any company's contract with society. Businesses depend on human capital to create value and, in return, they must invest in the people that work for them. SSE has been a vocal advocate and champion for the Living Wage since becoming an accredited employer in 2013, and will continue to demonstrate its commitment to leadership in this area in 2019/20.

In 2018/19, SSE invested £28.2m across learning and training, including pipeline programmes, and has taken significant action over the past three years to develop its approach to inclusion and diversity across the company. Information on SSE's approach to fair work practices and its responsible employer ethos can be found on pages 32 to 35 and within the "Decent Work and Economic Growth" section of its Sustainability Report 2019.

### **Responsibly developing and operating assets**

SSE's publication in 2018/19 of the fourth edition of the "Power from the Glens" book to celebrate 75 years of hydro power in the North of Scotland demonstrates its ongoing commitment to careful custodianship of renewable assets, both new and old. The infrastructure SSE develops and builds will be around for the long-term and, as stewards of these important assets, SSE has a responsibility to make sure it meets the needs of the people and businesses that live and work around its operations. This means meeting all regulatory requirements as a minimum, and listening and responding to communities and stakeholders in a balanced way. SSE has dedicated stakeholder engagement teams who work to build strong relationships with communities close to its operations, with the ultimate aim of minimising any negative impacts and creating positive impacts where possible.

### **Supporting local supply chains**

SSE's Responsible Procurement Charter and Procurement Policy both highlight the importance of sustainable supply chains. Key to this is sharing economic opportunities with the people and businesses close to SSE's operations. As well as working with communities directly, SSE has a structured approach to engaging with its strategic suppliers and looks to them to form constructive local relationships so that communities gain from SSE's significant capital investments. In 2018/19, SSE took action to ensure the sustainability of the Open4Business platform it created in 2012 for local business to access job opportunities at its sites.

### **Investing in communities**

SSE recognises that it must be an active contributor to the communities it is part of, and has an on-going commitment to share value where it has been created.

SSE Renewables' Community Investment Funds support a diverse range of community projects near its renewable developments, and SSE's Resilient Communities Fund supports community resilience projects in its network areas. In 2018/19, SSE Renewables provided its largest ever award, with £600,000 granted to build the Fort Augustus Medical Centre in the Great Glen, Scotland.

Between its community fund programmes and its Be the Difference employee volunteering programme, which allows all employees to volunteer a working day each year, in 2018/19 SSE invested a total of £8.5m in communities across the UK and Ireland, an increase from £6.5m the year before. This brings SSE's total investment in communities over the past five years to over £30m.

### **Frameworks and benchmarking**

As well as the integration of the UN's SDGs into its strategy and operations (see page 24), SSE follows a number of other external best practice frameworks and benchmarks. In 2018/19, SSE became a signatory to the United Nations Global Compact (UNGC), committing to take action that advances societal goals. As a signatory, SSE has incorporated the Ten Principles of the UNGC, focused on the environment, human rights, labour and anti-corruption, into its approach to business. SSE also responds annually to the CDP Climate Change and Water Programmes and to the Workforce Disclosure Initiative, and actively engages with key investor ESG (environmental, social, governance) ratings agencies including MSCI and Vigeo Eiris.

## Our role in society continued

# CLIMATE CHANGE AND ENVIRONMENT

With meeting the challenge of climate change at the core of its business strategy, SSE seeks to develop, operate and own assets that create lasting value and support the low-carbon transition. To allow stakeholders to properly assess SSE's performance in managing climate-related issues, SSE aims to provide increasingly transparent disclosures.

### Performance summary

	Unit	2018/19	2017/18
Total carbon emissions <sup>1</sup>	Million tonnes CO <sub>2</sub> e	18.83 <sup>(A)</sup>	21.70
Intensity ratio: electricity generation emissions relative to output <sup>2</sup>	gCO <sub>2</sub> e per kWh	284 <sup>(A)</sup>	305
Total renewable generation output (inc. pumped storage)	GWh	9,779	9,428
Total generation output	GWh	30,835	33,098
Total water consumed	Million m <sup>3</sup>	5.6 <sup>(A)</sup>	7.6 <sup>(A)</sup>

1 GHG emissions from SGN's activities are excluded (SGN reports these separately). GHG emissions from other Joint Ventures are also excluded. For more detail see SSE's GHG Reporting Criteria at [sse.com/sustainability](https://www.sse.com/sustainability).

2 SSE's 2030 carbon intensity target is based on generation emissions only. To track progress against this target, previous years' intensity ratios have been restated to only cover electricity generation emissions rather than total scope 1 emissions.

### Relevant policies and documents

- Environment and Climate Change Policy
- GHG, carbon intensity and water assurance statement
- Green Bond assurance statement and framework
- CDP Climate Change submission
- CDP Water submission
- Annual Biodiversity Report
- Post-Paris climate change scenario report

For more information see the Sustainability Report 2019 and [sse.com/sustainability](https://www.sse.com/sustainability).

### The imperative to decarbonise

SSE recognises the serious risk that climate change poses to society and to its business. It also recognises that the need to decarbonise presents significant opportunities in supporting the UK and Ireland transition to low-carbon electricity systems.

The International Panel on Climate Change's (IPCC) landmark report released in October 2018, unlike studies before it, estimated that

unprecedented levels of change are needed in a much shorter timeframe to limit global temperature increases to within 1.5°C or 2°C.

At the same time, there have been growing calls for the UK to stretch its ambitions, currently set as an 80% cut in emissions by 2050. This movement towards a "Net Zero" emissions target reflects the scientific analysis of the available window for action, at the same time as a greater understanding

of how Net Zero would be achieved. SSE firmly supports the UK adopting a Net Zero emissions target for 2050 at the latest. The UK Government will decide in the course of 2019 if further legislation is required.

This growing sense of urgency around the need to tackle climate change has piqued stakeholder interest in the action SSE is taking to manage climate-related issues, not least in the investor community who are increasingly

(A) PwC has provided limited assurance against ISAE 3000 (Revised) and ISAE 3410 standards for selected key data in 2018/19. Where you see the (A) "Assurance symbol" in this section, it indicates that the data point has been subject to external assurance by PwC. For the limited assurance opinion and SSE's reporting criteria, see [sse.com/sustainability/reporting-and-policy/](https://www.sse.com/sustainability/reporting-and-policy/).

requesting that companies disclose more meaningful climate-related information.

### Towards full TCFD disclosure

In November 2017, SSE committed to meeting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in full by March 2021. These recommendations encourage businesses to increase disclosure of climate-related information, with an emphasis on financial disclosure.

SSE has made progress towards meeting these recommendations by improving the quality of climate-related information in this Strategic Report and by responding to CDP's annual Climate Change Programme, which for the first time in 2018 addressed the TCFD recommendations.

This enhanced disclosure reflects the additional steps taken in 2018/19 to assess and report on SSE's material climate-related risks and opportunities, along with the financial quantification of the impacts for a number of these.

In 2018, SSE was awarded an "A-" for its response to the CDP Climate Change Programme. SSE will continue to respond to the CDP Climate Change Programme and aims to further improve its disclosure.

## Strategy

### Supporting the low-carbon transition

Decarbonisation represents a significant opportunity for SSE's businesses. SSE's renewables portfolio and electricity networks provide the core infrastructure to support the transition to a low-carbon energy system, complemented by thermal plant that provides vital flexibility, offsetting the variability of renewables output.

To realise these opportunities and contribute significantly to the transition to low-carbon electricity systems in the UK and Ireland, SSE's approach has been two-pronged:

#### (1) To reduce the carbon intensity of its own operations through a strategic shift towards a less fossil fuel intensive generation portfolio.

SSE has invested over £3.8bn in renewables since 2010. With the delivery of the 588MW Beatrice offshore wind farm (SSE share: 40%) in May 2019, SSE currently has the largest renewable energy capacity across the UK and Ireland at around 4GW (inc. pumped storage), and has significant opportunities in onshore and offshore wind farm developments, with an 8GW pipeline.

In 2018/19, coal-fired generation contributed just 2%, renewable generation (inc. pumped storage) 32% and gas- and oil-fired generation 66% of SSE's total generation output (compared to 4%, 28% and 66% respectively in 2017/18). In 2018/19, SSE began construction of its new Combined Cycle Gas Turbine (CCGT) power station Keadby 2, in North Lincolnshire, which will be the most efficient thermal power station on the UK power system when completed in early 2022.

### Renewable generation output (inc. pumped storage) (GWh)

2018/19: **9,779**

2017/18: 9,428

#### (2) To support the UK to decarbonise by enabling more renewable generation to connect to the electricity transmission network the North of Scotland.

SSE has invested over £2.7bn since 2013 in new electricity transmission infrastructure and has a total planned investment of over £600m by the end of the current transmission price control period in 2021. This investment is increasing the capacity of the network, allowing the renewable energy generated in the North of Scotland to be transported south to areas of higher demand. In doing this, SSE's transmission network is playing a key role in supporting the UK to achieve its carbon targets. In 2018/19, around 1GW of new renewable generation capacity was connected, bringing the total to over 6GW, up from around 3.3GW in 2013.

### Green finance

As part of SSE's strategy for supporting a low-carbon economy, it is using financial markets as a progressive agent for change and climate action. In September 2018, SSE issued its second Green Bond of €650m. This, in addition to the company's inaugural €600m Green Bond issued in September 2017, means SSE is the largest issuer of Green Bonds in the UK corporate sector.

SSE also refinanced its £1.3bn Revolving Credit Facility (RCF) in March 2019 linked to sustainability criteria. The RCF now incorporates an innovative feature, which adjusts the interest rate and fees paid depending on SSE's performance against an ESG (environmental, social and governance) score determined by Vigeo Eiris, an independent global provider of ESG research. SSE is one of the first UK corporates to convert to an ESG-linked RCF.

### Advocating for carbon pricing

In November 2018, SSE joined other leading businesses in writing to the Prime Minister to call for the adoption of a Net Zero emissions target by 2050. In addition, in his role as Vice President of industry body Eurelectric, SSE's Chief Executive Alistair Phillips-Davies launched a new study that demonstrates how the European power sector can become fully carbon neutral by 2045 through investment in renewable energy and electricity networks.

SSE also continued to promote a strong carbon price by advocating to the Chancellor along with other power companies ahead of the Budget in November 2018, calling for Government to keep the Total Carbon Price stable during the period of uncertainty around Brexit and the UK's future participation in the EU ETS. SSE also supported carbon pricing through submissions to consultations on Ireland's National Energy and Climate Plan.

In addition, SSE made the case for increased UK offshore wind ambition setting out the proven ability of offshore wind to deliver clean power cost effectively at a time when new nuclear is facing challenges. SSE has been a vocal advocate for the development of offshore wind in Ireland, and particularly for support of this technology through Ireland's upcoming Renewable Electricity Support Scheme.

## Risk management

### Managing climate-related risks and low-carbon opportunities

While climate change, and the imperative to decarbonise energy systems, provides SSE with its commercial opportunities it creates business risks too. 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, 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 110 and 111.

Addressing climate change requires adaptation as well as mitigation, as reflected in SSE's approach to risk management. Climate change and its impacts are considered throughout SSE's Group Principal Risks (see pages 66 to 71).

In line with its approach to help stakeholders properly assess performance, SSE has increased transparency of how it is managing its most material climate-related risks and low-carbon opportunities, through more detailed disclosure and analysis in its Sustainability Report 2019.

## Our role in society continued

### Climate change and environment continued

#### Metrics and targets

##### SSE's carbon emissions performance

SSE's total carbon emissions (scope 1, 2 and 3) decreased by 13% between 2017/18 and 2018/19. Of these total carbon emissions, emissions from SSE's electricity generation are a significant contributor, representing 47%.

The main contributing factors to the reduction in total carbon emissions in 2018/19 were:

- a reduction in thermal generation carbon emissions by 13% (from 10.1m tCO<sub>2</sub>e to 8.76m tCO<sub>2</sub>e), with a corresponding reduction in the emissions associated with the raw fuel purchased for electricity generation;
- a reduced volume of gas sold due to a combination of lower numbers of gas customers, impacts of the weather and energy efficiency measures; and
- a reduction in the carbon emission factor as a direct result of the decarbonisation of the GB electricity grid.

##### CO<sub>2</sub> emissions (millions tonnes CO<sub>2</sub>e)

	2018/19 Total CO <sub>2</sub> e	2017/18 Total CO <sub>2</sub> e	2016/17 Total CO <sub>2</sub> e
Generation <sup>1</sup>	8.76	10.10	7.95
Other scope 1	0.05	0.05	0.05
<b>Scope 1 total<sup>2</sup></b>	<b>8.81<sup>(A)</sup></b>	<b>10.16<sup>(A)</sup></b>	<b>8.00<sup>(A)</sup></b>
Distribution electricity network losses	0.61	0.77	0.97
Other scope 2	0.11	0.14	0.15
<b>Scope 2 total<sup>3</sup></b>	<b>0.72<sup>(A)</sup></b>	<b>0.91</b>	<b>1.12</b>
Raw fuels purchased	1.27	1.42	0.97
Gas sold	7.91	9.07	9.11
Transmission electricity network losses	0.09	0.11	0.29
Other scope 3	0.02	0.02	0.02
<b>Scope 3 total<sup>4</sup></b>	<b>9.29<sup>(A)</sup></b>	<b>10.63</b>	<b>10.39</b>
<b>Total emissions<sup>5</sup></b>	<b>18.83<sup>(A)</sup></b>	<b>21.70</b>	<b>19.51</b>

SSE's GHG data has been assured since 2015/16. Improvements in data reporting over this time has led to the restatement of some of the previous year's data points.

- <sup>1</sup> 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.
- <sup>2</sup> Scope 1 comprises electricity generation, operational vehicles and fixed generation, sulphur hexafluoride emissions and gas consumption in buildings.
- <sup>3</sup> Scope 2 comprises electricity consumption in operations (generation, transmission and distribution) and non-operation buildings and distribution losses. In 2018/19 there was a change in the approach used for scope 2 data collection and as a result 2016/17 and 2017/18 figures have been restated.
- <sup>4</sup> 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.
- <sup>5</sup> GHG emissions from SGN's activities are excluded (SGN reports these separately). GHG emissions from other Joint Ventures are also excluded.

##### Generation output (GWh) and electricity generation carbon emissions (million tonnes CO<sub>2</sub>e)

##### SSE's carbon intensity performance

In 2017/18, SSE set a new target to reduce the carbon intensity of its electricity production by 50% by 2030, based on 2018 levels. Meeting this ambition means the carbon intensity of SSE's generated electricity is targeted to be around 150gCO<sub>2</sub>e/kWh by 2030. If achieved, SSE will have cut its carbon intensity by 75% from 2006 levels.

Between 2017/18 and 2018/19 the carbon intensity SSE's generated electricity fell by 7%, from 305gCO<sub>2</sub>e/kWh to 284gCO<sub>2</sub>e/kWh, as a result of changes in its generation output mix. SSE had a record year of renewable generation output and this, combined with a reduction in the coal-fired generation and gas- and oil-fired generation output, resulted in the reduction in carbon intensity.

##### Carbon intensity of SSE's generated electricity (gCO<sub>2</sub>e/kWh)

**2018/19: 284**

2017/18: 305

This made a welcome contribution to SSE's long-term carbon intensity target. It is important to note that SSE does not expect the achievement of this target in 2030 to have followed a linear year-to-year reduction path. Market driven and weather related fluctuations may mean there are some years in which emissions may rise. However, SSE fully expects to achieve its 2030 target and the long-term trend continues to be of significant reduction in the carbon intensity of the electricity it generates.

##### Towards a science-based target

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

While SSE's current 2030 carbon intensity target has been set in line with climate science, SSE will establish additional targets across its other sources of carbon emissions in order to set a comprehensive science-based target. SSE will outline further targets that relate to these other emissions before 31 March 2020.

■ Renewables output      ■ Coal output      ■ Gas and oil output  
■ Multifuel output      — Electricity generation carbon emissions

## Governance

### Governing 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.

During 2018/19, the Executive Committee was responsible for implementing the Group strategy set by the Board and driving climate-related performance programmes across the organisation. The Executive Committee is supported in fulfilling its work in relation to climate-related performance by the Safety, Health and Environment (SHE) Committee, as well as through support from SSE's Group Sustainability team. In addition to this, climate-related issues are managed within each business unit.

In addition, the company has appointed its first Chief Sustainability Officer (CSO), reporting directly to the Chief Executive – one of only a small number of FTSE 100 firms to do so. With the role effective as of 1 April 2019, the CSO advises the Board, Executive Committee and business units on climate-related matters and provides support in the implementation of relevant initiatives.

### Increasing accountability for addressing climate change

In March 2019, SSE announced four stretching 2030 Goals to help it achieve its business strategy. Three of these goals, including SSE's 2030 carbon intensity target, are focused on addressing the challenge of climate change and supporting the low-carbon transition.

To demonstrate its commitment to these Goals, SSE's senior management team will be judged on their progress against them, which will be directly linked to executive performance measures from 2019/20 onwards. More detail can be found in the Remuneration Report on page 139.

## Responsible resource use

### Managing water use

In 2018/19, SSE's operations abstracted a total of 25,131 million m<sup>3</sup> of water compared to 24,044 million m<sup>3</sup> in 2017/18. The vast majority was abstracted by SSE's hydro generation operations and is therefore returned almost immediately to the environment – only 5.6 million m<sup>3</sup> of this water was consumed in 2018/19 compared to 7.6 million m<sup>3</sup> in 2017/18. The decrease in water consumed was a result of reduced running of thermal generation plant in 2018/19; whilst the overall increase in water abstracted and returned in this period was a result of increased generation from SSE's hydro generation assets. 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 2019 and in SSE's CDP Water submission which is publicly available at [sse.com/sustainability](https://www.sse.com/sustainability).

#### Total water consumed (million m<sup>3</sup>)

2018/19: **5.6**

2017/18: 7.6

#### Water abstraction, consumption and return (million m<sup>3</sup>)<sup>1</sup>

	2018/19	2017/18	2016/17
Total water abstracted	25,131.0 <sup>(A)</sup>	24,044.3 <sup>(A)</sup>	22,658.9 <sup>(A)</sup>
Total water consumed	5.6 <sup>(A)</sup>	7.6 <sup>(A)</sup>	5.1 <sup>(A)</sup>
Total water abstracted and returned	25,126.1 <sup>(A)</sup>	24,037.3 <sup>(A)</sup>	22,654.5 <sup>(A)</sup>

<sup>1</sup> 2018/19 data covers SSE's operations in the GB and Ireland. Previous years' data only covered GB but has not been restated as the impact was immaterial to the overall totals.

### Managing air emissions

SSE continues to invest in operating practices and technologies that reduce or remove air pollutants from its generation processes. In 2018/19, SSE's thermal generation sites emitted 1,345 tonnes of sulphur dioxide and 6,124 tonnes of oxides of nitrogen. This compares to 1,916 and 6,305 tonnes respectively in 2017/18. The decrease in air emissions was due to reduced running of thermal generation plant in 2018/19.

#### Air emissions from SSE's thermal generation plants

	2018/19	2017/18	2016/17
Sulphur dioxide (tonnes) <sup>1</sup>	1,345	1,916	1,822
Nitrogen oxide (tonnes) <sup>1</sup>	6,124	6,305	6,143
Total thermal generation output (GWh)	21,056	23,670	18,341

<sup>1</sup> Figures include Irish thermal generation air emissions data for the periods between 1 January and 31 December and GB thermal generation air emissions data for the periods between 1 April and 31 March.

## Our role in society continued

## PEOPLE

Through their shared talents, skills and values, SSE's employees enable the company to create long-term value for shareholders and for society. SSE must therefore create an engaging and supportive environment where people want to work and where they can contribute and develop. Core to this, and meeting SSE's strategic challenges, is being a responsible employer that respects individuals and values the workforce as a whole.

## Performance summary

	Unit	2018/19	2017/18
Total employees	Headcount <sup>1</sup>	20,370	20,786
Gender split of employees	Headcount <sup>1</sup> male/female (% male/female)	13,974/6,396 (68.6/31.4)	14,321/6,464 (68.9/31.1)
Gender split of Board of Directors	Headcount <sup>2</sup> male/female (% male/female)	7/3 (70/30)	7/3 (70/30)
Gender split of senior management <sup>3</sup>	Headcount <sup>4</sup> male/female (% male/female)	44/10 (81.5/18.5)	38/9 (80.9/19.1)
Total Recordable Injury Rate (employees and contractors combined)	Per 100,000 hours worked	0.16	0.20
Retention/turnover rate	%	86.8/13.2	86.3/13.7
Total internal and external recruitment	Number (% internal)	3,430 (32.5%)	3,899 (33.8%)
Average length of service	Years	9.8	9.5
Employees on permanent contracts	%	95.1	95.3
Learning and development expenditure <sup>5</sup>	£m	11.1	12.4
Investment in pipeline programmes <sup>6</sup>	£m	17.2	15.4
Average training per FTE	Hours	22	22
Speak up contacts made <sup>7</sup>	Number	112	105

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

2 As at 31 March in each financial year. For more information see page 102.

3 SSE defines "Senior management" for these purposes as its Executive Committee and direct reports as at 31 March each year, which ties in with the Hampton-Alexander and UK Corporate Governance Code definitions and best reflects strategic decision-making and oversight within the company. 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 and Sustainability, who attend all Committee meetings. Administration employees have not been included when calculating the direct reports to these individuals. Note that significant changes were made as at 1 April 2019, see the "Gender balance" section on page 34 for more detail.

4 As at 31 March in each financial year.

5 Total internal and external learning and development expenditure excluding pipeline programme investment. 2017/18 figures have been restated to include relevant investment data not previously captured.

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

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

### Relevant policies and documents

- Safety and Health Policy
- Inclusion and Diversity Policy
- Employment Standards Policy
- Learning and Talent Policy
- Human Rights Policy
- Speak up (Whistleblowing) Policy
- Anti-Bribery and Corruption Policy
- Responsible Procurement Charter
- Doing the right thing: A guide to ethical business conduct for SSE employees
- Gender pay gap reporting
- Modern Slavery Statement 2019

For more information see the Sustainability Report 2019 [sse.com/sustainability](https://www.sse.com/sustainability) and [sse.com/sustainability](https://www.sse.com/sustainability)

## Strategic workforce challenges

SSE is undergoing a significant transformation with a clear focus on core businesses empowered to succeed in their part of the energy sector. This, combined with unprecedented change in the energy industry as a whole, creates a changing employment landscape. Within that context, the strategic workforce challenges facing SSE remain consistent: a growing skills gap and skills shortages within the energy sector in the next few years, and a material lack of diversity within energy sector workforces (which contributes to the skills gap and shortage). Together these challenges underpin the need to attract as broad and inclusive a pool of talent as possible.

SSE is using this evolving world of work as an opportunity to influence and develop its workforce strategy. Under SSE's new operating model, greater decentralisation of corporate functions will lead to the core business areas having a more bespoke approach to their human capital strategies. Whilst this will allow greater flexibility and more accountability within individual businesses, a common culture, including agreed standards around SSE's commitment to responsible employment practices, and its approach to employee engagement will be set at Group-level and remain core. SSE believes that more business-specific people strategies, engagement and consultation forums, will enable a more agile, better engaged and productive workforce overall.

## Governance

### Governing workforce issues

SSE's Chief Executive is responsible for leading SSE's Human Resources strategy, supported by the work of SSE's Director of Human Resources. Over 2018/19 SSE's Group Governance, Culture and Controls Committee had oversight of the "People and Culture" Group Principal Risk.

SSE's Governance Framework, as described in the Directors' Report across pages 110 and 111 [111](#), is 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.

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

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 processes, 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 100 to 103 [103](#).

### Workforce Disclosure Initiative

SSE remains committed to providing transparent and detailed disclosure of workforce issues and metrics. The Workforce Disclosure Initiative (WDI) launched in 2017 in response to investor concerns that company reporting on workforce issues does not provide the comparable and meaningful information they seek. Following its participation and support during the pilot of the survey in 2017/18, SSE again provided a detailed and publicly available submission to the first full year of the WDI in 2018/19.

## Development and progression

### Training, skills and development

At the end of 2018/19, SSE's 20,370 employees had an average length of service of just over 9.8 years. This means that the SSE workforce had more than 200,000 years of service within the company – a unique embodiment of experience, skills and knowledge of how SSE can best deliver value. Retaining and developing a workforce fit for the future low-carbon energy sector, is essential to SSE's long-term success. This means developing and up-skilling employees as technology develops and refreshing the workforce through a programme of recruitment that replaces key skills that will retire from the business. A key element of this approach is attracting a wider range of people and skills into the sector by conveying a clear message that SSE provides sustainable jobs and an opportunity to develop skills and a career with SSE.

Over 2018/19, SSE invested £11.1m in internal and external learning and development, compared to £12.4m in 2017/18. This small reduction was both as a result of a decrease in Retail Technical Training within Metering as a result of having mainly developed a smart metering workforce during the previous period and an ongoing move to more online learning delivery. Almost 1,100 people participated in Leadership and Talent Development programmes, an increase of over 25% from the year before.

### Total learning and development investment

2018/19: **£28.2m**

2017/18: £27.8m

Including pipeline programmes, SSE invested a total of £28.2m in training and skills over 2018/19 and delivered an average of 22 hours of training per full-time equivalent employee in 2018/19, consistent with the year before. Over the past five years SSE has delivered over 600,000 learning interventions. In addition, SSE offers a range of opportunities for employees to gain experience related development exposure through secondments and other activities.

## Our role in society continued

### People continued

#### Pipeline programmes

Investing in a pipeline of skilled individuals in preparation for the 2020s and to deliver SSE's business strategy is essential. These programmes provide the business with core critical skills in areas such as electricians, joiners, electrical engineers, wind farm technicians, plant operators and future project engineers.

SSE's investment in its technical pipeline programmes (apprentices, Technical Skills Trainees, engineering and IT graduates, and social mobility programmes such as Barnardo's Works, Career Ready and other smaller pipeline development programmes) increased again in 2018/19, from £15.4m to £17.2m. This increase was mainly due to an increase in SMART metering apprentices early in 2018. This brings SSE's total investment in pipeline programmes over the past five years to over £65m.

The number of people on one of SSE's pipeline programmes also increased between 2017/18 and 2018/19, from 1,110 to 1,239. This means that around 6% of SSE's total workforce was on one of its pipeline programmes, 60% of which were on one of SSE's apprenticeship programmes. SSE measures the quality of its apprenticeships against other providers using the UK Government "apprenticeship qualification achievement rates (QAR)". In 2018/19, SSE scored 94.6% in the apprenticeship QAR, significantly above the national industry benchmark of 67% and a substantial improvement from 78.9% the year before. This improvement was a result of a more focused approach by different business units in ensuring their apprentices achieve good outcomes and choose to stay with SSE.

#### Inclusion and diversity

##### Inclusion strategy

An inclusive and diverse workforce is seen as a key priority for the future growth and success of SSE's business. Progress and performance were reviewed by the Executive Committee on a quarterly basis and by the Nomination Committee twice per year in 2018/19. From 2019/20, SSE's Group Executive Committee will review progress on a monthly basis. Detail of the SSE plc Board's activities around this issue can be found on pages 102 and 103.

As well as being an active member of the UNGC Diversity and Inclusion Working Group, SSE has been working with inclusion experts Equal Approach since 2017 to develop and implement a targeted Inclusion Strategy which encourages more difference IN, ON and UP at SSE. Driving this approach

in SSE is an understanding that greater inclusion will drive more diversity across the business, and that a more diverse workplace means access to a wider pool of talent and leads to better debate, decisions and delivery.

Over 2018/19 SSE worked with Equal Approach to rerun its "return on inclusion" calculation which assesses the financial value created for the company for every £1 invested in inclusion initiatives. Equal Approach found that, as of 31 March 2018, SSE had achieved a return of £7.51 per £1 invested through its new approach which is focused on creating a more inclusive organisation. This is a significant improvement from the year before when SSE generated a £4.52 return for every £1 invested in gender initiatives, and an important step towards reaching SSE's £15 return target by 2021. SSE and Equal Approach won the Diversity Award in the Utility Week Awards 2018 for this innovative work and progress in the delivery of results.

Read more about SSE's Inclusion Strategy in the Decent Work and Economic Growth section of the Sustainability Report 2019.

##### Gender balance

The drive for greater gender balance across its business has been a key element of SSE's inclusion strategy, with SSE taking action in line with its "IN, ON, UP" approach: bring more women "IN" to the company, create the conditions where women want to stay "ON" with SSE, and support women to move "UP" in the organisation. In 2018/19, SSE was again included within the Bloomberg Gender-Equality Index, one of just 230 companies globally. SSE has also published its full UK gender pay gap statistics with detail of progress made against its action plan, well in advance of UK Government requirements for the fourth year in a row within its Sustainability Report 2019. SSE's UK median gender pay gap as at 5 April 2019 was 21.0%.

##### Workforce gender split (proportion female)

2018/19: **31.4%**

2017/18: 31.1%

Progress was also made over 2018/19 to ensure more women at SSE's highest levels, in line with SSE's three gender balance ambitions for senior management which were set in 2017/18 in response to the Hampton-Alexander Review. The reorganisation of SSE's business agreed over 2018/19, and subsequently implemented, provided an opportunity to progress careers of senior female leaders with effect from 1 April 2019. As at 31 March 2019, SSE's Group Executive Committee and its direct reports (excluding

administrative employees) was comprised of just 18.5% women. However, as at 1 April 2019 this increased to 23.2%. While there is clearly more progress to be made in SSE's ultimate goal of gender balance at all levels, SSE believes this marks important progress for the company. To read about SSE's progress against its gender balance ambitions, including its new ambition set in 2018/19 for 33% female membership of the Board on average over a three-year rolling period see the Sustainability Report 2019.

##### Agile working

A key strand of the inclusion strategy is to create a workplace that allows employees flexibility in how they work. SSE has invested in agile working and has been focused on advertising as many roles as it can under the "happy to talk flexible working" banner. Around 80% of roles are currently posted with this commitment.

#### Fair work practices

##### Responsible employer ethos

SSE is a committed responsible employer and its long-standing ethos of progressing and promoting employees from within, a preference for carrying out longer term work in-house, focusing on the UK and Ireland, and a commitment to creating an inclusive culture remains unchanged.

##### A record year for safety

Safety is SSE's first priority, with all employees guided by its mantra "if it's not safe, we don't do it". In 2016/17, SSE set itself a series of targets to reach by the end of 2020/21, including to reduce its combined Total Recordable Injury Rate (TRIR) per 100,000 hours worked for employees and contractors by 50% and to have no life changing injuries. SSE ended 2018/19 with strong progress made towards reaching these targets. Its combined TRIR was 0.16 (target of 0.17), compared to 0.20 in 2017/18 and there were 82 injuries compared to 104 for the same period last year. Most importantly, the company had significantly fewer potentially life-changing injuries, from 13 in 2017/18 to three in 2018/19.

SSE is also committed to employee wellbeing with a strong focus on health-related initiatives in 2018/19, and support for employees with mental health issues, through a network of Mental Health First Aiders and support from specialist providers.

Read more about SSE's 2018/19 safety and health performance and activities in the Safety, Health and Environment Advisory Committee Report on pages 113 to 115 and within the "Do no harm" section of SSE's Sustainability Report 2019.



### A Living Wage and Living Hours

Millions of people across the UK and Ireland face issues of low pay and insecure and unpredictable working hours. In September 2018, SSE celebrated its fifth anniversary of being an accredited Living Wage employer. SSE has taken a leading role in Living Wage Scotland since it was established in 2014. In 2018/19, SSE also joined the UK-wide Living Hours Steering Group to advise the Living Wage Foundation on this new initiative. "Living Hours" aims to set a new standard to reduce under-employment and insecurity around working hours.

### Employee benefits and reward

Recognising there are many ways to reward people beyond remuneration, SSE has an extensive range of benefits available for its employees. Back in 2017, SSE launched new and improved employee benefits, including enhanced maternity, paternity and adoptive pay, Emergency Day Passes, Technology Loans and SSE Advantage which offers savings and cashback deals. Other benefits range from employees being given the opportunity to volunteer a working day each year to good causes, to financial education and advice services, free counselling support sessions, energy discounts, a cycle-to-work scheme and the opportunity to buy up to 10 extra holiday days each year.

### Reinforcing a healthy and ethical business culture

A healthy, ethical business culture supports value creation within organisations. Conversely, an unhealthy culture which promotes wrongdoing presents a significant business risk. SSE has a robust governance structure in place to support and promote the rules and values needed to assist its employees in the decisions they made and the actions they take. The "Doing the right thing: A guide to ethical business conduct for SSE employees" sets out the behaviours and principles of behaviour expected of all employees at SSE, focusing on topics such as bribery and corruption, fraud, human rights and inclusion. SSE has several policies which outline SSE's expectations around employee conduct and the procedures and processes for when and how to speak up about wrongdoing. This includes SSE's Speak Up (Whistleblowing) Policy, Anti-Bribery and Corruption Policy and Human Rights Policy. Regular ethics and compliance training is mandatory for all SSE employees.

Since introducing an externally hosted whistleblowing channel in 2015, SSE has been actively encouraging employees to Speak Up against any wrongdoing within the company. As a result of its efforts, the number of Speak

Up contacts made through internal and external channels has continued to increase each year, increasing from 105 in 2017/18 to 112 in 2018/19.

### Speak up contacts made

2018/19: **112**

2017/18: 105

SSE believes that open and transparent disclosure around this issue is important in demonstrating its commitment to fully investigating and dealing with concerns raised in a serious and confidential manner. Further information on SSE's Speak Up statistics and its "Listen, Act, Protect" programme can be found in the "Do no Harm" section of the Sustainability Report 2019.

### Human rights and modern slavery

SSE has zero tolerance to modern slavery in all its forms and continues to take action to mitigate against the risk of modern slavery and human rights violations within its direct operations and supply chain. SSE's Human Rights Policy, which is published on the SSE website, outlines the fundamental principles that guide SSE, recognising that in both its direct employment and through its supply chain, human rights must be actively respected and promoted. SSE has also published its fourth and most transparent Modern Slavery Statement yet, providing a detailed account of action taken over 2018/19 and plans for future action in 2019/20. This Statement can be found on the [sse.com homepage](http://sse.com/homepage).

### Employee voice

#### Industrial relations

The right of employees to join a trade union is recognised as a fundamental 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 became a signatory of in 2018/19. SSE recognises four trade unions and a Joint Negotiating and Consultative Committee (JNCC), which covers 65.2% of all SSE employees, provides the structure by which industrial relations are conducted. SSE looks to engage with its trade union partners on a wider range of issues and has had engagement sessions with senior managers and the non-Executive Director Sue Bruce, both in her capacity as Remuneration Committee Chair and the non-Executive Director for Employee Engagement on a range of business-related issues as well as discussions on SSE's approach to executive pay.

### Board engagement with employees to support sustainable decision-making

In November 2018 the Board approved the appointment of Sue Bruce as the non-Executive Director for Employee Engagement. This newly-created role has been designed to enhance existing Board oversight on employee views and complements existing employee engagement channels. Further details of the initial work and activities which have been undertaken to date are set out on page 95.

### Great Place to Work survey

In June 2018, 78% of SSE employees participated in the Great Place to Work "pulse" survey. SSE's 2018 engagement index dropped by 5% compared with 2017, to 68%. This survey was undertaken during one of the biggest changes to SSE's business in over 20 years – the proposed demerger of SSE Energy Services – and so this result was not unexpected. The results of the survey identified many areas of consistency and improvement in teams across the business, which have translated into action taken in 2018/19. For more detail on these actions, see the Sustainability Report 2019.

### Performance management

Employees at all levels within SSE are measured against the same framework, and the formal bi-annual performance review sessions are designed to feedback to employees on their performance as well as provide structured career conversations which encourage employees to think about their opportunities for personal and professional development. SSE's well-established approach to performance management has 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.

### Saving and investing with SSE

SSE believes that the proportion of employees that save for their future and directly invest in the company are good indicators for their commitment to the company. At the end of 2018/19, 94.5% of employees chose to plan and save for their pension with SSE, increasing slightly from 94% in 2017/18. In 2018/19, 33.6% of employees participated in the SSE Sharesave scheme and 65.4% participated in the Share Incentive Plan. A new Sharesave plan was not offered during 2018/19 due to the proposed SSE Energy Services transaction, but is planned to be offered during 2019/20.

## Financial review

# DELIVERING FOR OUR SHAREHOLDERS

In what proved to be a difficult year, SSE demonstrated yet again its ability to create and unlock real value for shareholders through excellence in project delivery and well-timed disposals.

Gregor Alexander  
Finance Director

"SSE's long-term strategic focus on renewable energy and regulated electricity networks is clear."

Our financial results for 2018/19 fell short of what we had hoped to achieve at the start of the year, mainly as a result of the operating loss incurred in management of our energy portfolio. Important changes have now been made to the way in which SSE manages its exposure to energy commodities and more detail is provided in this section and on pages 68 and 92.

SSE's long-term strategic focus on renewable energy and regulated electricity networks is clear. These businesses, which make up the majority of SSE's assets and earnings, performed well in 2018/19 and are also well-positioned for future success.

We believe SSE should maintain a strong balance sheet. In 2018/19 Moody's and Standard and Poor's moved SSE's credit ratings down, but they remain among the strongest held by private sector utilities across Europe and should not have a significant impact on our ability to secure funding at competitive rates.

We will continue to be a major investor in assets and infrastructure that have a part to play in the transition to a low-carbon electricity system, with around £1.5bn investment forecast for 2019/20. In making investment decisions, we will be guided by strict financial discipline and will only invest where returns are expected to be greater than the cost of capital.

In 2018/19 we again demonstrated our ability to create and unlock value from developing and operating, as well as owning, energy assets and businesses. We generated over £1bn in proceeds from transactions, thanks to our approach of partnering and securing value for shareholders at appropriate times.

This underpins our commitment to a dividend that remunerates shareholders over the long-term. Our primary financial objective for 2018/19 was the delivery of a full-year dividend of 97.5p per share. This represents the first year of a five-year dividend plan all the way to 2023, to which we remain committed.

It is likely that 2019/20 will present further headwinds as a result of the persistent uncertainty in our operating environment; but the quality of SSE's assets and businesses, and our optionality and agility, mean we are well-placed to deliver on our strategy and to create value in a sustainable way for years to come.

## 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 Summary Financial Statements.

SSE Energy Services has been presented as a discontinued operation in the Summary Financial Statements, and therefore has been excluded from profit and loss based measures in the tables below in the current and comparative periods. As the Group continues to fund the business, the assets and liabilities held for disposal have been included in adjusted capex and adjusted net debt measures.

### Key Adjusted Financial Metrics (APM)

	March 19 £m	March 18 £m	March 17 £m
<b>Adjusted Operating Profit</b> <small>(APM)</small>	<b>1,137.6</b>	<b>1,554.8</b>	<b>1,604.6</b>
Adjusted Net Finance Costs <small>(APM)</small>	411.9	375.5	328.1
<b>Adjusted Profit before Tax</b> <small>(APM)</small>	<b>725.7</b>	<b>1,179.3</b>	<b>1,276.5</b>
Adjusted Current Tax (credit)/charge <small>(APM)</small>	(6.8)	82.5	103.8
<b>Adjusted Profit after Tax</b> <small>(APM)</small>	<b>732.5</b>	<b>1,096.8</b>	<b>1,172.7</b>
Less: hybrid equity coupon payments	46.6	98.5	119.3
<b>Adjusted Profit After Tax attributable to ordinary shareholders</b> <small>(APM)</small>	<b>685.9</b>	<b>998.3</b>	<b>1,053.4</b>
<b>Adjusted EPS – pence</b> <small>(APM)</small>	<b>67.1</b>	<b>98.8</b>	<b>104.3</b>
Number of shares for basic/reported and adjusted EPS (million)	1,021.7	1,010.9	1,009.7
Shares in issue at 31 March (m)	1,039.1	1,023.0	1,015.6

### Key Reported Financial Metrics

	March 19 £m	March 18 £m	March 17 £m
<b>Reported Operating Profit</b>	<b>1,692.2</b>	<b>1,157.4</b>	<b>1,763.3</b>
Reported Net Finance Costs	321.6	293.0	163.9
<b>Reported Profit before Tax</b>	<b>1,370.6</b>	<b>864.4</b>	<b>1,599.4</b>
Reported Tax (credit)/charge	(57.6)	116.4	22.4
<b>Reported Profit after Tax on continuing operations</b>	<b>1,428.2</b>	<b>748.0</b>	<b>1,577.0</b>
<b>Reported Profit for the period on discontinued operations</b>	<b>27.5</b>	<b>172.1</b>	<b>141.8</b>
<b>Reported Profit/(Loss) after Tax</b>	<b>1,455.7</b>	<b>920.1</b>	<b>1,718.8</b>
Less: hybrid equity coupon payments	46.6	98.5	119.3
<b>Reported Profit/(Loss) After Tax attributable to ordinary shareholders<sup>1</sup></b>	<b>1,409.1</b>	<b>821.6</b>	<b>1,599.5</b>
<b>Reported earnings per share on continuing operations – pence</b>	<b>135.2</b>	<b>64.3</b>	<b>144.4</b>

<sup>1</sup> After distributions to hybrid capital holders.

### Dividend per Share

	March 19	March 18	March 17
Interim Dividend pence	29.3	28.4	27.4
Final Dividend pence	68.2	66.3	63.9
Full Year Dividend pence	97.5	94.7	91.3
Increase %	3.0%	3.7%	2.1%
Dividend Cover times/SSE's adjusted EPS	0.69x	1.04x	1.08x

Excludes SSE Energy Services held for disposal.

### Debt metrics

	March 19	March 18	March 17
<b>Adjusted net debt and hybrids (£m)</b> <small>(APM)</small>	<b>(9,385.5)</b>	<b>(9,221.8)</b>	<b>(8,483.0)</b>
Average debt maturity (years)	7.0	7.9	8.8
Adjusted interest cover (excluding SGN) times <small>(APM)</small>	2.8	5.0	6.0
Adjusted interest cover (including SGN) times <small>(APM)</small>	2.8	4.3	4.7
Average interest rate for the period excluding JV/assoc. interest and all hybrid coupon payments	3.28%	3.56%	3.66%
Average cost of debt at period end (including all hybrid coupon payments)	3.70%	3.84%	4.10%

## Financial review continued

Adjusted EBITDA by Segment (Earnings before Interest, Tax, Depreciation & Amortisation) (APM)

	March 19 £m	March 18 £m	March 17 £m
Electricity Generation – Renewables	694.0	692.2	580.3
Electricity Generation – Thermal	32.3	163.5	169.0
<b>Total Electricity Generation</b>	<b>726.3</b>	<b>855.7</b>	<b>749.3</b>
EPM	(284.9)	46.0	(9.7)
Gas Production	150.5	153.0	170.6
Gas Storage	(4.7)	(5.6)	(12.1)
<b>Wholesale</b>	<b>587.2</b>	<b>1,049.1</b>	<b>898.1</b>
Electricity Transmission	318.6	256.1	313.6
Electricity Distribution	532.3	542.1	543.2
SGN (SSE's 50% share reducing to 33% from 26 Oct 2016)	234.3	221.1	310.3
<b>Networks</b>	<b>1,085.2</b>	<b>1,019.3</b>	<b>1,167.1</b>
Business Energy	51.9	64.5	89.7
Airtricity	46.2	40.8	49.0
Enterprise	59.6	53.6	55.8
<b>Retail remaining as part of SSE</b>	<b>157.7</b>	<b>158.9</b>	<b>194.5</b>
Corporate Unallocated	38.5	64.5	37.9
<b>Total Adjusted EBITDA <small>(APM)</small></b>	<b>1,868.6</b>	<b>2,291.8</b>	<b>2,297.6</b>

Adjusted Operating Profit/(Loss) by Segment (APM)

	March 19 £m	March 18 £m	March 17 £m
Electricity Generation – Renewables	455.9	475.9	391.5
Electricity Generation – Thermal	(22.3)	107.8	123.5
<b>Total Electricity Generation</b>	<b>433.6</b>	<b>583.7</b>	<b>515.0</b>
EPM	(284.9)	46.0	(9.7)
Gas Production	48.9	34.0	26.4
Gas Storage	(5.7)	(6.5)	(13.0)
<b>Wholesale</b>	<b>191.9</b>	<b>657.2</b>	<b>518.7</b>
Electricity Transmission	252.1	195.6	263.7
Electricity Distribution	401.3	402.2	433.4
SGN (SSE's 50% share reducing to 33% from 26 Oct 2016)	176.8	165.3	239.4
<b>Networks</b>	<b>830.2</b>	<b>763.1</b>	<b>936.5</b>
Business Energy	51.6	64.2	89.4
Airtricity	38.6	33.0	42.7
Enterprise	31.8	26.9	16.7
<b>Retail remaining as part of SSE</b>	<b>122.0</b>	<b>124.1</b>	<b>148.8</b>
Corporate Unallocated	(6.5)	10.4	0.6
<b>Total Adjusted Operating Profit <small>(APM)</small></b>	<b>1,137.6</b>	<b>1,554.8</b>	<b>1,604.6</b>

## Held for disposal

	March 19 £m	March 18 £m	March 17 £m
SSE Energy Services – Energy Supply	84.0	260.4	260.8
SSE Energy Services – Energy related services	5.6	18.3	12.7
<b>Total SSE Energy Services</b>	<b>89.6</b>	<b>278.7</b>	<b>273.5</b>

## Reported Operating Profit/(Loss) by Segment

	March 19 £m	March 18 £m	March 17 £m
Electricity Generation	1,192.3	523.4	544.8
EPM	(613.1)	(43.1)	191.3
Gas Production	78.6	(70.7)	(201.1)
Gas Storage	(5.7)	(6.5)	(36.8)
<b>Wholesale</b>	<b>652.1</b>	<b>403.1</b>	<b>498.2</b>
Electricity Transmission	252.1	195.6	263.7
Electricity Distribution	401.3	402.2	433.4
SGN (SSE's 50% share) reduced to 33% from 26 Oct 2016	85.1	71.8	151.7
<b>Networks</b>	<b>738.5</b>	<b>669.6</b>	<b>848.8</b>
Business Energy	51.6	64.2	73.0
Airtricity	38.6	26.9	42.7
Enterprise	31.8	15.1	16.7
<b>Retail remaining as part of SSE</b>	<b>122.0</b>	<b>106.2</b>	<b>132.4</b>
Corporate Unallocated	179.6	(21.5)	283.9
<b>Total Reported Operating Profit/(Loss)</b>	<b>1,692.2</b>	<b>1,157.4</b>	<b>1,763.3</b>
<b>Held for disposal</b>			
SSE Energy Services – Energy Supply	29.7	203.5	171.7
SSE Energy Services – Energy related services	5.6	18.3	5.5
<b>Total SSE Energy Services</b>	<b>35.3</b>	<b>221.8</b>	<b>177.2</b>

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

## Investment and Capex Summary (adjusted) [APM]

	March 19 Share %	March 19 £m	March 18 £m	March 17 £m
Electricity Generation – Thermal	13%	187.7	89.0	108.6
Electricity Generation – Renewables	23%	326.1	301.7	366.4
Gas Storage	0%	0.7	1.8	0.2
Gas Production	2%	27.9	65.5	72.9
<b>Total Wholesale</b>	<b>38%</b>	<b>542.4</b>	<b>458.0</b>	<b>548.1</b>
Electricity Transmission	24%	344.0	434.2	505.0
Electricity Distribution	24%	340.7	326.1	284.7
<b>Total Networks</b>	<b>48%</b>	<b>684.7</b>	<b>760.3</b>	<b>789.7</b>
Business Energy	0%	–	0.9	0.3
Airtricity	0%	1.2	0.6	–
Enterprise	2%	19.8	61.9	58.7
<b>Total Remaining Retail and Enterprise</b>	<b>2%</b>	<b>21.0</b>	<b>63.4</b>	<b>59.0</b>
Other	5%	72.2	110.5	145.4
SSE Energy Services – Energy Supply	7%	98.2	100.9	172.5
SSE Energy Services – Energy Related Services	0%	4.4	9.9	11.5
<b>Total investment and capital expenditure (adjusted) <small>[APM]</small></b>	<b>100%</b>	<b>1,422.9</b>	<b>1,503.0</b>	<b>1,726.2</b>

## Net finance costs reconciliation

	March 19 £m	March 18 £m	March 17 £m
<b>Adjusted net finance costs <small>[APM]</small></b>	<b>411.9</b>	<b>375.5</b>	<b>328.1</b>
Add/(less):			
Finance lease interest	(28.6)	(30.8)	(33.1)
Notional interest arising on discounted provisions	(17.4)	(16.3)	(14.2)
Hybrid equity coupon payment	46.6	98.5	119.3
<b>Adjusted finance costs for interest cover calculation <small>[APM]</small></b>	<b>412.5</b>	<b>426.9</b>	<b>400.1</b>

## Financial review continued

### SSE Principal Sources of debt funding

	March 19	March 18	March 17
Bonds	46%	49%	41%
Hybrid debt and equity securities	22%	23%	33%
European investment bank loans	12%	13%	11%
US private placement	9%	10%	10%
Index-linked debt & short term funding	11%	5%	5%
% of total SSE borrowings secured at a fixed rate	88%	90%	91%

### Rating Agency

	Rating	Criteria	Date of Issue
Moody's	Baa1 stable outlook	"Low teens" Retained Cash Flow/Net Debt	December 2018
Standard and Poor's	BBB+ outlook stable	About 18% Funds From Operations/Net Debt	December 2018

### Contributing to employees' pension schemes – IAS 19

	March 19 £m	March 18 £m	March 17 £m
Net pension scheme asset recognised in the balance sheet before deferred tax	287.1	334.5	70.5
Employer cash contributions Scottish Hydro Electric scheme	12.6	29.0	36.2
Deficit repair contribution included above	–	14.0	14.0
Employer cash contributions Southern Electric scheme	66.3	68.9	76.3
Deficit repair contribution included above	47.5	45.9	41.2

During the year the SSE Group finalised the triennial valuation of the Scottish Hydro Electric Pension Scheme which resulted in a net surplus on the scheme at 31 March 2019 of £537.7m on an IAS 19 basis. Together with the deficit in the Southern Electric scheme this results in the net surplus of £287.1m for both schemes shown in the table above. The Group recognised a £9.3m exceptional charge in relation to the equalisation of guaranteed minimum pension payments, following the High Court ruling in the Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc case.

Additional information on employee pension schemes can be found in note 23 to 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.

#### Adjusted operating profit

Adjusted operating profits/(losses) in SSE's business segments for the year to 31 March 2019 are as set out below; comparisons are with the same twelve months to 31 March 2018 unless otherwise stated:

### Wholesale Businesses

**Electricity Generation – Thermal:** an adjusted operating loss of £(22.3)m was recorded, compared with an adjusted operating profit of £107.8m, mainly reflecting a combination of cessation of Power Purchase Agreements (PPAs), losses at SSE's remaining coal-fired power station at Fiddler's Ferry and an outage at Great Island CCGT.

In 2019/20, subject to plant performance and the impact of the renewable energy output on the electricity system, thermal generation is currently expected to earn adjusted operating profit of around £150m, including £122m of suspended Capacity Market payments relating to contracts for the period after suspension in 2018/19 and all of 2019/20.

#### Electricity Generation – Renewables:

Volumes of electricity increased following the commissioning of new capacity, however renewables adjusted operating profit decreased to £455.9m from £475.9m mainly due to the fact that renewable output in 2018/19 was sold at a lower achieved price than in the previous year.

In 2019/20, subject to the impact of the weather on output of renewable energy and plant performance, renewable generation is expected to earn adjusted operating profit of around £525m, including £26m of suspended Capacity Market payments relating to contracts for the period after suspension in 2018/19 and all of 2019/20. This is based on SSE's renewable capacity at c.4GW (including Beatrice) with an expected average annual electricity output of around 11.5TWh, based on normal weather.

Additional information on SSE's hedging approach can be found in "SSE's Approach To Hedging: May Update" published on [sse.com](http://sse.com).

The reported operating profit for Electricity Generation as a whole was £1,192.3m compared to £523.4m. The increase is primarily due to exceptional gains on sale (including fair value uplift) resulting from: the part disposals of Stronelair and Dunmaglass (£733.0m); Clyde (£74.2m); and the Seagreen impairment reversal of (£14.2m); partly offset

by the impact of a lower achieved price for renewable output in 2018/19.

**Energy Portfolio Management:** an adjusted operating loss of £(284.9)m compares to an adjusted operating profit of £46.0m in the previous year, but is slightly lower than the forecast adjusted operating loss of around £(300)m set out in November 2018.

The reported operating loss was £613.1m compared to a loss of £43.1m in prior year. The reported operating loss increased in the year due to losses on settled derivatives as noted above, as well as mark-to-market losses on unsettled derivatives of £328.2m, compared to a mark-to-market loss of £89.1m in prior year.

In 2019/20 EPM still expects to report an adjusted operating loss of around £115m, but with the potential variation around this now reduced to +/- £15m. Losses in both years are primarily due to the negative impact of persistently high gas prices on SSE's energy position. From 2020/21, EPM is expected to earn a small adjusted operating profit through service provision.

**Gas Production:** adjusted operating profit increased to £48.9m compared to £34.0m, mostly due to lower depreciation, higher achieved price and the absence of exploratory write-offs, partially offset by lower volumes in the period.

The reported operating profit was £78.6m compared to a reported operating loss of (£70.7m) due to impairment reversals versus impairment charges the previous year, reflecting the annual revision of reserve estimates.

**Gas Storage:** market conditions remain challenging and an adjusted and reported operating loss of (£5.7m) was recorded, compared to an adjusted and reported operating loss of (£6.5m).

## Networks Businesses

**Electricity Transmission:** adjusted and reported operating profit increased to £252.1m compared to £195.6m, mainly due to the phasing of income recovery including a one off payment relating to Beaulieu-Denny. In 2019/20, Transmission's adjusted operating profit is expected to be lower, at just over £200m, partly because the increase in 2018/19 included the one-off payment.

**Electricity Distribution:** adjusted and reported operating profit of £401.3m was broadly in line with that reported in the previous year of £402.2m, with lower volumes distributed offset by lower non-controllable costs. In 2019/20, Distribution's adjusted operating profit is again expected to be around £400m.

**SGN:** adjusted operating profit increased to £176.8m compared to £165.3m mainly due to an expected increase in regulatory income. In 2019/20, SSE expects to derive adjusted operating profit from SGN that is closer to £200m. The reported operating profit was £85.1m compared to £71.8m due to the expected increase in regulatory income.

## Retail Businesses

**Energy Supply (SSE Business Energy):** adjusted and reported operating profit reduced to £51.6m from £64.2m, mostly due to a combination of lower volumes and higher costs including Supplier of Last Resort (SoLR) mutualisation charges.

**SSE Airtricity:** adjusted and reported operating profit increased to £38.6m from £33.0m adjusted operating profit (£26.9m reported), mainly due to better performance on bad debts and overheads.

**SSE Enterprise:** adjusted operating profit increased to £31.8m from £26.9m mainly due to improved performance in Contracting and Telecoms. Reported operating profit increased from £15.1m to £31.8m due to one off exceptional charges for onerous contracts in the prior year.

## Corporate Unallocated

An adjusted operating loss of (£6.5m) was recorded compared to an adjusted operating profit of £10.4m due to Group restructuring costs and investment write-offs. A reported operating profit of £179.6m was recorded due to an exceptional credit of £189.9m including the gain on sale of SSE Telecommunications of £235.4m and an exceptional receipt from the sale of Indigo Pipelines of £54.3m offset by exceptional impairment charges, compared to a reported operating loss of (£21.5m) in the prior year which included exceptional charges of £30.6m.

## Discontinued Operations – SSE Energy Services

**SSE Energy Services – Energy Supply (households in GB):** adjusted operating profit fell to £84.0m from £260.4m, mainly due to the decision to shield customers from wholesale price increases during 2018, together with the impact of the Default Tariff Cap between January and March 2019 and lower customer numbers, partially offset by the expiry of a Power Purchase Agreement (PPA).

The reported operating profit was £29.7m, compared to £203.5m, due to the reasons outlined above, in addition to current year impairments of IT systems totalling £54.3m versus exceptional impairment charges of £56.9m in the prior year.

**SSE Energy Services – Energy-related Services:** adjusted and reported operating profit fell to £5.6m compared to £18.3m, mainly due to reduced profits in metering and retail telecoms.

## Adoption of IFRS 15

On 1 April 2018 the SSE Group adopted International Financial Reporting Standard 15 (IFRS 15) "Revenue from Contracts with Customers" which increased the Group's opening reserves by £2.5m and reduced operating profit on continuing operations by £4.5m in the year ended 31 March 2019. The adoption of the standard resulted in a significant presentational adjustment to the income statement, as the SSE Group now presents optimisation purchase and sale transactions of commodities net in the income statement. This adjustment, while having no impact on operating profit, reduced the Group's turnover by £18,989.7m and cost of sales by £18,985.2m in the year.

## Earnings

### Adjusted earnings per share

To monitor its financial performance over the medium term, SSE reports on its adjusted earnings per share measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items, depreciation on fair value adjustments and the impact of certain re-measurements. The SSE Group has included an adjustment to exclude depreciation on fair value uplifts in the year following the part disposals of Stronelairg and Dunmaglass wind farms and SSE Telecommunications. This adjustment has been made to exclude the recurring expense arising on significant one-off gains, which are treated as exceptional when recognised.

SSE's adjusted EPS measure provides an important and meaningful measure of underlying financial performance. In adjusting for depreciation on fair value adjustments, exceptional items and certain re-measurements, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IFRS 9 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 the twelve months to 31 March 2019, SSE's adjusted earnings per share on continuing operations was 67.1 pence, compared to 98.8 pence for the twelve months to 31 March 2018. As expected, it reflects the impact of the issues set out in SSE's Trading Statement on 12 September 2018, mainly the loss incurred in Energy Portfolio Management.

## Summarising the impact of Movements on Derivatives Operating derivatives

SSE enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its energy supply businesses and to optimise the value of its Generation assets and its investments in Gas Production. Some of these contracts are determined to be derivative financial instruments under IFRS 9 and as such are required to be recorded at their fair value as at the date of the financial statements.

## Financial review continued

SSE shows the change in the fair value of these forward contracts separately as this mark-to-market movement does not reflect the realised operating performance of the businesses. The underlying value of these contracts is recognised as the relevant commodity is delivered, which for the large majority of the position at 31 March 2019 is expected to be in the next 12 to 24 months.

The £328.2m IFRS 9 adverse movement on operating derivatives in the year to 31 March 2019 arose mainly from a deterioration in the fair value of forward gas contracts. While indicative of a direction of travel there are limitations to the IFRS 9 measure if using it to assess SSE's commodity exposure, namely:

- The IFRS 9 values do not reflect all contracts but only those designated as "held for trading"; and
- The IFRS 9 movement in operating derivatives represents the position up to 31 March 2019 and does not reflect price movements and actions taken since that date.

The SSE Group has assessed its exposure to counterparty credit risk on derivative contracts due to the size of the derivative portfolio. Following that review, which considered factors such as the credit rating of its counterparties and Master Netting Agreements in place, the Group assessed there is no material increase in credit risk.

### Financing derivatives

In addition to the losses recognised on operating derivatives, there were losses of £44.8m recognised on the remeasurement of financing derivatives at 31 March 2019. These are primarily due to the impact of weak Sterling and Euro against the Dollar on cross currency swaps and hybrid debt, partially offset by the impact of Sterling strength against the Euro and lower interest rates on bond cross currency and interest rate swaps.

These remeasurements are also presented separately as they do not represent underlying business performance in the period. The result on financing derivatives will be recognised in adjusted profit before tax when the derivatives are settled.

### Exceptional Items

In the year to 31 March 2019, SSE recognised a net exceptional credit of £1,039.9m before tax. The following table provides a summary of the key components making up the net credit position:

	Exceptional Items £m	Fair Value Uplift £m	Total £m
Wind farm capacity sales (inc. fair value uplift)	438.0	369.2	807.2
Telecoms sale (inc. fair value uplift)	116.1	119.3	235.4
Indigo Pipelines sale	54.3		54.3
<b>Total gains on sale (inc. fair value uplift)</b>	<b>608.4</b>	<b>488.5</b>	<b>1,096.9</b>
Net impairments/impairment reversals	0.2		0.2
Retail separation and transaction costs	(47.9)		(47.9)
GMP equalisation charge (pension "true up")	(9.3)		(9.3)
<b>Total exceptional items</b>	<b>551.4</b>	<b>488.5</b>	<b>1,039.9</b>

In addition to the above, SSE Energy Services recognised exceptional charges of £54.3m in relation to discontinued marketing and customer data management software assets.

For a full description of the net exceptional credit see note 7 of the Financial Statements.

### Reported Profit/(Loss) Before Tax and Earnings Per Share

Reported results for the year to 31 March 2019 are significantly higher than those for the previous year; mainly due to the impact of the exceptional gains on disposal recognised in the year.

The re-measurement loss and the gains on disposals are explained in the more detail in the relevant sections throughout this report and are the main driver for:

- A reported profit before tax on continuing operations of £1,370.6m being recorded for the year to 31 March 2019 compared to a reported profit before tax on continuing operations of £864.4m for the previous year; and
- A reported profit per share on continuing operations of 135.2p being recorded for the year to 31 March 2019 compared to a reported profit per share of 64.3p for the previous year;

### Dividend

#### Remunerating shareholders' investment through payment of dividends

SSE's strategy, set out in May 2018, is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

The first 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 and the value created from them and the longer-term financial outlook.

In line with this and reflecting the underlying quality and value of its assets and earnings, the cash flows they deliver and the value that can be created from them, SSE's plan for the dividend for the five years to 2023 is as set out in May 2018:

- For **2018/19**, SSE is recommending a full-year dividend of **97.5 pence per share** with the final dividend related to this of 68.2 pence per share.
- For **2019/20**, SSE intends to recommend a full-year dividend for 2019/20 of **80 pence per share**. This provides a sustainable basis for future dividend growth and will not be affected by the final option selected for the future of SSE Energy Services.
- 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.



## Investment and Capital Expenditure

Central to SSE's strategic framework is efficient and disciplined investment in developing and building assets, mainly in economically-regulated energy networks and renewable sources of energy. In practice, this means that investment should be in line with SSE's commitment to strong financial management, consistent with the goals for 2030 adopted in March 2019 and, consistent with its vision of being a leading energy company in a low-carbon world and consistent with its targets for 2030 adopted in March 2019.

### Investing efficiently in energy assets that the UK and Ireland need in 2018/19

During the year to 31 March 2019, SSE's investment and capital expenditure (including SSE Energy Services) totalled over £1.42bn, including over £1bn investment in renewable energy and regulated electricity networks. This is lower than the £1.7bn total investment previously indicated as it excludes £195m of investment in onshore wind and telecoms assets which were subsequently disposed of within the year. The remaining investment and capital expenditure included the following:

- A major investment programme in **electricity networks** totalling over £680m (48% of SSE's total investment and capital expenditure).
- This includes the completion, commissioning and energisation of the Caithness-Moray **electricity transmission** link. With an agreed allowance of £1.1bn, Caithness-Moray has been the largest single investment undertaken by the SSE Group to date. Transmission investment and capital expenditure also included work on the Knocknagael-Tomatin and Beaulieu-Keith reinforcements, and the Fort Augustus – Fort William upgrade. Together with Caithness-Moray, these four projects made up around half of Transmission's £344m investment and capital expenditure in the year.
- **Electricity Distribution** investment and capital expenditure makes up the other half of the network spend and consists primarily of asset replacement and reinforcement projects including the replacement of subsea cables and several overhead line circuits in Scotland and Central Southern England. 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 £326m (23% of the total). The vast majority of this spend relates to SSE's equity share of the Beatrice offshore wind farm, the final turbine of which was completed in May 2019. SSE's share of this project-financed wind farm is 235MW (40%). Total renewable investment and capital expenditure in the year excludes the spend associated with Stronelairg (288MW) onshore wind farm which was partly disposed of in the year.
- SSE's flexible thermal gas-fired power stations will play a key part in the transition to a low-carbon economy. Investment in complementary **flexible thermal generation** totalled £188m (13% of the total) during 2018/19, including the Keadby 2 and Ferrybridge Multifuel 2 projects, along with development spend on the Slough Multifuel project.
- SSE Energy Services investment of £103m mainly relates to infrastructure to support SSE Energy Services' regulatory obligation to install smart meters for its energy supply customers as part of the UK's Smart Metering rollout. At 31 March 2019, SSE had well over one million 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.
- In addition, £20m was invested in **Enterprise**, mainly supporting Utility Solutions projects and £72m in Corporate Services, which was mainly on IT.

### Investing efficiently in energy assets that the UK and Ireland need – a five-year plan

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 now one year into its plan for total investment and capital expenditure of around £6bn across the five years to March 2023. Economically-regulated electricity networks and 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; with £1.4bn incurred in 2018/19 plus £138m in relation to Stronelairg and £57m relating to Telecoms and around £1.5bn currently planned for 2019/20.

Around 85% of the £6bn is either already spent or committed. It includes around £3bn of investment in electricity networks, which should support further growth in the RAV of SSE's energy networks businesses to around £10bn in 2023 (this includes SSE's stake in SGN). 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 multifuel plant at Slough and 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 infrastructure provision, and it will not resort to taking on inappropriate risks or accepting returns on investment that are financially unsustainable.

### SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates, all of which are equity accounted. The details of the most significant of these are included in the table below. This table also highlights SSE's share of off-balance sheet debt associated with its equity interests in JVs, which, including SGN, is just under £2.3bn as at 31 March 2019.

## Financial review continued

SSE principal JVs and associates	Asset type	SSE holding	SSE share of external debt as at 31 March 2019	SSE Shareholder loans as at 31 March 2019
Seabank Power	1,140MW CCGT	50%	No external debt	No loans outstanding
Marchwood Power	840MW CCGT	50%	No external debt	£71m
Clyde Wind Farm (Scotland)	522MW onshore wind farm	50.1%	No external debt	£127m
Walney (UK) Offshore Wind Farms	367MW offshore wind farm	25.1%	No external debt	No loans outstanding
	Up to 1,200MW offshore wind farm each.			
Doggerbank Wind Farms	Up to 3,600MW total	50%	No external debt	£24m
Scotia Gas Networks	Gas distribution network	33.3%	£1,533m	£109m
Ferrybridge Multifuel Energy	68MW multifuel	50%	No external debt	£110m
Ferrybridge Multifuel Energy 2	70MW multifuel	50%	No external debt	£134m
				£119m
Beatrice Offshore Wind Farm Ltd	588MW offshore wind farm	40%	£720m	(Project financed)
	105MW onshore wind farm			
Cloosh Valley Wind Farm	(part of Galway Wind Park)	25%	€38m	Project financed
SSE Telecoms	Private telecoms network	50%	No external debt	£27m
Stronelaig Wind Farm	228MW onshore wind farm	50.1%	No external debt	£89m
Dunmaglass Wind Farm	94MW onshore wind farm	50.1%	No external debt	£47m

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

SSE's share of Seagreen Wind Energy Ltd (Phase 1 up to 1,050MW) increased to 100% in September 2018. SSE paid Fluor Ltd. £118m in October 2018 for its 50% share, taking 100% ownership of the company and consolidating it into the Group balance sheet. It is therefore no longer a JV and so is not shown in the table above.

SSE's share of Clyde wind farm reduced to 50.1% from 65% in May 2018.

SSE's share of Cloosh wind farms reduced to 25% from 50% in March 2019.

SSE's share of SSE Telecoms reduced to 50% in March 2019.

SSE's share of Stronelaig and Dunmaglass wind farms reduced to 50.1% in March 2019.

### Financial management and balance sheet

#### Maintaining a strong balance sheet

As a long-term business, SSE believes it should maintain a strong balance sheet, illustrated by its commitment to robust ratios for both Retained Cash Flow (RCF)/Net debt and Funds From Operations (FFO)/Net 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.

While the A3/A- ratings helped illustrate the quality and resilience of the SSE group of businesses, they were not fundamental to it and in December 2018, both Moody's and Standard and Poor's downgraded SSE's credit rating one notch following completion of both agencies' reviews which had been announced in September 2018.

With its high-quality portfolio of assets and increasing focus on regulated energy networks and renewable sources of energy, SSE believes its new credit rating metrics are sustainable and consistent with an ability to secure funding from debt investors at competitive and efficient rates.

#### Moody's rating

SSE's rating moved from "A3 review for downgrade" to "Baa1 stable outlook" consistent with the following guideline credit metrics:

- a RCF/Net debt metrics of around 11% in 2018/19 and 2019/20, trending toward the low teens in percentage terms; and
- a FFO/Net debt ratio of around 20%.

#### Standard and Poor's rating

SSE's rating moved from "A-negative watch" to "BBB+ outlook stable" consistent with the following guideline credit metric:

- a FFO/Net debt ratio of about 18%.

#### Adjusted net debt and hybrid capital

SSE's adjusted net debt and hybrid capital was £9.4bn at 31 March 2019, slightly lower than expected reflecting the interim dividend Scrip uptake of almost 47% and year end fair value adjustments. The overall level of net debt and hybrid capital largely reflects SSE's ongoing investment programme.

Opportunism and agility will continue to be important and investment expenditure and future net debt could be impacted if there were opportunities to create value from disposing of assets, or from further investments or acquisitions. Financial results also have an impact on net debt; and

management of net debt will be one of the options for using proceeds from any future disposals of businesses, assets or investments.

**Adjusted net debt** excludes finance leases and includes outstanding liquid funds that relate to wholesale energy transactions. Adjusted net debt at 31 March 2019 also includes an accounting increase of £139.1m 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 marked-to-market movements on cross-currency swaps and floating rate swaps that are classed as fair value hedges under IAS 39. 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 increase in net debt was driven by both Sterling and Euro weakness against the US Dollar partially offset by lower interest rates during the year to 31 March 2019. This benefit is offset by an equivalent increase to the "in the money" derivative position of SSE's fair value hedges.

## 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 6 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 note 22.5 to 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 was outweighed by the savings realised over the life of the new hybrid.

Equity hybrid coupon payments reduced to £46.6m in 2018/2019 compared to £98.5m for the same period in the previous year reflecting the full benefit of the replacement hybrid's lower coupon rate. A table noting the amounts, timing and accounting treatment of coupon payments is shown below.

	17/18		18/19		19/20	
Hybrid coupon payments	HYa	FYa	HYa	FYa	HYe	FYe
Total equity (cash) accounted	£57m	£99m	£47m	£47m	£47m	£47m
Total debt (accrual) accounted	£15m	£30m	£15m	£30m	£15m	£30m
<b>Total hybrid coupon</b>	<b>£72m</b>	<b>£129m</b>	<b>£62m</b>	<b>£77m</b>	<b>£62m</b>	<b>£77m</b>

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 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.

### Managing net finance costs

SSE's adjusted net finance costs, including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds, were £411.9m in the year to 31 March 2019, compared to £375.5m for the previous year. This reflected higher net debt during the year and higher JV interest costs.

Reported net finance costs were £321.6m, compared to £293.0m, reflecting an increase in both the mark-to-market loss on financing derivatives and increased underlying interest costs due to higher net debt.

Excluding the impact of IFRS 16 (accounting for leases), adjusted net finance costs in 2019/20 are expected to increase to just over £450m reflecting: additional JV interest costs from Beatrice; and lower capitalised interest.

### Summarising cash and cash equivalents

At 31 March 2019, SSE's adjusted net debt included cash and cash equivalents of £0.5bn, up from £0.2bn at March 2018. Medium term borrowings reaching maturity in 2019/20 total £0.2bn, comprising USPP (£67m) and Term Loan (£107m) while there is also £497m of short-term Commercial Paper due to mature in 2019/20.

The cash collateral value increased by £269.1m in the year and totalled £344.2m at 31 March 2019. The increase relates to collateral required to cover out of the money commodity positions.

The cash and cash equivalents total presented on the consolidated balance sheet does not include £95.2m relating to the SSE Energy Service Group which is presented within assets held for disposal within the Summary Financial Statements.

### Focusing on effective financial management: debt issuance and treasury facilities in 2018/19

During the year to 31 March 2019, SSE successfully issued its second Green Bond – a €650m, nine year bond with a coupon of 1.375% which has been fully swapped to Sterling giving an all-in rate of 2.58%. This followed the €600m 0.875%, seven-year Green Bond SSE issued in September 2017; and will continue to 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.

During October 2018 SSE also issued a €200m two-year Floating Rate Note that was fully swapped back to Sterling giving an all-in floating rate of GBP Libor plus 50.5bps.

## Financial review continued

In March 2019, SSE refinanced its £1.3bn Revolving Credit Facility (RCF) to have an extended maturity date of March 2024 with an option to extend by two years to 2026. This is now classified as a Sustainable RCF with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed by an independent ESG ratings agency, Vigeo Eiris.

### Refinancing over the medium term

Following the debt that matured in October 2018 (referenced above) SSE's next significant potential refinancing milestones are:

- June 2020 when it will redeem its €600m/2% coupon bond; and
- September 2020 which 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 2019, 88% 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.

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

Ability to raise funds at competitive rates is fundamental to investment. SSE's fund-raising over the last five years, including hybrid capital and term loans, now totals £5.8bn and SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2019 was 7.0 years, compared with 7.9 years at 31 March 2018. The reduction in debt maturity reflects SSE's recent debt issuance which has taken advantage of the best value on the maturity curve; and SSE's average cost of debt is now 3.7%.

SSE's debt structure remains strong, and on 31 March 2019 it had around £9.5bn of medium/long term borrowings in the form of issued bonds, European Investment Bank debt, hybrid securities and other loans.

### Going concern

The Directors regularly review the Group's funding structure and have assessed that the Financial Statements should be prepared on a going concern basis. In making their assessment the Directors have assessed the forecast future cashflows of the SSE Group taking account of the expectation of continued available liquidity in the commercial paper market. In addition, the SSE Group still has significant headroom on its committed borrowing facilities while the next significant refinancing of external debt is not due until 2020.

### Operating a Scrip Dividend Scheme

The renewal of SSE's Scrip Dividend Scheme was approved by shareholders at its 2018 AGM. The Scrip Dividend Scheme 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 average Scrip dividend take-up since 2010 is 25%. The Scrip dividend uptake during financial year 2018/19 was:

- 21% for the 2017/18 final dividend; and
- 47% for the 2018/19 interim dividend.

In May 2018 SSE announced that, if Scrip take-up of the full-year dividend exceeded 20%, it intended to buy back shares so that its dilutive effect is not excessive, starting with the 2018/19 full year dividend. 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.

### Taxation

SSE is one of the UK's biggest taxpayers, and in the survey published in December 2018 was ranked 14th out of the 100 Group of Companies in 2018 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 2018, SSE published Talking Tax 2018: 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 2019, SSE paid £403.6m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £484.1m in the previous year. The decrease in total taxes paid in 2018/19 compared with the previous year was primarily due to a reduction in corporation tax paid, this being driven by two factors:

- Corporation tax is a tax on the profit companies make. After a challenging year for its business, SSE's underlying profits fell substantially in 2018/19 compared to 2017/18, and a tax refund was received from HMRC as a result of surrendering losses from SSE's E&P business against non-E&P profits. SSE also made significant gains during 2018/19 on the sale of shares in group companies, those gains qualifying for Substantial Shareholdings Exemption and not therefore being taxable.
- The UK and Irish Governments encourage companies to invest in capital projects because it is good for the economy and good for jobs. One way they do that is incentivising this business behaviour with tax relief by way of capital allowances. SSE continued to invest significantly in major projects throughout 2018/19, obtaining capital allowances on both that spend and amounts invested in earlier years.

In 2017/18 SSE also paid €14.6m of taxes in Ireland, compared to €22.6m the previous year. Ireland is 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 (0.9%), as compared with 9.0% in 2017/18 on the same basis. The reduction is primarily due to the lower corporation tax charge for the year on SSE's reduced underlying profits, being more than eliminated by tax credits from earlier years. As SSE has continued to invest heavily in capital projects, at a time when profits are reduced, the capital allowances obtained on that expenditure also has a more significant impact on SSE's adjusted current tax rate for the year.

**Gregor Alexander**  
Finance Director  
21 May 2019

## Operating review

# WHOLESALE BUSINESSES

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 <sup>APM</sup> operating profit – £m

## 191.9

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

Reported operating profit – £m

## 652.1

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

Renewable generation capacity – MW

## 3,767

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

## 10,532

SSE's capacity for generating electricity (including joint ventures) comprises 5,221MW of gas- and oil-fired generation; 1,510MW of coal-fired generation; 3,767MW of renewable energy; and 34MW of multifuel plant.

Renewable generation output – GWh

## 9,779

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.

Adjusted <sup>APM</sup> capital expenditure and investment – £m

## 542.4

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

**"In 2018 we took the important decision to create SSE Renewables, in line with our strategy to give greater focus to our renewable energy assets, operations and developments. We have a unique portfolio and this will give investors and other stakeholders greater visibility of assets, earnings and opportunities from 2019/20 onwards."**

Martin Pibworth  
Energy Director

**SSE has an onshore wind farm development pipeline of over one gigawatt (GW).**

Of this pipeline, over 500MW has consent for development and SSE is seeking planning amendments to allow for more advanced turbine technology. Onshore and offshore combined, and at various stages of development, SSE has a pipeline of around...

**8GW**

## Operating review continued

### Wholesale continued

#### Wholesale Key Performance Indicators

	March 19	March 18
<b>Electricity Generation and Energy Portfolio Management (EPM)</b>		
Renewable adjusted operating profit – £m <sup>(APM)</sup>	455.9	475.9
Thermal adjusted operating (loss)/profit – £m <sup>(APM)</sup>	(22.3)	107.8
Total Electricity Generation adjusted operating profit – £m <sup>(APM)</sup>	433.6	583.7
Electricity Generation reported operating profit – £m	1,192.3	523.4
EPM adjusted operating (loss)/profit – £m <sup>(APM)</sup>	(284.9)	46.0
EPM reported operating (loss)/profit – £m	(613.1)	(43.1)
EPM and Generation adjusted capital expenditure and investment – £m <sup>(APM)</sup>	513.8	390.7
<b>GENERATION CAPACITY – MW</b>		
Gas- and oil-fired generation capacity (GB) – MW	3,929	4,013
Gas- and oil-fired generation capacity (Ire) – MW	1,292	1,292
Coal-fired generation capacity – MW	1,510	1,995
Multifuel capacity – MW	34	34
<b>Total thermal generation capacity – MW</b>	<b>6,765</b>	<b>7,334</b>
Pumped storage capacity (GB) – MW	300	300
Conventional hydro capacity (GB) – MW	1,150	1,150
Onshore wind capacity (GB) – MW	1,247	1,260
Onshore wind capacity (NI) – MW	141	141
Onshore wind capacity (ROI) – MW	567	594
Offshore wind capacity (GB) – MW	344	344
Biomass capacity (GB) – MW	18	37
<b>Total renewable generation capacity (inc. pumped storage) – MW</b>	<b>3,767</b>	<b>3,826</b>
<b>Total electricity generation capacity (GB and Ire) – MW</b>	<b>10,532</b>	<b>11,160</b>
Renewable capacity qualifying for ROCs – MW	c2,160	c2,150
<b>GENERATION OUTPUT – GWh</b>		
Gas- and oil-fired (inc. CHP) output (GB) – GWh	18,322	19,153
Gas- and oil-fired output (Ire) – GWh	1,861	2,739
Coal-fired output – GWh	579	1,462
Multifuel output – GWh	294	316
<b>Total thermal generation – GWh</b>	<b>21,056</b>	<b>23,670</b>
Pumped storage output – GWh	225	259
Conventional hydro output – GWh	3,318	3,171
Onshore wind output GB – GWh	2,890	2,774
Onshore wind output NI – GWh	315	306
Onshore wind output ROI – GWh	1,524	1,509
Offshore wind output – GWh	1,439	1,319
Biomass output GB – GWh	68	90
<b>Total renewable generation (inc. pumped storage) – GWh</b>	<b>9,779</b>	<b>9,428</b>
<b>Total Generation output all plant – GWh</b>	<b>30,835</b>	<b>33,098</b>
Average carbon intensity of electricity generated (gCO <sub>2</sub> e/KWh)	284	305

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

Note 2: Electricity output is based on SSE 100% share of wholly owned sites, 100% share of Seabank & Marchwood PPAs due to the contractual arrangement and % share of remaining JVs in wind and multifuel. SSE were awarded the Ferrybridge Multifuel 1 PPA October 2017.

Note 3: Onshore wind output excludes 687GWh of constrained off generation in FY2018/19 and 406GWh in FY2017/18.

Note 4: Reduction in thermal capacity due to closure of Weston Point in Feb 19 and Unit 1 at Fiddlers Ferry March 19.

Note 5: Onshore wind capacity reflects Stronelaig coming online in Dec 18 and part disposals of Clyde in May 18 and Stronelaig, Dunmaglass & Cloosh in March 2019.

Note 6: Slough Heat & Power Biomass Plant's financial results are reported within SSE Enterprise. Capacity and output included above. 19MWs of the plant were closed in HY18/19.



## Introduction to the Wholesale businesses

SSE's Wholesale businesses are involved in electricity generation (from renewable and thermal sources), energy portfolio management, gas production, and gas storage. They operate in the UK and Ireland.

## Renewable Energy (to become known as SSE Renewables)

Renewable energy is one of the primary routes for achieving decarbonisation in the UK, Ireland and further afield. Correspondingly, renewables are a core business area for SSE and a key part of its future growth plans. Further decarbonisation of electricity, heat and transport – on the scale envisaged by the UK Committee on Climate Change's May 2019 report, will all lead to further opportunities.

In November 2018, SSE announced its plans to consolidate its renewable energy assets in the UK and Ireland under the banner of a new business to be known as SSE Renewables. The new business is led by Managing Director, Jim Smith, and is bringing together SSE's existing operational assets and those under development and construction in onshore wind, offshore wind, flexible hydro electricity, run-of-river hydro electricity and pumped storage.

## Renewable energy capacity and output

Output from renewable sources, including pumped storage, increased in 2018/19 compared to the previous year (9.8TWh compared with 9.4TWh) which is mainly driven by an increase in average generation capacity during the year as Stronelaig and Beatrice began to generate. Net capacity at 31 March 2019 reflects the value creating divestments at Clyde, Stronelaig, Dunmaglass and Cloosh. SSE's overall renewable capacity increased to 4,002MW in May 2019 with the delivery of the Beatrice offshore wind farm.

## Onshore wind

Stronelaig (228MW), SSE's last wind farm to be accredited under the Renewables Obligation, was completed in December 2018. In March 2019, stakes in Stronelaig and Dunmaglass, totalling 161MW secured an average sale price of just under £4m/MW, demonstrating the value that can be created through the development of high-quality assets.

In March 2019, SSE also sold 27MW of the Cloosh Valley Wind Farm part of the Galway Wind Park, Ireland's largest wind farm; taking its share of the overall site to 93MW.

SSE Renewables will continue to operate the three wind farms and to offtake the power. These divestments were part of SSE's strategy to create value from development and operation, as well as ownership, of assets. Like other leading energy companies, SSE is likely to continue to operate in this way, effectively continuing to seek a developer and operator premium, whilst acknowledging the increased appetite that potential financial partners have for working with leading developers and operators like SSE.

SSE's onshore wind farm development pipeline consists of over 1GW of potential new build projects. This includes around 475MW of capacity with consent for development, some of which SSE is seeking to optimise through planning amendments to accommodate more advanced turbine technology. The current focus is on the joint venture Viking Wind Farm (up to 457MW – SSE share 50%), located on Shetland, Strathly South (133MW), Gordonbush Extension (38MW), Tangy re-power (up to 49MW), and on others requiring consent, such as Doraville (139MW) in Northern Ireland.

SSE continues to take forward development options for new onshore wind farms and extensions to existing wind farms and is well placed to take advantage of any future opportunities as they emerge. This includes exploring merchant opportunities for onshore wind and considering corporate power purchase agreements to deliver additional renewables.

## Offshore wind

The Beatrice offshore wind farm (588MW – SSE share 40%) was completed in May. Phase 1 CfD payments started on 6 November 2018 and Phase 2 on 28 April 2019. SSE Renewables will operate and maintain the entire asset on behalf of the Joint Venture, Beatrice Offshore Wind Farm Ltd, once complete.

CfD Allocation Round 3 (AR3) will commence on 29 May 2019. The Department for Business, Energy and Industrial Strategy has confirmed the overall budget available, the administrative strike prices for each eligible technology, and the "reference prices" (a measure of the average GB market price for electricity used to calculate the budgetary impact of each bid during an Allocation Round).

SSE Renewables is actively involved in two offshore prospects which are expected to be eligible to enter AR3. (Viking Wind Farm will also be eligible to complete in AR3 as "remote island wind")

- Seagreen Phase 1 (up to 1,050MW), consists of the Alpha and Bravo projects. Seagreen is wholly owned by SSE following its acquisition of Fluor Ltd.'s 50% share of the joint venture in September 2018.
- Dogger Bank (up to 3.6GW), is a 50:50 joint venture with Equinor to develop three projects in the Dogger Bank zone – Creyke Beck A, Creyke Beck B and Teesside A. The projects are being progressed in preparation for the CfD auction.

SSE Renewables also has interests in the following further offshore projects in development:

- Seagreen Phases 2 & 3 (up to 3,200MW)
- Greater Gabbard Extension (up to 504MW – SSE share 50%)
- Arklow Bank Wind Park in Ireland (800MW)

This means that, overall, SSE has an on- and offshore wind development pipeline of over 8GW at varying stages of development.

SSE continues to engage with the Crown Estate and Crown Estate Scotland on their leasing processes for new seabed to maintain a pipeline of offshore projects through to the late 2020s and beyond.

Arklow Bank Wind Park has a lease but is awaiting details regarding the auction processes in Ireland where the new Renewable Electricity Support Scheme (RESS) is awaiting State Aid approval. SSE believes offshore wind has real opportunities from the second RESS auction, indicatively scheduled for 2020, with further auctions signalled for 2021, 2023, and 2025.

## Hydro

SSE's fleet of hydro electric assets continues to deliver low-carbon power to respond to the needs of the GB electricity system. The focus continues to be on ensuring the fleet is as operationally efficient and flexible as possible. Whilst SSE has some development assets, in the form of pumped storage, there is not yet a clear route forward for commercially realising the system value that these assets could provide.

## International

Extending SSE Renewables core competencies in renewable energy to other technologies and geographies presents significant potential to add to future growth opportunities. SSE is actively exploring opportunities and assessing whether the right risk/reward balance can be achieved. With a wealth of opportunities to pursue in the UK and Ireland, SSE will take time to evaluate all opportunities carefully, and strict capital discipline will be a feature of any decisions.

## Operating review continued

### Wholesale continued

#### Flexible Thermal Generation

SSE's thermal fleet fulfils an important function within the wider electricity market by providing reliable capacity at scale in response to market changes and events, for example, unplanned nuclear outages and periods of low rain or wind.

SSE's CCGTs are among the most flexible on the GB and Irish electricity systems and have increasingly created value from their intra-day flexibility. This flexibility is important in supporting the transition to a low-carbon electricity system.

The UK Capacity Market is currently suspended pending the outcome of a European Commission investigation into the legality of the Capacity Market payments under state aid rules. During this standstill, participants with Capacity Market obligations cannot receive payments, nor will there be mandatory collection of payments from suppliers. If the European Commission reaches a positive decision on state aid, the payments will be reinstated and paid retrospectively provided capacity obligations have been met. Capacity Market obligations for future delivery years would also be upheld.

The UK Government has confirmed that an auction will take place 11-12 June for delivery in 2019/20, replacing the T-1 auction originally scheduled for January 2019. The Government also intends to run a T-3 auction in January to replace the T-4 auction originally scheduled for February 2019. These auction results and subsequent payments would be contingent on the outcome of the European Commission's investigation.

SSE has submitted evidence to the European Commission supporting the UK Government's position that the Capacity Market, as designed, continues to be the best tool to ensure security of electricity supply at lowest cost to the customer.

SSE's thermal assets have been awarded the following capacity contracts in the GB and Ireland through competitive auctions:

Station	Asset type	Capacity	Capacity obligation
Medway (GB)	CCGT	735MW SSE 100%	To September 2022
Keadby (GB)	CCGT	755MW SSE 100%	To September 2022
Peterhead (GB)	CCGT	1,180MW SSE 100%	October 2018 to September 2019 October 2021 to September 2022
Seabank (GB)	CCGT	1,164MW SSE 50%	To September 2022
Marchwood (GB)	CCGT	840MW SSE 50%	To September 2022
Great Island (Ire)	CCGT	464MW SSE 100%	To September 2020 October 2022 to September 2023
Rhode (Ire)	Gas/oil peaker	104MW SSE 100%	To September 2020 October 2022 to September 2023
Tawnaghmore peaking plant (Ire)	Gas/oil peaker	104MW SSE 100%	To September 2020 October 2022 to September 2023
Tarbert (Ire)	Oil	590MW SSE 100%	To September 2020

In March 2019, SSE announced the closure of Unit 1 (495MW) at what is now its only coal-fired power station at Fiddler's Ferry (now 1510MW). The remaining three units have capacity obligations until September 2019 and continue to operate as normal. The UK Government has committed to phasing out coal-fired power stations by 2025. SSE continues to review all commercial options for the station with no decision yet made. Preparation for the safe demolition of the Ferrybridge "C" coal-fired power station is also under way.

#### Future development

Construction of Ferrybridge Multifuel 2 (69MW – SSE share 50%) is on track for completion by the end of 2019. SSE is also carrying out site preparation work for a potential new multifuel plant (up to 50MW) at Slough.

Construction of SSE's £350m, 840MW CCGT at Keadby 2 in Lincolnshire, is under way and is expected to be delivered by early 2022. The project, which is adjacent to the existing Keadby CCGT, will introduce Siemens' first-of-a-kind, high efficiency, gas-fired generation technology to the UK. SSE intends to participate in future capacity market auctions to secure an agreement for Keadby 2.

Should market conditions warrant further investment in high efficiency gas-fired generation during the transition to a low-carbon electricity system, SSE has opportunities to develop further CCGTs and there is also considerable value in the optionality of the existing sites at Ferrybridge and Fiddler's Ferry. SSE also remains very interested in the long-term potential of Carbon Capture and Storage.

#### Energy Portfolio Management

In November, SSE published a statement on its approach to hedging with a view to providing enhanced clarity and transparency to shareholders and investors. EPM has made significant progress regarding the new hedging approach. SSE now generally seeks to hedge its exposure at least 12 months in advance of delivery and remains on track to have this approach fully in place from the start of the next financial year. The Board-level Energy Markets Risk Committee, chaired by Tony Cocker, is overseeing implementation of the new approach. For more information see SSE's updated statement published on [sse.com](http://sse.com) – SSE's Approach to Hedging: May 2019 Update.

## Gas Production

GAS PRODUCTION	March 19	March 18
Gas production adjusted operating profit – £m <small>(APM)</small>	48.9	34.0
Gas production reported operating profit/(loss) – £m	78.6	(70.7)
Gas production – M therms	504	543
Gas production – Mboe	9.00	9.05
Liquids production – Mboe	0.62	0.74
Gas production adjusted capital investment – £m <small>(APM)</small>	27.9	65.5

Technical review carried out annually:	March 19	March 18
Proved Plus Probable (2P) – (MTh)	1.7	1.9
Proved Plus Probable (2P) – (MMboe)	29.7	33.8

SSE has a diverse equity share in over 15 producing fields across 25 licences in three regions of the UK Continental Shelf: the Easington Catchment Area, the Bacton Area and Greater Laggan Area.

The Glendronach gas discovery last year was clearly a positive development and SSE is working with its partners to extract full value from the discovery. In terms of the future of the business, in November 2018, SSE stated that Gas Production is a non-core activity that is ultimately inconsistent with its focus on decarbonisation and it is taking active steps to prepare for its disposal of investments in this activity. However, SSE will only complete a sale of its equity interests when it is in the interests of shareholders and other stakeholders to do so.

## Gas Storage

GAS STORAGE	March 19	March 18
Gas storage adjusted operating (loss) – £m <small>(APM)</small>	(5.7)	(6.5)
Gas storage reported operating (loss) – £m	(5.7)	(6.5)
Gas storage customer nominations met – %	100	100
Gas storage adjusted capital investment – £m <small>(APM)</small>	0.7	1.8

The economic conditions of gas storage have been challenging in recent years however SSE believes its assets can play an important role during the energy transition.

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 with the UK's continuing shift away from coal-fired generation, 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.

SSE's gas storage assets are well-placed to provide this service to energy users; however, in recent years the market has undervalued this service, making it challenging to cover the cost of maintaining and operating these assets. SSE believes that the economics are improving slightly, and it is expected to return to profit in 2019/20, although SSE remains committed to working with UK Government departments and Ofgem to ensure that the critical role of UK storage in relation to security of supply and stability of gas price is properly rewarded.

## Operating review continued

# NETWORKS BUSINESSES

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

Adjusted <sup>APM</sup> operating profit – £m

**830.2**

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

Reported operating profit – £m

**738.5**

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

Total Networks RAV – £m

**8,729**

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

Distribution investment and capital expenditure – £m

**340.7**

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

Transmission investment and capital expenditure – £m

**344.0**

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

**“The key part that electricity transmission and distribution networks will play in the low-carbon transition became clearer than ever in 2018/19. In Transmission, we have an outstanding record in connecting renewable energy to the grid in a sustainable way; and in Distribution, we are leading the transition from network to system operation.”**

Colin Nicol  
Managing Director, Scottish and  
Southern Electricity Networks

**In February 2019, SSE's  
Transmission business published  
its Emerging Thinking paper.**

**Eighteen months of engagement went into  
the paper, which sets out SSE's thinking of  
what customers, communities and other  
stakeholders will require of the electricity  
transmission network in the first half of  
the next decade. Driving investment in  
potential projects in the North of Scotland  
between now and 2025 could contribute to  
a Transmission RAV of...**

**£5bn**

## Operating review continued

### Networks continued

#### Networks key performance indicators

	March 19	March 18
<b>ELECTRICITY TRANSMISSION</b>		
Transmission adjusted and reported operating profit – £m <sup>(APM)</sup>	252.1	195.6
Regulated Asset Value (RAV) – £m	3,276	3,070
Renewable Capacity connected to SSEN Transmission Network – MW	6,236	5,209
Transmission adjusted Capital expenditure – £m <sup>(APM)</sup>	344.0	434.2
<b>ELECTRICITY DISTRIBUTION</b>		
Electricity distribution adjusted and reported operating profit – £m <sup>(APM)</sup>	401.3	402.2
Regulated Asset Value (RAV) – £m	3,555	3,406
Distribution adjusted capital expenditure – £m <sup>(APM)</sup>	340.7	326.1
Electricity Distributed TWh	38.3	39.2
Customer minutes lost (SHEPD) average per customer	59	55
Customer minutes lost (SEPD) average per customer	50	48
Customer interruptions (SHEPD) per 100 customers	69	57
Customer interruptions (SEPD) per 100 customers	52	55
<b>Scotia gas networks (SGN) SSE's 30% share</b>		
SGN adjusted operating profit (SSE's share) – £m <sup>(APM)</sup>	176.8	165.3
SGN reported operating profit (SSE's share) – £m	85.1	71.8
Regulated Asset Value – £m	1,898	1,828
Uncontrolled gas escapes attended within one hour %	98.7	98.2
SGN gas mains replaced – km	999	1,000

#### Introduction to the Networks businesses

SSE is the only energy company in the UK to be involved in economically regulated electricity transmission, electricity distribution and gas distribution. Its electricity networks businesses are collectively known as Scottish and Southern Electricity Networks (SSEN) and it owns a one-third stake in the gas distribution company SGN. The net Regulatory Asset Value (RAV) of SSE's energy networks businesses is on course to reach £10bn by 2023.

Ofgem sets price controls (which in the future will be five year price controls) under the RIIO (Revenue = Incentives + Innovation + Outputs) framework through which energy network companies earn index-linked revenue through charges levied on customers set at a level to cover costs and earn a reasonable return, subject to delivering value for customers, being efficient and achieving targets set by Ofgem.

As part of setting price controls, Ofgem defines total expenditure (totex) allowances for each of the economically-regulated networks, which is designed to encourage them to deliver their outputs at the lowest total cost, without preferring operational expenditure or capital expenditure. Totex underspends are shared between the companies and their customers. Ofgem also uses the price control process to incentivise companies to deliver defined outputs for customers. If companies deliver, they can

earn additional incentive income; if not, they will suffer a financial penalty. SSEN's performance in relation to these incentives is set out in the relevant parts of the report that follows.

#### Electricity Transmission

SSEN, operating as Scottish Hydro Electric Transmission plc, owns, operates and develops the high voltage electricity transmission system in the North of Scotland and remote islands.

Since the start of the eight-year RIIO-T1 Price Control in 2013, capital investment in Transmission has totalled around £2.7bn, with this investment playing a pivotal role in providing the critical national infrastructure required to facilitate the transition to a decarbonised energy system.

As noted above, in addition to the base rate of return on the RAV of SSEN's transmission assets, RIIO-T1 allows additional revenue to be earned through financial incentives based on efficient use of total expenditure (totex).

The outcome of totex efficiency savings is dependent on the successful completion of large-scale projects and the successful close out of RIIO-T1 after 2021. SSEN expects it will deliver totex savings over the course of RIIO-T1 which will be shared equally between SSEN, supporting future earnings, and electricity customers, through lower charges than would otherwise have been the case.

#### Maintaining network reliability

Despite the current period of rapid growth in transmission development, SSEN continues to maintain a reliability of over 99.9%.

During 2018/19, SSEN earned the maximum reward of £1.2m through the Energy Not Supplied (ENS) Incentive. The ENS Incentive provides a financial reward, on a sliding scale, if the volume of energy not supplied to customers due to faults is below a pre-determined annual target, which for SSEN Transmission is 120MW. If the target is exceeded, a financial penalty is applied.

As its transmission assets reach the end of their operational life, SSEN has an ongoing programme of maintenance and refurbishment to ensure its critical, national infrastructure assets continue to deliver for electricity customers, generators and wider society.

#### Successfully energising the Caithness-Moray transmission link

In December 2018, SSEN successfully energised the Caithness-Moray subsea transmission link, which remains the largest single investment ever undertaken by the SSE Group.

Total spend for the project is forecast to be around £970m against an allowance of £1,062m, net of £55m of allowance already returned through the Price Control (all in 2013/14 prices). SSEN's efficient delivery of the Caithness-Moray link will result

in efficiency savings through the totex mechanism, supporting future earnings.

### **Delivering the transition to a low-carbon economy**

During 2018/19, SSEN increased the renewables capacity supported by its network by over 1GW, in what was another record year for renewable connections to SSEN's transmission network.

This means the installed renewable electricity generation capacity connected to SSEN's transmission network has grown from 3.3GW at the start of the RIIO-ET1 price control in April 2013 to over 6GW and is forecast to grow to over 6.5GW by the end of the current price control period in 2021. SSEN will continue to work collaboratively with its connection customers to deliver timely and efficient connections to its network.

In the remaining years of the RIIO-T1 Price Control, SSEN has a healthy pipeline of transmission projects. With a total planned investment of over £600m, the transmission business remains on track to increase its RAV to around £3.6bn by 2021.

### **Ready to connect Scotland's island groups**

SSEN continues to work with stakeholders across the three Scottish island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation. Together, the three links could provide an investment opportunity of around £1.5bn for SSEN.

With all three island link Needs Cases with Ofgem for consideration and the project development for each island link at an advanced stage, SSEN will continue to engage constructively to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed.

### **Highlighting concerns about implementation of competition in Transmission**

SSEN continues to have a number of significant concerns about Ofgem's implementation of competition in transmission, particularly the Competition Proxy Model (CPM) and Special Purpose Vehicle (SPV) delivery models currently in development.

SSEN believes Ofgem's current proposals effectively reopen the RIIO-T1 Price Control; are justified on unproven customer benefits; are not underpinned by legislation or a regulatory framework; and risk delays to the delivery of well-established and advanced projects. SSEN is also increasingly concerned that the introduction of competition in the way envisaged will result in a fragmentation of responsibility, risking network reliability and introducing safety concerns.

Whilst SSEN will continue to engage constructively with Ofgem and other stakeholders as part of this process, it will also consider all options available to ensure the integrity of the Price Control is maintained and the development of existing projects continues, including the potential for legal challenge.

### **Contributing to the development of RIIO-2**

In December, Ofgem published its RIIO-2 Sector Specific Methodology consultation for electricity transmission.

SSEN remains concerned that Ofgem has failed to give appropriate weight to benefits delivered to customers and stakeholders during RIIO-1 and has instead proposed a RIIO-2 framework which blunts existing efficiency incentives in a desire to secure a predictable outcome. In its response to the consultation, SSEN has set out a number of areas the regulatory mechanisms of RIIO-1 which have delivered material stakeholder benefits, encouraging Ofgem to ensure these remain in place. These mechanisms are:

- an output incentive package large enough to allow a high performing network to reach the upper return range;
- a strong Totex incentive, to ensure networks continue to drive efficiency;
- a strong and equitable business plan incentive that allows networks to reveal potential in the knowledge that they will share in the benefits;
- an innovation stimulus which supports solutions to current as well as future network challenges; and
- a fair financial package for investors that recognises current and future risk.

SSEN will continue to advocate constructively for a regulatory framework that strikes the right balance between driving efficiency and maintaining a stable investment climate that continues to deliver improvements in network reliability, innovation and customer service and pave the way for the further decarbonisation of the energy system.

### **Preparing the first RIIO-T2 draft business plan**

SSEN's draft RIIO-T2 business plan, which will inform business delivery from April 2021, is now in the final stages of development. In February 2019, informed by extensive stakeholder engagement over the previous 18 months, SSEN published its "Emerging Thinking" paper which sets out SSEN's understanding of what electricity customers, local communities and wider stakeholders require from the electricity transmission network in the first half of the next decade.

The "Emerging Thinking" paper and subsequent stakeholder feedback will form the basis of SSEN's first draft business plan, which will be published for consultation by 1 July 2019. As part of the development of this business plan, SSEN sees a powerful case for investment which could contribute to a Transmission RAV of around £5bn by the end of RIIO-T2 in 2026, excluding any contribution from island links.

### **Electricity Distribution**

SSEN, operating under licence as Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD), is responsible for maintaining the electricity distribution networks supplying over 3.8 million homes and businesses across central southern England and north of the central belt of Scotland.

### **Delivering for customers and investors under the incentive-based framework**

SSEN is now at the mid-point of the RIIO-ED1 Price Control, and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making. It aims to be as efficient and effective as possible and earn returns that are fair to customers and shareholders alike, focusing on four key areas:

- Good performance in relation to incentives available within RIIO-ED1;
- Efficient delivery of capital investment;
- Focused delivery of regulatory outputs; and
- Maintaining a leadership position in innovation.

## Operating review continued

### Networks continued

Incentive performance for SSEN's Distribution business is expected to be £11m in 2018/19 (including an estimated £1m for Stakeholder Engagement and Consumer Vulnerability), compared to £12.6m in 2017/18, with a reduction in the return from the Interruptions Incentive Scheme (IIS) offsetting marked improvements in connections and customer service incentive performance. Typically, incentive income is collected two years after the performance year.

#### Targeting performance in interruption incentives

Under the IIS, 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.

After a challenging first six months of the year, due in part to the sustained summer heatwave impacting on low voltage network equipment, an improved performance in the second half of the year helped deliver an incentive reward for 2018/19 of £2.5m (£6.8m last year).

#### Delivering for customers and stakeholders

In 2018/19, SSEN's focus on continual improvements in customer service resulted in a total incentive reward of £4.7m against the Customer Satisfaction (or Broad) Measure Incentive, up significantly from £2.7m last year.

SSEN's commitment to customer service is reflected in its membership of the Institute of Customer Service and performance in UKCSI survey, where it achieved a score of 89.4%, comparing favourably to the member average of 78.1% and the Utilities average of 74.4%. SSEN also achieved compliance with the BSI Inclusive Service Provision standard for the fourth year running, recognising that its policies, procedures and services are accessible and fair to all customers.

Under the Stakeholder Engagement and Consumer Vulnerability Incentive, SSEN was awarded £1.2m for 2017/18, up from £0.8m in 2016/17. The outcome of the SECV incentive for 2018/19 will not be known until the second half of 2018.

#### Driving value from connections

In recent years, SSEN has made significant changes and process improvements in its connections business, informed by the needs and expectations of its customers. This progress is reflected by a near-maximum award of £2.8m under the Average Time to Connect (TTC) Incentive for 2018/19, up from £1.8m the previous year.

In October 2018, Ofgem announced its decision not to penalise SSEN under the penalty only Incentive on Connections Engagement (ICE). This is the third consecutive year SSEN has avoided a penalty since its introduction at the beginning of the RIIO-ED1 Price Control period.

In line with the RIIO-ED1 regulatory settlement, incentive targets will become harder to achieve in the second half of the price control, but SSEN remains confident that it will deliver sustained incentive performance in this area.

#### 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 as well as contributing to sustained and fair returns and increased RAV.

During 2018/19, SSEN invested a total of £340.7m in its electricity distribution networks, bringing the total invested since the beginning of the RIIO-ED1 Price Control to over £1.2bn – which is part of a forecast investment of £2.4bn throughout the RIIO-ED1 period, supporting future earnings through RAV growth.

#### Responding to change in marine planning policy with subsea cable reopener

Following a change in Scottish Marine Planning policy, the costs associated with the ongoing maintenance and replacement of SSEN's subsea cable assets have increased and SSEN submitted a "reopener" to Ofgem for the additional allowance required to support its subsea cable replacement programme.

SSEN has requested an additional £59m (in 2012/13 prices) over the RIIO-ED1 period to manage the increased associated costs. These include the requirements for additional surveys, cable protection and decommissioning. 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.

#### Progressing a whole system recommendation for Shetland

In November 2018, SSEN submitted to Ofgem a "whole system" recommendation for Shetland's future energy needs through the sharing of, and financial contribution towards, the proposed transmission link to Shetland. SSEN has proposed making a financial contribution of £251m towards the transmission link, which is based on the value of services the link would provide to its local distribution network. A formal response from Ofgem to SSEN's proposal is expected shortly.

#### Leading the way in the flexibility transition

SSEN is playing a leading role in the transition from a Distribution Network Operator (DNO) to a Distribution Systems Operator (DSO).

In December 2018, SSEN adopted a "Flexibility First Commitment" setting out that SSEN Distribution will consider flexible solutions in all scenarios where traditional network reinforcement may have been required. This commitment, which is now hard-coded into SSEN's connection process, has been supported by a partnering with Piclo, a flexibility platform provider, to seek to register and procure flexibility across its distribution areas, ahead of potential network constraints.

In March 2019 it was confirmed that SSEN's Project Local Energy Oxfordshire (LEO) will receive £13.8m of funding from the UK Government's Industrial Strategy Challenge fund. LEO will explore how the growth in local renewables, electric vehicles (EVs), battery storage, vehicle-to-grid (V2G) technology and demand side response can be supported by a local, flexible, and responsive electricity grid. Project LEO will run concurrently with Project TRANSITION, funded by £11m Ofgem grant, which will replicate and trial one of the elements of one of the proposed DSO models.



### **Understanding the impact of electrification**

SSEN expects electrification of heat and transport to lead to an increased role for the electricity networks. As well as playing a key role in developing its networks to support an increased load in the future, SSEN's Electric Vehicle Strategy is built on a proactive "readiness" approach with informed anticipative investment where the evidence, network characteristics and stakeholder engagement show it is required. This focus on enabling electric vehicles is in line with the goals for 2030 adopted by SSE in March 2019. In early 2019, SSEN worked with leading energy consultants, Regen, to develop scenarios for the growth of new sources of demand and distributed generation in its licence area in central southern England for 2018 to 2032 and plans to replicate this study in its Scottish licence area later this year.

### **Scotia Gas Networks (SGN)**

Covering Scotland, the south of England and areas of Northern Ireland, SGN distributes natural and "green" hydrogen gas to 5.9m homes and businesses, serving people through a network of 74,000km of gas mains and services. SGN's vision is to keep its customers safe and warm while at the same time lead the way in energy delivery. Safety therefore will remain a key priority for the company with a focus on keeping its people, customers and the public safe around its activities.

SGN had a good year across its operational activities, exceeding its 97% emergency response target and achieving its GB gas mains replacement targets, with 999km delivered across the Scotland and south networks. During the year a further 200km of pipeline was constructed on SGN's third distribution network in the west of Northern Ireland.

Its Scotland network has consistently led the sector for customer satisfaction making SGN the overall No 1 gas network company for customer service. It is also greatly improving support for people in vulnerable circumstances, providing new gas connections to over 2,900 customers in fuel poverty.

With two years left of the current eight-year price control (RIIO-GD1), SGN remains committed to meeting all Ofgem outputs as well as ensuring it maximises its regulatory incentives. Consultation is now on developing its business plan for the next five-year price control (RIIO-GD2), which will take effect from April 2021.

## Operating review continued

# RETAIL BUSINESSES

SSE supplies energy and related services to households, businesses and public sector customers in the UK and Ireland. The businesses which do this are: Business Energy, SSE Airtricity, Enterprise and SSE Energy Services (which is held for disposal).

Adjusted <sup>APM</sup> operating profit (continuing businesses) – £m

**122.0**

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

Reported operating profit (continuing businesses) – £m

**122.0**

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

SSE Business Energy adjusted <sup>APM</sup> /reported operating profit – £m

**51.6/51.6**

Business Energy supplies electricity and gas to commercial and public sector customers in England, Scotland and Wales.

SSE Airtricity adjusted <sup>APM</sup> /reported operating profit – £m

**38.6/38.6**

SSE Airtricity remains the only energy supplier operating in all market areas across the island of Ireland.

SSE Enterprise adjusted <sup>APM</sup> /reported operating profit – £m

**31.8/31.8**

SSE Enterprise provides energy and telecoms services to industrial, commercial and public sector customers across the UK.

Number of smart meters on supply as of 31 March 2019

**1.2m**

SSE Energy Services is making good progress in transitioning to a new generation of smart meter, the SMETS2, which offers full functionality to customers.

**"SSE's retail businesses offer a route to market for energy and related infrastructure services. Business Energy is building on the strong position it has in commercial and public sector markets; Airtricity remains the only domestic supplier in all markets across the island of Ireland; and Enterprise will be key to meeting the Group's low-carbon ambitions."**

Alistair Phillips-Davies  
Chief Executive

**SSE Airtricity is the first supplier to overtake the incumbent in the large energy user market.**

**In February 2019, Ireland's Commission for Regulation of Utilities Q3 2018 Electricity and Gas Retail Markets Report showed that SSE Airtricity supplied more megawatt hours of electricity to large energy users than any other supplier. The amount of commercial energy provided by SSE Airtricity was...**

**845,829<sub>MWh</sub>**

## Operating review continued

### Retail continued

#### Retail Key Performance Indicators

Remaining Retail Businesses – Business Energy, Airtricity & Enterprise	March 19	March 18
Business Energy adjusted operating profit – £m <small>(APM)</small>	51.6	64.2
Airtricity adjusted operating profit – £m <small>(APM)</small>	38.6	33.0
Enterprise adjusted operating profit – £m <small>(APM)</small>	31.8	26.9
<b>Total Retail adjusted operating profit – £m <small>(APM)</small></b>	<b>122.0</b>	<b>124.1</b>
Business Energy reported operating profit – £m	51.6	64.2
Airtricity reported operating profit – £m	38.6	26.9
Enterprise reported operating profit – £m	31.8	15.1
<b>Total Retail reported operating profit – £m</b>	<b>122.0</b>	<b>106.2</b>
Adjusted capital expenditure (B2B, Airtricity and Enterprise) – £m <small>(APM)</small>	21.0	63.4
Energy customers' accounts (Business Energy sites) – m*	0.55	0.49
All-Island energy market customers (Ire) – m	0.72	0.74
<b>Total Retail customer accounts</b>	<b>1.27</b>	<b>1.23</b>
* Business Energy inc. c55k accounts re-assigned from GB domestic.		
Business Energy Electricity Sold – GWh	19,336	20,177
Business Energy Gas Sold – mtherms	277	294
Aged Debt (Business Energy and Airtricity) – £m	35.8	19.3
Bad debt expense (Business Energy and Airtricity) – £m	14.8	13.8
SSE Energy Services (held for disposal)	March 19	March 18
SSE Energy Services – Energy Supply (households GB) adjusted operating profit – £m <small>(APM)</small>	84.0	260.4
SSE Energy Services – Energy Related Services (households GB) adjusted operating profit – £m <small>(APM)</small>	5.6	18.3
<b>Total SSE Energy Services adjusted operating profit – £m <small>(APM)</small></b>	<b>89.6</b>	<b>278.7</b>
SSE Energy Services – Energy Supply (households GB) reported operating profit – £m	29.7	203.5
SSE Energy Services – Energy Related Services (households GB) reported operating profit – £m	5.6	18.3
<b>Total SSE Energy Services reported operating profit – £m</b>	<b>35.3</b>	<b>221.8</b>
Adjusted capital expenditure (SSE Energy Services) – £m <small>(APM)</small>	102.6	110.8
Electricity customer accounts (GB domestic) – m	3.46	3.82
Gas customer accounts (GB domestic) – m	2.32	2.53
Energy Related Services (GB domestic) – m	0.47	0.45
<b>Total SSE Energy Services customers – m</b>	<b>6.25</b>	<b>6.80</b>
Electricity supplied household average (GB domestic) – kWh	3,554	3,788
Gas supplied household average (GB domestic) – th	408	454
Aged debt (GB domestic)	82.8	76.9
Bad debt expense (GB domestic)	40.5	42.5
Customer complaints to third parties (GB Domestic)	1,414	1,616
Smart Meters on supply	Over 1,250,000	Over 850,000

## Introduction to the Retail businesses

SSE's retail businesses offer a route to market for energy and related infrastructure services. Business Energy supplies energy in commercial and public sector markets; SSE Airtricity remains the only domestic energy supplier in all markets across the island of Ireland; and Enterprise has an important part of play in helping SSE's meet its low-carbon ambitions

### SSE Business Energy

SSE 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. It complements SSE's interests in renewables and flexible thermal generation, providing a route to markets for electricity output through standard contracts and power purchase agreements.

SSE Business Energy performed well against expectations for all segments. Its strong position is built on solid core competencies in meeting business customers' energy needs. SSE Business Energy continues to focus on its 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.

### SSE Enterprise

The role of Enterprise within SSE Group is to seek out new opportunities in areas that complement the Group's core energy portfolio and 2018/19 represented a year of growth. SSE Enterprise focuses on distributed energy, telecoms and also undertakes M&E Contracting work in both its Contracting and Rail businesses.

Enterprise continues to develop in core markets as well as seek out opportunities to meet the evolving needs of its customers. This year it brought together its existing multi-utility and energy management capabilities into one Distributed Energy business division. Technological advances in flexible energy generation and storage, energy consumption, digital platforms and energy management are creating a growing need for local and flexible energy services. To meet that need, this new division will develop further its capability to provide such services as electric vehicle infrastructure, intelligent energy and information monitoring; as well as district heating schemes.

December 2018 saw Infracapital enter into an agreement with SSE plc to buy a 50% stake in SSE Enterprise Telecoms for a total consideration of up to £380m. An initial £215m (less a small adjustment for working capital) was received at completion in March 2019 and a further £165m will be paid in a series of instalments – subject to future performance. The deal supports accelerated growth in the fibre connectivity sector for the company which will be governed by a composite board structure. High-speed broadband connectivity remains vital to the economic prosperity of the UK – and SSE Enterprise Telecoms is well placed to support growth in this critical sector. In order to further consolidate the spread of its portfolio of Enterprise businesses, SSE completed the sale of its share of its gas transportation networks, Indigo Pipelines to Arjun Infrastructure Partners (AIP); and announced the sale of its Water business to Leep NAV Networks – a joint venture between Ancala and the Peel Group, which is due for completion at the end of May.

### SSE Airtricity

SSE's retail arm in Ireland, SSE Airtricity, is the only retail energy brand that operates in all market areas across the island. Combining power production and energy supply to households and businesses continues to deliver commercial advantage to energy customers in Ireland. This has been recently demonstrated by "Generation Green", a consumer brand campaign that combines SSE Airtricity's leadership in renewable energy with a customer proposition based on helping customers decarbonise.

At 31 March 2019, SSE Airtricity supplied electricity and natural gas to 0.7 million household and business customer accounts in the Republic of Ireland (ROI) and Northern Ireland (NI), making it the second-largest provider of energy and related services in the combined market.

In Home Energy the launch of new value-based propositions, including a "connected home" product partnership with Amazon, boosted sales, rising to one-third of all sales by year end. For the third year running SSE Airtricity was also named Best for Customer Service by internet comparison site Bonkers.ie, and overall Best Consumer Brand.

In February 2019, the Commission for the Regulation of Utilities (CRU) confirmed that SSE Airtricity is now the largest supplier by MWh of electricity to commercial customers in Ireland's "Large Energy User" market, becoming the first supplier to overtake the incumbent in this market.

SSE Airtricity continues to focus on helping customers reduce their carbon output and save on energy costs, and this year completed a number of acquisitions and collaborations with specialist energy ancillary service providers to expand in this sector.

## SSE Energy Services (Held for disposal) Creating a more independent energy and services business in GB

SSE Energy Services, comprising SSE's domestic energy supply and energy-related services businesses in Great Britain, is the third-largest supplier in the GB energy market. Since it stepped away from a planned merger with npower in December 2018, SSE has been actively progressing a range of options for the future of SSE Energy Services, including a possible sale, alternative transaction or standalone listing. In these considerations, the interests of customers, employees and shareholders have been paramount. Although SSE Energy Services remains a separate entity within the group for the immediate future, SSE is still of the view that the best long-term future for the business lies outside of the SSE group and is therefore continuing with steps to increase its autonomy and independence.

To that end, SSE has appointed Katie Bickerstaffe as Executive Chair of the SSE Energy Services business. Katie will take up the new role on 23 June 2019, alongside Gordon Boyd, who joins as Interim Chief Financial Officer, with a mandate to deliver a new future for it outside the SSE group and continue progress towards a listing or new, alternative ownership by the second half of 2020. She will form a new, dedicated SSE Energy Services Board, which is expected to have both executive and non-executive representation from the SSE Group, as well as an independent non-executive director. The business will therefore be able to operate with greater day-to-day autonomy and independence, while still being subject to oversight by the SSE plc Board while it remains within the group.

Katie and Gordon will work closely with Stephen Forbes and Tony Keeling, who, having run the business since 2017 as Co-Heads, are confirmed as Managing Directors and will join the new Board as well as being key members of a new Executive Committee. Their priority will be to ensure the business has the strongest possible track record as it approaches a future outside the group.

## Operating review continued

### Retail continued

Following its update on 28 March 2019, SSE has also held further positive discussions with third parties about the provision of collateral and trading services for SSE Energy Services. Such a deal would further increase SSE Energy Services' independence from the SSE group by enabling it to trade and operate on a standalone basis as required. It currently relies on the SSE group's credit rating and procures energy through SSE's Energy Portfolio Management division.

As outlined in SSE's notification of close period statement, SSE Energy Services was profitable and cashflow positive in 2018/19 and is expected to be so again in 2019/20. However, it made an adjusted operating margin of 2.4% compared with 6.8% in the previous year. This reflects the decision to shield customers from wholesale price increases during 2018, together with the impact of the Default Tariff Cap between January and March 2019 and lower customer numbers, only partially offset by the expiry of a Power Purchase Agreement (PPA).

Operating margin is expected to be further restricted in 2019/20, and is likely to fall below 2% due to the full-year impact of the Default Tariff Cap; however, SSE Energy Services is in the process of transforming its business to:

- reduce its operating costs;
- stabilise customer numbers; and
- deliver the benefits of smart metering for both customers and the business.

#### Reducing operating costs

SSE Energy Services has continued to drive efficiencies across its business in 2018/19. However, to have a sustainable and competitive business under a tight price cap, it must go further and fundamentally transform its operating model to regain its cost leadership position and offer more value to customers. As well as simplifying business processes and right-sizing to reflect customer demand, SSE expects to drive additional efficiencies by: investing in digital to increase the proportion of customer service transactions completed online; automation of back-office processes, and growth of its data and analytics capability to provide smarter, tailored and more cost-effective solutions for customers.

In 2018/19 SSE continued to perform strongly in a range of external service league tables. It was named best large supplier in the uSwitch Customer Satisfaction Awards and was consistently highly ranked in the Citizens Advice Energy Supplier Performance report, most recently outperforming large and small competitors alike to rank second of 34 suppliers assessed. As a responsible essential

services provider, SSE is also committed to meeting the needs of vulnerable customers and in May 2018 achieved the British Standard for Inclusive Service Provision, the gold standard for any company looking to embed flexible customer service practices and means SSE can identify vulnerability in different forms and adapt its service accordingly.

#### Stabilising customer numbers

As of 31 March 2019, SSE Energy Services had 5.78m gas and electricity customer accounts and 0.47m energy related services customer accounts. Throughout the year, a number of strategic partnerships were secured with trusted brands including Dixons Carphone Warehouse and Leaders Romans Group, which are helping to reach and attract new customers. Non-energy performance was also strong with the number of sales of phone and broadband packages doubling in 2018/19.

Despite the high levels of competition seen in the market, there are early indications that the market is beginning to consolidate. In part, this is due to an increase in non-cost reflective tariffs and unsustainable business models operating in the GB energy market. During 2018/19, 12 suppliers ceased trading, activating Ofgem's 'Supplier of Last Resort' process. SSE Energy Services was pleased to be appointed by Ofgem as the new energy supplier for Brilliant Energy's 28,000 customer accounts.

Looking ahead to 2019/20, SSE Energy Services aims to stabilise its overall customer base to help facilitate longer term growth. Key to this will be leveraging its broad product offering encompassing energy, broadband and boiler care by offering bespoke, value-adding propositions and bundled services, supported by targeted investment in marketing and incentives. This will be supported by ongoing improvements to digital channels that will make it easier for customers to sign up for products and manage their accounts online. At the same time, SSE Energy Services is building its data and analytics capability, enabling it to improve customer segmentation, price more intelligently, and better tailor products and services to customers' changing needs.

#### Delivering the benefits of smart metering

The smart meter roll-out is more than just a regulatory obligation; it represents an opportunity to transform the relationship between customers, their energy supplier and the energy they consume. As of 31 March 2019, SSE Energy Services had over 1.2m smart meters on supply in customers'

homes and had made good progress in successfully transitioning to the new SMETS2 generation of smart meters, which bring fuller functionality to customers. Throughout 2019/20, SSE Energy Services will look to seize the opportunities presented by smart meters by harnessing smart data to engage and empower customers while also launching new, smart-enabled services and propositions.

While there were many achievements in 2018, including meeting its Ofgem interim milestone target for electric, SSE Energy Services was disappointed to have fallen slightly short on meeting its interim milestone target for gas. SSE Energy Services worked with Ofgem to resolve this matter as quickly as possible and a payment of £700,000 was made to Ofgem's Voluntary Redress Fund in March 2019. The shortfall was quickly recovered during February 2019 and good progress is being made against the 2019 plan. Despite ongoing challenges associated with the availability of key enabling technology and low customer demand, the business remains committed on meeting its obligation in a way which is safe, cost-effective and maximises the benefits to customers.

# MANAGING THE IMPACT OF THE WEATHER

The weather can have a major impact on SSE's financial performance. It influences renewable energy output, the efficient operation of distribution and transmission networks and customers' demand for electricity and gas.

The link between adverse or unseasonal conditions and SSE's business performance means that the weather in its home markets of GB and Ireland is identified as a material contributing factor to a number of Group Principal Risks.

These risks include Energy Affordability, Commodity Prices and Energy Infrastructure Failure and more detail is provided on pages 68 to 71.

Additionally, the interconnected nature of international commodity markets and energy systems – particularly between Ireland, GB and the rest of Europe – adds complexity to the impact of weather on energy prices and earnings.

SSE has crisis management and business continuity plans to deal with severe weather events that can damage energy infrastructure.

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 monitoring includes:

- Forecasting the temperature to inform how SSE's energy portfolio managers buy power and gas in advance, thereby improving SSE's procurement operations.
- 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.
- 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.

## RAINFALL



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

### 90%

...of the 1981-2010 climatology average rainfall for the North of Scotland fell in 2018/19.

## WIND



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

### -0.25m/sec

...was the wind speed deviation recorded in 2018/19 from the 1981-2010 climatology average.

## TEMPERATURE



Fluctuations in temperature can influence total consumer demand for both electricity and gas.

### +1.2°C

...was the average increase in 2018/19 above the 1981-2010 climatology for UK temperatures.

# MANAGING SSE'S RISKS

The successful delivery of SSE's strategic objectives depends on effective identification, understanding and mitigation of its Principal Risks. SSE has an established Risk Management Framework and wider system of internal control (as described on page 110 of the Directors' Report) to inform its decision-making in support of creating value in a sustainable way; and to assist in the management of significant issues relating to Principal Risks that arise during any financial year.

The information provided on pages 89 and 92 of the Governance Section of the Directors' Report and within the strategic overview provide full details of the chain of events and the decisions taken relating to both the operating loss in Energy Portfolio Management and the previously proposed merger of SSE Energy Services with npower.

When setting strategic objectives the Board considers all material influencing factors, including those relating to climate change, technological developments, security of supply and stakeholder expectations. These material influencing factors also impact the nature and extent of risks the Board is willing to take in order to meet these objectives, and related mitigation strategies adopted by the Group. Material changes in the nature and impact of SSE's Group Principal Risks are continuously assessed with appropriate mitigations implemented where necessary. In response to the events that arose throughout the course of the year, SSE introduced and published a number of changes to the way in which it manages exposures relating to the Commodity Price Group Principal Risk.

The Group Executive Committee and its 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 Group 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 2018/19 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, such as the revised approach to hedging, that were introduced 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; can be effectively managed; and offers commensurate reward.

The sectors in which SSE operates continue to be subject to a high degree of political, regulatory and legislative risk as well as risks arising from other developments and change, including technology, the impact of competition and stakeholders' evolving expectations.

Furthermore, each of SSE's business divisions has differing levels of exposure to additional risks. For example, the Networks businesses are largely economically regulated and are characterised by relatively stable, inflation-linked cash flows while the SSE Renewables business benefits from cash flows linked to government-mandated renewables subsidies. The Wholesale businesses are also exposed to significant energy market and commodity risks in operational and investment decision-making, and significant changes to the way these risks are managed were announced in November 2018.

The key elements of SSE's Strategic Framework – including the focus on regulated energy networks and renewable sources of energy, complemented by flexible thermal generation and business energy sales – and its financial objective in relation to dividend growth are fully reflective of its risk appetite.

Fundamentally:

- SSE is focused on creating value from developing, operating and owning energy and related infrastructure and services in a sustainable way. This provides a complementary 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, with any expansion into other markets being subject to especially rigorous scrutiny.

Safety is SSE's first value and it has no appetite for risks brought on by unsafe actions, nor does it have any appetite for risks brought on by insecure actions including those relating to cyber security. 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.

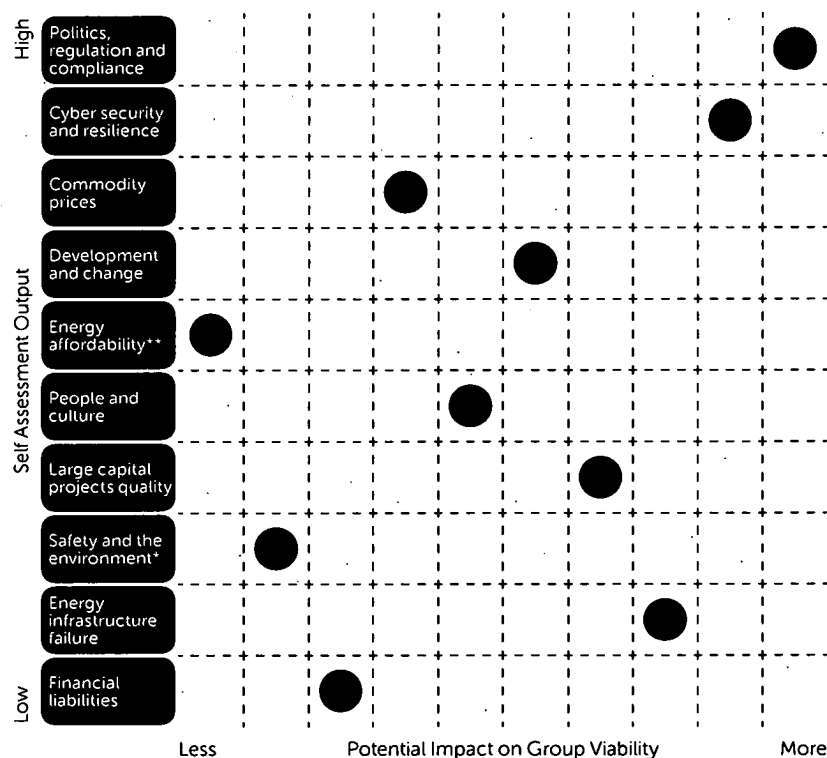
In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's core purpose, financial objectives, strategy and values;
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



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. No Principal Risk was deemed to have reduced in materiality during the year.

\* Safety remains SSE's most important value, and management of 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.

## Viability Statement

SSE aims to be a leading energy provider in a low-carbon world. The pursuit of that vision is guided by a collective purpose, which is to provide the energy needed today while building a better world of energy for tomorrow. The primary duty of the SSE Board is to act in accordance with this purpose and to promote the long-term sustainable success of the Company.

SSE is a Company undergoing rapid evolution. A keener focus has been placed on SSE's core, low-carbon businesses and greater visibility has been given to the assets that create sustainable value. This shift in focus and the commitment to greater visibility of assets and earnings are leading to significant change in the way SSE's businesses are structured and managed.

As required within provision C.2.2 of the UK Corporate Governance Code the Board has formally assessed the prospects of the Company over the next 3 financial years to the period ending March 2022. The Directors have determined that as this time horizon aligns 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 total committed lending facilities of £1.5bn which could be drawn down in most circumstances. In the event of an extreme but low probability combination of events, the Group could also take more severe mitigating actions through changes to capital allocation.

The Group 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 of stakes in Dunmaglass and Stronelairg onshore wind farms during the year.

To support this Statement, a suite of severe but plausible scenarios has been developed for 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 critical asset failure (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation & Compliance); and the impact of the loss of key systems (for Cyber Security and Resilience).

Scenarios are stress tested against forecast available financial headroom. In addition to considering these in isolation, the Directors also consider the cumulative impact of combinations of scenarios having the highest impact. This year, as options regarding the future of SSE Energy Services remain under consideration, two assessments have been carried out for the Group – one on the assumption that SSE Energy Services remains part of the Group and the other assuming it does not.

Upon 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 2022.

## Group Principal Risks continued

### COMMODITY PRICES



#### 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, CO<sub>2</sub> permits, oil and related foreign exchange values.

#### Material influencing factors:

- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may not be in line with historical trends which in turn, may or may not be associated with climate change both in GB and globally. Further detail is available on page 65 of the Strategic Report.
- Fluctuations in foreign exchange markets.
- Fluctuations in the global supply and demand of fuel.
- Generation technology advancements.
- Geopolitical events.
- Global and domestic political change.
- Global economic growth.
- European generation outputs and availability.
- International and national agreements on climate change.
- International inflows of fuel.



### CYBER SECURITY AND RESILIENCE



#### What is the risk?

The risk that key infrastructure, networks or core systems are compromised or are otherwise rendered unavailable.

#### Material influencing factors:

- 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.
- Geopolitical events such as Brexit.



### KEY DEVELOPMENTS IN 2018/19

- Managing the impact of higher than expected gas prices, lower than expected renewable energy outputs, extreme weather and the financial consequences of these.
- Managing continued increased market volatility related to geopolitical events including the impact of Brexit.
- Development and implementation of a new energy hedging approach for the Group.

SSE's hedging approach can be read in full on [sse.com](https://www.sse.com)

### KEY MITIGATIONS

- An asset-by-asset approach to hedging ensuring that trading positions cannot have a material impact on SSE Group earnings, will be fully implemented by April 2020. For full details of this please see [sse.com](https://www.sse.com)
- The Energy Markets Risk Committee has been established to oversee and ensure effective implementation of the revised hedging arrangements.
- SSE uses VaR measures to monitor and control exposures. Trading limits are reviewed regularly by the Energy Markets Risk Committee, with consideration given to changes in the material influencing factors noted above, before being approved by the Board.
- SSE's Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment.
- SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of this Annual Report.

**Oversight**  
Wholesale Risk Committee

### KEY DEVELOPMENTS IN 2018/19

- The global profile, prevalence and sophistication of malicious cyber-attack continues to increase.
- Preparation to ensure continued compliance with GDPR regulations following changes that will materialise as a result of Brexit.
- Continuously evolving technological environment.

### KEY MITIGATIONS

- 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 information and operational technology 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.

**Oversight**  
Information Security and Privacy Committee

Note: Group Principal Risks are displayed in alphabetical order.

Link to the strategic pillars:



Focusing on the core



Developing, operating, owning



Creating value



Being sustainable

## DEVELOPMENT AND CHANGE



### What is the risk?

The risk of failing to recognise and react appropriately to competition, technological advancements and stakeholders' evolving expectations.

### Material influencing factors:

- 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 that 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.



## KEY DEVELOPMENTS IN 2018/19

- SSE has adopted four fundamental business goals for 2030 which are directly aligned to the United Nations' Sustainable Development Goals (further detail can be found in the Sustainability Report).
- SSE is continuing to build on the significant work done to date to separate SSE Energy Services as an independent, self-sufficient entity within the Group, but believes that its best future lies outside the SSE Group. In line with that, future options for SSE Energy Services are being actively assessed.

## KEY MITIGATIONS

- 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.
- A review of the Group operating model has been undertaken in order to allow decision-making to be as effective and efficient as possible.
- The Group Executive Committee is responsible for ensuring that divisional strategies are consistent and compatible with the overarching Group strategy.

### Oversight

Group Executive Committee

## ENERGY AFFORDABILITY



### 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.

### Material influencing factors:

- 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.
- Political interventions, such as renationalisation of any part of the UK's energy infrastructure.
- Required investment in the upgrading of the UK's energy infrastructure.



## KEY DEVELOPMENTS IN 2018/19

- Continued uncertainty surrounding Brexit and its longer-term economic impact, including on households and businesses.
- Managing the implementation of the price cap on standard variable energy tariffs which came into effect on 1 January 2019.
- Managing the impact of costs imposed on network operators and energy retailers as a result of an increased number of supplier failures.

## KEY MITIGATIONS

- 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 February 2018, SSEN achieved the British Standard for inclusive service provision having met the requirements of the Standard for the previous two years. It was one of the first companies to be assessed since the inclusive service provision standard assessment has been formally recognised as a verification scheme.
- 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.

### Oversight

Retail Risk Committee

## Group Principal Risks continued

### ENERGY INFRASTRUCTURE FAILURE



#### 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.

#### Material influencing factors:

- 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 relates 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.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.



### FINANCIAL LIABILITIES



#### 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.

#### Material influencing factors:

- Global macro-economic changes and subsequent volatility in 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.



### LARGE CAPITAL PROJECTS QUALITY



#### 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.

#### Material influencing factors:

- 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 as well as the potential impacts of Brexit.



### KEY DEVELOPMENTS IN 2018/19

- An increased investment appetite for low-carbon electricity assets which presents opportunities to form new financial partnerships and create value from successful development and operation of assets.
- Completion of the £1.1bn Caithness-Moray transmission link project.

### KEY MITIGATIONS

- 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).

#### Oversight

Group Executive Committee

### KEY DEVELOPMENTS IN 2018/19

- Ongoing uncertainty and volatility in financial markets due to potential macro-economic factors, such as the impact of Brexit.
- Successful issuance of a second €650m Green Bond, an innovative approach to financing renewable energy infrastructure investment, in August 2018.
- Successful refinancing of the £1.3bn Revolving Credit Facility (RCF) for a new five year period to March 2024, with options to extend further to March 2026.

### KEY MITIGATIONS

- 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.

#### Oversight

Tax and Treasury Committee

### KEY DEVELOPMENTS IN 2018/19

- An increased focus on developing, operating and owning the renewable generation and networks which are crucial to the low-carbon transition, along with a range of businesses which complement these.
- Developing strategies for managing the complexities of auction bidding processes.

### KEY MITIGATIONS

- SSE's Large Capital Project Governance Framework manual 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.
- In line with SSE's vision and strategy, the Group is seeking to treble its renewable energy output by 2030.

#### Oversight

Group Large Capital Projects Governance Committee

Link to the strategic pillars:



Focusing on the core



Developing, operating, owning



Creating value



Being sustainable

## PEOPLE AND CULTURE



### 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.

### Material influencing factors:

- 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 the Sustainability Report 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.



## POLITICS, REGULATION AND COMPLIANCE



### 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.

### Material influencing factors:

- 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.



## SAFETY AND THE ENVIRONMENT



### What is the risk?

The risk of harm to people, property or the environment from SSE's operations.

### Material influencing factors:

- Clear and appropriately communicated safety processes.
- Safety culture – "if it's not 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.



## KEY DEVELOPMENTS IN 2018/19

- One of the four 2030 Sustainable Development goals set by SSE includes to be the leading company in the UK and Ireland championing fair tax and a real Living Wage.
- During the year, Sue Bruce was appointed non-Executive Director for Employee Engagement. One of the key purposes of this role is to provide a direct channel of communication to the Board for all employees.

## KEY MITIGATIONS

- SSE has a detailed inclusion and diversity policy and plan which is sponsored by the Group Executive Committee. Progress and performance were reviewed by the Executive Committee on a quarterly basis and by the Nomination Committee twice per year in 2018/19. From 2019/20, SSE's Group Executive Committee will review progress on a monthly basis.
- Group policies including "Doing the Right Thing, a guide to ethical business conduct", 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.

### Oversight

Group Governance, Culture and Controls Committee

## KEY DEVELOPMENTS IN 2018/19

- 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.

## KEY MITIGATIONS

- 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.
- SSE has a clear Political Engagement Statement that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- The Group has a dedicated project team to manage all aspects of the regulatory and legislative change impacts of Brexit. Further details are available on page 13.
- There is regular engagement with the Board and Group 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.

### Oversight

Group Governance, Culture and Controls Committee

## KEY DEVELOPMENTS IN 2018/19

- Continued progress of the 50by20 Safety family initiative which targets a 50% reduction in injury rates and 50% of our people active on health by 2020.
- One of the four Sustainability goals set by SSE is to reduce the carbon intensity of the electricity it generates by 50% by 2030, compared to 2018 levels, to around 150g/kWh.

## KEY MITIGATIONS

- Safety is the Group's number one value with Board oversight being provided by the 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.

### Oversight

Group Safety, Health and Environment Committee

## Introduction to Corporate Governance

# A YEAR OF CHANGE

### Dear Shareholder,

The range of developments which SSE and its individual businesses have been required to navigate in 2018/19, and the many decisions which have called for in-depth consideration, have arguably resulted in an unprecedentedly diverse Board agenda.

Many of these developments and decisions remain subject to, and have been informed by, the dynamic market, political and regulatory context in which SSE operates. In line with this, the Board has naturally spent time monitoring and discussing issues such as: possible Brexit outcomes; domestic energy price caps; plans for the RIIO-T2 price control; the income mechanisms as set out by the CfD auction process; and the current standstill period of the UK electricity generation Capacity Market.

Closer to home there have been internal matters for SSE to deal with, specifically developments relating to the future of SSE Energy Services and the operating loss incurred by SSE's Energy Portfolio Management (EPM) business.

### Long-term focus

In order to ensure the continued relevance of SSE's strategy, discussions centred on the long-term have formed part of every Board meeting. We also focused on some key aspects of strategy, in addition to our annual dedicated strategy session.

As announced last year, SSE has evolved its strategy to focus on the core, low-carbon businesses that are best placed to seize the opportunities presented by decarbonisation. As an established developer, operator and owner of world-class renewable energy and regulated electricity networks assets, SSE is well-equipped to deliver value through the execution of relevant and supporting objectives.

Evidence of this value creation can be seen in the excellent progress of SSE's investment and capital expenditure programme, which has seen a spend of £1.42bn in the period. This has been further supported through ongoing review of the composition and mix of our core and complementary business portfolio which has resulted in sustainable capital recycling and well-timed disposals. With an unwavering focus on the future needs of both customers and society, innovation has been pursued in the development of solutions to complement electrification and to support local energy solutions through electricity network flexibility. These activities not only support the ability to remunerate shareholders' investment through our clear financial objective – as we recommend a full year dividend of 97.5p – but also ensure legitimacy of operations as we continue to deliver in the public interest.

Full details of how we have overseen the implementation of the above, and how we continue to ensure that the appropriate resources and governance are in place to create sustainable value are set out on pages 81 to 87.

### Stakeholder engagement

Decision-making does not occur in isolation. Constructive, transparent and open engagement with our stakeholders outside of the Boardroom, therefore forms a critical aspect of Board-level activity and is a social responsibility for any organisation of our size and role. We continue to provide details throughout the Directors' Report of the stakeholder matters that are considered in our decision-making. I hope that you

find this informative and representative of the value we place on understanding these views. On page 95, we further discuss the remit of our newly-created role of non-Executive Director for Employee Engagement, to which Sue Bruce was appointed in November 2018.

You are, of course, a key stakeholder and I am appreciative of the opportunity and time which has been dedicated to increased engagement in this financial year. Our meetings and conversations have allowed positive discussion surrounding progress and future plans, but have also expectedly covered the aforementioned developments relating to SSE Energy Services and the EPM operating loss. As a Board we acknowledge these unexpected outcomes, and set out on pages 88 to 92 are details of the focus that was provided to these matters and actions which have subsequently been agreed in recognition of your views.

### Business purpose

The credibility and longevity of any business goes beyond pure financial gain; a principle long-embodied and supported by SSE's strong values-based culture and approach to environmental, social and governance issues. During the year we refreshed SSE's stated purpose to align with what our holistic business and sustainability plans set out to achieve; to provide the energy needed today while building a better world of energy for tomorrow. SSE's Sustainability Report which is published alongside this Annual Report, contains further information on our social contract, contribution and impacts, including the targets which have been set under a revised Board-approved framework, based on the adoption of four UN Sustainability Goals.

The externally-led British Academy research project, "Future of the Corporation", seeks to examine the critical elements and principles which will underpin the future relationship between business and society, and as a member of the Corporate Advisory Group, I have gathered valuable insights on social expectation and accountability. To ensure

that we, at SSE, continue to support and earn public trust through our own operations, reflections to inform future work will be shared in a planned session with SSE's senior leaders in the coming months.

### Board effectiveness

In respect of our operations as a Board, we continue to reflect upon our collective skills and experience and our ability to effectively lead SSE through its ongoing transition. Through the dedicated work of the Nomination Committee, I am very pleased to have welcomed both Tony Cocker and Melanie Smith to the Board, who joined us as non-Executive Directors during the period. Both Tony and Melanie bring detailed expertise in their respective areas of the energy sector and strategy, and have already provided highly valuable contributions to our work. As these appointments form part of considered succession plans, I must once again thank both Katie Bickerstaffe and Jeremy Beeton for all of the work throughout their tenure following their stepping down from the Board. Full details of the processes which have supported the above changes can be found on page 101 and are accompanied by a description of the tailored inductions on page 97.

A key mechanism to inform our future development plans is the annual Board evaluation, and following two successive internally-led processes, in this year, we engaged in an externally-facilitated assessment. This comprehensive process spanned nine months and provided the opportunity to observe and appraise our operations over a time-period that would provide both meaningful and measured outcomes. The conclusion that we continue to operate effectively was welcomed, however we continue to recognise the value of the objective findings and suggested areas for improvement. Pages 98 to 99 explain in full the process that was adopted and how we have integrated agreed actions into our forward plan of work.

### Board Committee support

The Board Committees continue to inform, underpin and support many aspects of the Board's role, and although the key focus areas for each Committee remain unchanged, priorities throughout the year continue to respond to the needs of the Company and relevant governance developments. Each Board Committee presents its own detailed report in the pages that follow, with some of the key highlights which have been reported to, and where appropriate, considered by the Board, set out below.

The Nomination Committee has continued to provide increased focus and scrutiny on matters of inclusion and diversity, recommending changes to the supporting Board-level policy and the adoption of an ambition for female membership, both of which were subsequently agreed. To ensure that a capable internal pipeline is in place, plans were also reviewed in respect of talent development and internal progression.

Outside of routine annual business, the Audit Committee led the comprehensive competitive tender process which resulted in the appointment of Ernst and Young LLP as SSE's External Auditor. This matter remains subject to shareholder approval, which will be considered at the AGM on 18 July 2019. In respect of Internal Audit, an external quality assessment to confirm the effective role of the Internal Audit function, was further overseen and reviewed.

The Energy Markets Risk Committee, which was newly established in 2018/19, presents its first report on page 112. In response to a revised approach to managing commodity price exposure, this forum will oversee the period of transition and report to the Board on progress.

Safety is SSE's No. 1 value and priority, and continues to be overseen alongside health and environment matters by the Safety, Health and Environment Advisory Committee. Significant work has been undertaken to align the operations of the Committee with business needs and stated objectives, which has been supported in its initial phase through increased on-site engagement. Against a backdrop of improved safety performance, the Committee continues work to understand and address the key issues, with the aim to support an enduring position.

Constructive discussion surrounding executive remuneration outturns and the Group-wide pay environment continue to be delegated to the Remuneration Committee. Following proactive shareholder engagement, and in line with the three-yearly review, SSE's Remuneration Policy will be put forward for shareholder consideration at the 2019 AGM. The full Policy, and details of the decisions to: provide no award under the Annual Incentive Plan; apply a salary freeze to all Executive Directors for the year under review; and hold the level of non-Executive Director fees, are covered in the Report that follows.

### UK Corporate Governance Code

After a period of consultation, a highly notable development within the year was the release of the 2018 UK Corporate Governance Code (the 2018 Code). The changes presented will apply to SSE for the next reporting period, and the stated aim of detailed Board review was to agree forward-looking plans to support compliance where appropriate. Details of the work which was undertaken and of SSE's anticipated position are presented on pages 86 to 87. One area covered was the revised 2018 Code position regarding the tenure of the Company Chair. Page 103 describes the process which was followed to preserve the independence of related discussions, and of each individual Director.

Confirmation of our full compliance with the UK Corporate Governance Code 2016 (the 2016 Code) for the year under review is set out on page 78.

I am pleased to present the report of our work and look forward to engaging further on our role in governing and supporting SSE's long-term success.

**Richard Gillingwater CBE**  
Chair, SSE plc  
21 May 2019

## Board of Directors

## CHAIR

## EXECUTIVE DIRECTORS

	<b>Richard Gillingwater CBE</b> Chair	<b>Alistair Phillips-Davies</b> Chief Executive	<b>Gregor Alexander</b> Finance Director
Board and Board Committee membership and attendance	BM 7/7 IFC 6/6 ER 2/2 R 3/3	BM 7/7	BM 7/7 ER 2/2
Date of appointment	Non-Executive Director since May 2007 Appointed Deputy Chair in January 2015 and has been Chair since July 2015	Executive Director since January 2002 and Chief Executive from July 2013	Finance Director since October 2002
Skills and experience	Richard has extensive and diverse leadership experience, and a sound practical understanding of corporate governance, having held the position of Chair, 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. In conjunction with a City career spanning over 20 years, he has a deep appreciation of capital markets and investor sentiment which he brings to Board deliberations, in addition to financial expertise. Matters in relation to the long-term direction of the Company, including strategic development, are further supported by a long-standing, and developed knowledge of the energy sector and the environment in which SSE operates. Richard is committed to engaging with the business and to ensuring employee views are heard, understood and considered.	Alistair has been with SSE since 1997 and possesses a detailed knowledge of each business area having held a variety of senior roles within 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 considered and strategic approach to business deliberations. He has a detailed understanding of the energy markets in Great Britain and Ireland, including the trends and factors which can have a material impact on the operating context, such as the political and regulatory environment. He also holds a broad knowledge of markets across Europe as a former Vice President of Eurelectric. Through regular and proactive engagement, he understands stakeholder views and concerns, and continues to provide focus to people development and efficient operations in order to develop SSE's capabilities for future growth.	Gregor joined SSE in 1990 and worked in various senior finance roles, and on significant corporate projects including mergers and acquisitions, leading teams including Treasury and Tax, prior to joining the Board as Finance Director in 2002. During his career Gregor has been instrumental in the major transactions and investments which define the SSE Group. His extensive and long-standing knowledge of financial markets and experience of shareholder views, has supported the development of SSE's financial strategy to create long-term value, including through sustainable debt financing, and the commitment to Fair Tax and the Living Wage. The Board further benefit from Gregor's regulatory insight through his role as Chair of Scottish and Southern Energy Power Distribution and of Scotia Gas Networks. His experience of operating within an evolving energy sector, including an understanding of the risks and opportunities which this can present, is highly valued.
Key external appointments and changes during the period	<ul style="list-style-type: none"> <li>Chair of Henderson Group plc</li> <li>Senior Independent Director of Whitbread plc (appointed in June 2018)<sup>1</sup></li> <li>Stepped down as Senior Independent Director of Helical Bar plc in July 2018<sup>1</sup></li> <li>Stepped down as Pro-Chancellor of Open University in December 2018</li> </ul>	<ul style="list-style-type: none"> <li>Member of Scottish Energy Advisory Board</li> <li>Member of the Accenture Global Energy Board</li> <li>Stepped down as Vice President of Eurelectric in May 2019</li> </ul>	<ul style="list-style-type: none"> <li>Chair of Scotia Gas Networks Ltd</li> <li>Non-Executive Director of Stagecoach Group plc</li> </ul>

<sup>1</sup> The changes to the external appointments held by Richard Gillingwater which have occurred during the period were previously reported in the 2018 Annual Report. There has been no resultant impact on his existing time commitments as Chair of the SSE plc Board.

<sup>2</sup> Martin Pibworth's title changed from that of Wholesale Director to Energy Director during the period. There was no change in his role, function or responsibilities as a result.



Committee membership as at 31 March 2019

BM Board Meetings	NC Nomination Committee	AC Audit Committee	ER Energy Markets Risk Committee
SH Safety, Health and Environment Advisory Committee	R Remuneration Committee	C Committee Chair	

INDEPENDENT NON-EXECUTIVE DIRECTORS

**Martin Pibworth**

Energy Director<sup>2</sup>

BM 7/7 ER 2/2

Executive Director since September 2017

Martin joined SSE in 1998 as an energy trader, which was followed by a series of commercial roles, before 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. Martin has overseen the development of SSE's diverse and flexible generation portfolio including its growing renewable fleet. Having joined the Board in 2017, as Energy Director, he leads on: SSE's wholesale businesses; the supply of energy and related services to industrial and commercial customers; and SSE's operations in Ireland. He brings significant knowledge of energy markets and experience of commercial, technical and operational matters, with his innovative approach to strategy, in seeking opportunities to create future value, being a key Board attribute.

– Member of Energy UK Board

**Crawford Gillies**

Senior Independent Director

BM 7/7 NC 6/6 AC 3/5  
ER 2/2 R 3/3

Non-Executive Director since August 2015

Crawford has substantial international and cross-sector experience, including in utilities, which has been gained through a career of over 30 years. With this, he brings expertise in the development of corporate strategy for multi-business organisations, and through roles in both the private and public sector, including management consultancy, finance, risk, and trade and industry, he brings strong commercial knowledge to the Board. This experience provides SSE's businesses with the benefit of extensive external insight and breadth of outlook. Having served on the Board and Board Committees of a number of organisations, including in the position of Chair, and twice as a FTSE 50 Senior Independent Director, he has the oversight and understanding required for his current role. This includes an established view and understanding of governance and boardroom dynamics.

– Senior Independent Director of Barclays plc  
– Chair of The Edrington Group Ltd

**Dame Sue Bruce DBE**

Non-Executive Director

BM 7/7 NC 6/6 AC 4/4  
R 3/3 SH 4/4

Non-Executive Director since September 2013

Sue has extensive public sector experience from a career which spanned almost 40 years, holding a variety of roles in local government, including the position of Chief Executive at East Dunbartonshire 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 and experienced in stakeholder engagement. This experience in collating and understanding a diverse range of views is evident in her roles as Remuneration Committee Chair and non-Executive Director for Employee Engagement. Sue has also held a number of Board and Board Committee positions in organisations across the arts, education and charitable sectors.

– Convenor of Court of the University of Strathclyde  
– Trustee of the Prince's Foundation  
– Chair of the Royal Scottish National Orchestra  
– Electoral Commissioner, The Electoral Commission  
– Governor of Erskine Stewart Melville School  
– Chair of Nominations Committee for National Trust Scotland  
– Stepped down as Court Member of The Merchant Company of Edinburgh in November 2018

**Tony Cocker**

Non-Executive Director

BM 7/7 NC 5/5 AC 4/4  
ER 2/2 SH 3/3

Non-Executive Director since May 2018

Tony possesses highly detailed knowledge of the energy sector gained through a 20 year career with E.ON. He brings wide-ranging and relevant experience to the Board regarding insight into technical and operational matters, including energy infrastructure and assets, and a comprehensive understanding of commodity markets, energy trading and risk. Latterly, as CEO and Chair 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, digital transformation programmes and the smart meter roll-out. 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 in energy and utility stakeholder management and governance, through his current non-Executive roles.

– Chair of Affinity Water Ltd  
– Chair of Infinis Energy Management Ltd  
– Deputy Chair and Governor of Warwick Independent Schools Foundation

## Board of Directors continued

Committee membership as at 31 March 2019

<b>BM</b> Board Meetings	<b>NC</b> Nomination Committee	<b>AC</b> Audit Committee	<b>ERM</b> Energy Markets Risk Committee
<b>SHS</b> Safety, Health and Environment Advisory Committee	<b>R</b> Remuneration Committee	<b>C</b> Committee Chair	

## INDEPENDENT NON-EXECUTIVE DIRECTORS

	<b>Peter Lynas</b> Non-Executive Director	<b>Helen Mahy CBE</b> Non-Executive Director	<b>Melanie Smith</b> Non-Executive Director
Board and Board Committee membership and attendance	<b>BM</b> 7/7 <b>NC</b> 6/6 <b>AC</b> 5/5 <b>R</b> 2/2	<b>BM</b> 7/7 <b>NC</b> 6/6 <b>AC</b> 5/5 <b>SHS</b> 4/4	<b>BM</b> 2/2 <b>NC</b> 2/2 <b>SHS</b> 1/1
Date of appointment	Non-Executive Director since July 2014	Non-Executive Director since March 2016	Non-Executive Director since January 2019
Skills and experience	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 and strong direction to the Audit Committee. Within BAE he has previously served as Director, Financial Control, Reporting and Treasury, and his early career involved roles within GEC Marconi, where he was appointed Finance Director of Marconi Electronic Systems prior to the completion of the British Aerospace/Marconi merger. This background affords international experience, in addition to an understanding of long-term project management and delivery, including investment appraisal and contracting. Peter also brings pensions experience having been Chair of the trustee Board of a major UK scheme.	Helen's depth of knowledge in relation to the energy sector brings a valuable external perspective to discussions. Through her previous role of 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. As a member of the steering committee of the Parker Review into the Ethnic Diversity of UK Boards, a patron of the charity Social Mobility Business Partnership, and an Equality and Human Rights Commissioner, she brings a detailed knowledge of, and interest in, inclusion and diversity and brings a firm cultural focus to the Board. Helen has held previous directorships with Aga Rangemaster plc, Stagecoach Group plc, SVG Capital plc and was formerly chair of MedicX Fund Limited, and through these cross-sectoral and international roles has experience in investor and stakeholder engagement.	Melanie has over 20 years in-depth strategy experience, advising on strategy and transformation to corporate retail and consumer clients worldwide, including international market growth and M&A. She is currently Strategy Director for Marks & Spencer with responsibility for group strategy, M&S Bank and M&S Services, and has held previous roles as Global Strategy and Marketing Director at Bupa, and Chief Operating officer at Talktalk. This career experience, in conjunction with insight from her time as partner in McKinsey's Consumer practice, brings deep commercial and customer experience across multiple goods and services categories, including insurance, telco and energy. Having overseen and led operational teams, she brings further valuable perspectives surrounding people leadership and development.
Key external appointments and changes during the period	<ul style="list-style-type: none"> <li>Group Finance Director of BAE Systems plc</li> <li>Member of the BAE Systems Inc Board in the US</li> </ul>	<ul style="list-style-type: none"> <li>Chair of The Renewables Infrastructure Group Limited</li> <li>Non-Executive Director of Bonheur ASA</li> <li>Deputy Chair and Senior Independent Director of Primary Health Properties PLC (appointed in March 2019)</li> <li>Equality and Human Rights Commissioner</li> <li>Stepped down as Chair of MedicX Fund Limited in March 2019</li> </ul>	<ul style="list-style-type: none"> <li>Strategy Director, Marks and Spencer</li> <li>Trustee at Beat</li> <li>Advisory Board member of Manaia</li> </ul>

## BOARD CHANGES

The below changes to Board membership have taken place since 1 April 2018:

- Katie Bickerstaffe stepped down on 30 April 2018.
- Jeremy Beeton stepped down on 19 July 2018 and attended 3/3 Board meetings prior to this in the reporting period.

# SUPPORTING SSE'S LONG-TERM SUCCESS

SSE's long-term success is founded upon a clear vision, purpose and supporting strategy, which considers the views and needs of its many stakeholders. As areas set by the Board, the Directors require breadth of knowledge and complementary skills, in order to confirm that agreed priorities and objectives remain appropriate and can be delivered in a sustainable way. The alignment and balance of experience within the Board is assessed annually through the Board evaluation process, and the findings from 2018/19 which confirm the ongoing effectiveness of the Board are set out on pages 98 to 99. Related considerations surrounding Board composition, which take account of these findings, are matters delegated to the Nomination Committee, and further details of how the Committee approaches this work can be found on pages 100 to 103.

Set out below is confirmation of how the Nomination Committee, and Board, judge that the current attributes and balance of experience brought by the Directors continue to support SSE, and promote responsible governance of the Company, its strategy and operations. Whilst each Board Director has a solid understanding of, and valuable contribution to make to all of the identified priority areas set out below, this analysis seeks to demonstrate how the complementary and specific skills and experience of each independent non-Executive Director, support differing aspects of Board considerations.

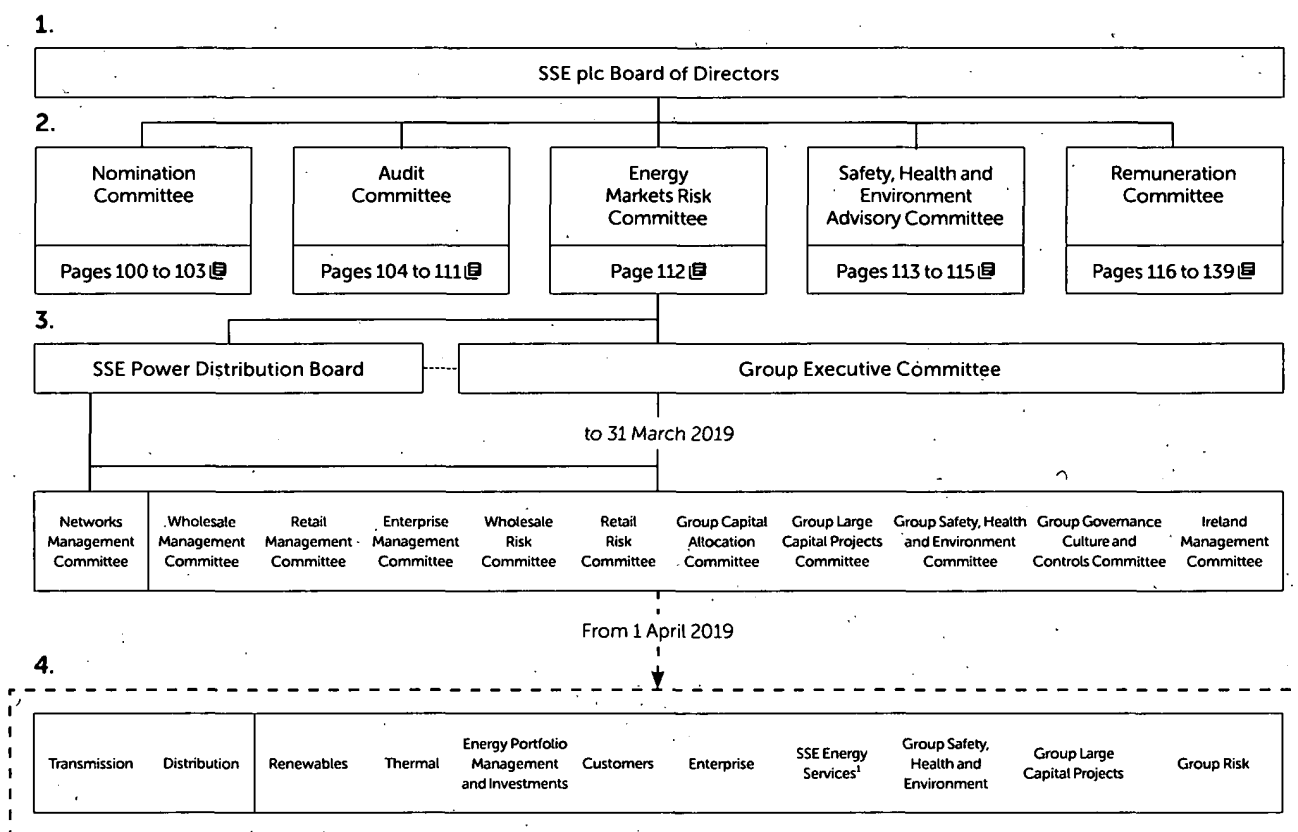
Helping SSE be a leading energy Company in a low-carbon world	Skills required	Board members
<b>SSE's businesses operate in a dynamic, and at times complex, political, regulatory and competitive environment, with each individual business having unique challenges. Reading these external trends is crucial for making strategic choices which create value.</b>	Understanding of the energy sector, commodity markets, capital markets, policy context relating to energy and the environment, and utilities regulation.	Sue Bruce Tony Cocker Helen Mahy
<b>SSE has well-defined strategic priorities which are founded upon developing, operating and owning energy and related infrastructure and services, in a low-carbon world.</b>	Experience in strategy development and implementation, large capital project management, and commercial insight including supply chain and operations.	Sue Bruce Tony Cocker Crawford Gillies Peter Lynas Melanie Smith
<b>SSE is committed to creating value for shareholders and providing a stable return on investment through sustainable financing, suitable corporate transactions and the pursuit of appropriate growth opportunities.</b>	Financial literacy including corporate finance, appraisal of project economics and funding, corporate transactions and partnering experience, and insight into global capital markets.	Tony Cocker Crawford Gillies Peter Lynas Helen Mahy Melanie Smith
<b>SSE is focused on responsible and ethical operations, and being a Company that people want to work for and with, and invest in.</b>	Consumer and commercial knowledge, understanding of investor markets, experience of meaningful stakeholder engagement and understanding of the social contract.	Sue Bruce Crawford Gillies Peter Lynas Melanie Smith
<b>SSE's diverse portfolio of operations, including the delivery of large scale projects, rely on the dedication and skill of its employees, and the support of many contractors, all of whom are based within in a wide range of working environments.</b>	Recognition of the conditions required to ensure safe working and a positive business culture generally, experience of leading large organisations, and acknowledgement of the responsibilities to, and areas of importance to the broader workforce.	Sue Bruce Tony Cocker Helen Mahy Melanie Smith
<b>SSE is a premium listed company with a group company structure and is committed to the highest standards of governance and compliance.</b>	Sound understanding of exemplary governance practices, awareness of the relevant legislative and regulatory framework, emerging trends in stakeholder engagement and experience in risk management.	Crawford Gillies Peter Lynas Helen Mahy

## Leadership of SSE

### SSE's Governance Framework

The Board's role is to promote the long-term success of SSE through the setting of a clear purpose and sustainable strategy which creates value for both shareholders and society. The successful execution of this strategy and oversight of its delivery are supported by sound systems of governance, at the centre of which is an established Governance Framework that defines relevant decision-making authorities and responsibilities. Formally, these authorities and responsibilities are documented within: SSE's Articles of Association; the Schedule of Matters Reserved for the Board; the terms of reference for the Committees which comprise SSE's Governance Framework; individual role profiles and the financial approvals framework. Together, they reinforce the cultural expectations regarding accountability at the different levels within the organisation.

To ensure that all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the Governance Framework. This approach further supports each Director in the discharge of their responsibilities and applicable legal duties. The effective working relationship between the Board and senior management facilitates both support and challenge where required, with Board awareness enhanced through regular dialogue, including upwards reporting from key individuals, and the provision of minutes from all Board Committee and Group Executive Committee meetings.




<sup>1</sup> Currently held for disposal.


### 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.

In this Directors' Report, we describe how we have applied the Main Principles of the 2016 Code and in line with its "comply or explain" model, confirm full compliance with its Provisions for the reporting year ended 31 March 2019.

## 1. SSE plc Board of Directors


As at 31 March 2019, SSE's Board of Directors comprised the Chair, six independent non-Executive Directors and three Executive Directors. To ensure the Board operates efficiently and effectively, each Director has certain responsibilities in line with their role and these are explained further on page 80 .

The composition of the Board is subject to ongoing review and appointments result from a combination of comprehensive succession planning, and formal and rigorous searches, which are responsibilities delegated to the Nomination Committee. Upon appointment, the Chair and non-Executive Directors undertake a fixed term of three years subject to annual re-election by shareholders, which can be further renewed by mutual agreement. As explained on page 77 , at any one time, the collective experience of the Directors supports the work of the Board, through clear alignment between their respective competencies, and the agreed strategy and operating context. All Board-level deliberations further benefit from diversity of approach due to each Director's wider background, career development and training.

The established relationships between the Directors preserve independence of thought and judgement, allowing open and frank conversations to take place during deliberations of the Board. To ensure that this level of integrity is maintained, and the effectiveness of the Board continues to develop, separate meetings between the Chair and the non-Executive Directors, individually and collectively, without the Executive Directors present also take place throughout the year. These meetings provide an additional opportunity to discuss areas relevant to the operations of the Board and the Company. The Chair, as head of the Board, and the Chief Executive, as head of executive management, retain separate and clearly defined roles. To allow these responsibilities to be discharged effectively, regular contact is maintained out with the Board meeting context, to ensure an effective ongoing dialogue is in place and that there is a means to communicate relevant external or internal developments 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 and employees 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 in respect of strategic decision-making.

## 2. Board Committees

The Board is directly assisted in the discharge of its duties by five Board Committees, whose remit, authority and composition are monitored to ensure continued and appropriate Board support. Each of the Board Committees provides dedicated focus to a defined area of responsibility, with the nature of delegated work ranging from a recommendation being made to the Board, or if within their agreed authority, a final decision being taken on behalf of the Board. Further information on the specific role of each Committee is set out in their respective reports that follow. The Energy Markets Risk Committee was newly formed in the reporting period and further information surrounding its establishment can be found on pages 92 and 112 .

Board Committee membership is determined by the Board, based on the recommendation of the Nomination Committee, in consultation with the relevant Committee Chair. 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 its specific needs. Decisions will often assess technical skills, knowledge and experience whilst recognising the benefits associated with diversity.

## 3. Group Executive Committee and Executive sub-Committees

The Group Executive Committee is accountable to the Board for implementation of agreed strategy through the operational management of SSE's businesses. It is in turn supported by its own Committee structure, with relevant delegated authorities. The membership of the Group Executive Committee comprises the: Chief Executive; Finance Director; Energy Director; Managing Director, Scottish and Southern Electricity Networks; Managing Director, Transmission; and Managing Director, SSE Renewables – all of whom are persons discharging managerial responsibilities. The Company Secretary is Secretary to the Group Executive Committee and the General Counsel and Managing Director, Corporate Affairs and Sustainability, attend meetings.

The SSE Power Distribution Board oversees SSE's economically regulated electricity networks businesses in compliance with the applicable regulatory license conditions. It reports directly to the SSE plc Board and advises the Group Executive Committee of relevant decisions and developments where appropriate.

## 4. Re-shaping SSE to set it up for long-term success

During the reporting period a comprehensive assessment of SSE's governance framework was completed. The purpose of which, was to confirm the appropriate operating model to support SSE's evolving focus on its low-carbon core and complementary businesses. The key priorities underpinning this work were to ensure that each business within the SSE Group would be: equipped with the necessary resources to effectively drive delivery of strategy; empowered to deliver future growth through effective and efficient decision-making; and able to provide greater visibility over assets and earnings. To support achievement of these priorities, and the interests of the SSE Group as a whole, the Group Executive Committee was re-shaped to focus on strategy, performance and governance; and three Group-wide committees were created to focus on the priority areas of safety, health and the environment; risk; and the governance of large capital projects. The above has resulted in a new Group operating model being implemented from 1 April 2019.

### Governance documents available on [sse.com](https://www.sse.com)

SSE's Articles of Association.

Schedule of Matters Reserved for the Board.

Terms of reference for the Board Committees.

Director's Letters of Appointment.

Role profile of the Chair, Chief Executive, Senior Independent Director and the non-Executive Director for Employee Engagement.

## Board roles and responsibilities

The specific responsibilities agreed and assigned to each Director in line with their position on the Board include:

### CHAIR

- Leadership, effective operation and governance of the Board.
- Application of independent and objective judgement.
- Setting agendas that ensure appropriate coverage of all areas material to the Board and which support efficient and balanced decision-making.
- Ensuring effective relationships exist between all Directors and driving a culture that supports constructive discussion, challenge and debate.
- Ensuring the views of all stakeholders are understood and considered appropriately in Board discussions.
- Overseeing the annual Board performance evaluation and identifying any action required.
- Leading initiatives to assess the culture across SSE and ensure that the Board leads by example.

### SENIOR INDEPENDENT DIRECTOR<sup>1</sup>

- Providing a sounding board for the Chair.
- Leading the Chair's performance evaluation.
- Serving as an intermediary to other Directors when necessary.
- 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.

### INDEPENDENT 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 the System 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 employees in relation to Company culture.
- Setting policy in respect of executive remuneration.
- Serving on or chairing various Committees of the Board.

### CHIEF EXECUTIVE

- Proposing and leading the delivery of strategy as agreed by the Board.
- Leading the Group Executive Committee, which oversees operational and financial performance and provides focus to the key strategic and governance issues for the SSE Group.
- Communicating and providing feedback on the implementation of Board agreed policies, and their impact on behaviours and Company culture ensuring SSE operates in a way that is consistent with its values.
- Leading and supporting each of SSE's businesses and the functions of: HR; Corporate Affairs and Strategy; Sustainability; and jointly, Group Change.
- Engaging with SSE's six key stakeholder groups and leading on related activity at EU- and UK-level.

### 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: Finance, Procurement and Commercial; Risk and Assurance; Investor Relations and Company Secretarial; the General Counsel areas of responsibility, covering, Legal Services, Markets Regulation, Compliance and Large Capital Project Services; IT; and jointly, Group Change.
- Overseeing SSE's relationships with the investment community.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Scotland.

### ENERGY DIRECTOR

- Supporting the work of the Chief Executive and Finance Director.
- Leading the business units which oversee SSE's: renewable assets; thermal generation fleet; gas storage facilities; energy portfolio management and related investments; and energy customer solutions which supply energy to businesses in GB and Ireland and households across Ireland.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Ireland and Northern Ireland.

### COMPANY SECRETARY

- Compliance with Board procedures and supporting the Chair.
- 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 Chair.
- Facilitating the Directors' induction programmes and assisting with professional development.
- Providing advice, services and support to all Directors as and when required.

### NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT<sup>1,2</sup>

- Representing the Board in discussions with employees.
- Developing, implementing and feeding back on employee engagement initiatives in conjunction with management.
- Providing an employee voice in the Boardroom by raising relevant matters or issues raised.
- Communicating to employees the outcomes and developments made by the Board on specific matters.
- Engaging with officers of Trade Unions and internal Trade Union Representatives on key strategic issues affecting the workforce.

<sup>1</sup> The Senior Independent Director and non-Executive Director for Employee Engagement have additional responsibilities to those required in their capacity as a non-Executive Director.

<sup>2</sup> Role effective from November 2018.

## Board meetings and activity in 2018/19

### Board meetings

There were seven scheduled meetings of the Board in 2018/19 in line with the agreed plan of business for the year, and details of Director attendance can be found within the individual biographies on pages 74 to 76.

In the months between full Board meetings, a Board update call provides the opportunity to discuss key business developments, and emerging issues and opportunities, with arrangements also in place should a Board decision or approval be required outwith the above times.

Scheduled meetings of the Board follow an agreed format, with agendas being developed from the Board's annual plan of business and tailored to reflect the current status of projects, strategic workstreams and the overarching operating context. Finalisation of meeting content is a collaborative process involving the Chair, Chief Executive and Company Secretary, who ensure adequate time is allocated to support effective and constructive discussion.

### Board activity and strategic review

In line with the Board's responsibility for the overall strategic direction of SSE, strategy-related issues are discussed at every Board meeting, including those specific to SSE's individual businesses. These sessions are supported annually by a dedicated strategy review process, which holistically assesses SSE's strategic position and its key strategic options. The above structured elements, supported by continual discussion and assessment, allow consideration of issues which extend across multiple business areas or are specific to an individual business but material to the SSE Group.

The 2018 Board strategy work identified and agreed a series of initiatives to prioritise key growth opportunities and introduce increased focus within SSE's business operations. These included the creation of a separately identifiable SSE

Renewables business; plans to target frontier performance across its networks businesses; and the agreement to realise value where appropriate within SSE's existing portfolio of assets. An overview of SSE's agreed strategy is set out on pages 2 to 3.

In making these decisions, the Board has overseen a number of other strategy-related analyses, including, but not limited to: a full review of SSE's external environment in June 2018, covering relevant key trends in policy, technology, customer demands and competitor behaviour; SSE's long-term financial outlook and key risks to this; assessment and prioritisation of growth opportunities; and a review of SSE's key sources of competitive advantage and cross-Group business linkages, which supported the launch of a Group-wide operating model review which is being implemented from 1 April 2019.

These strategy-related analyses were complemented by consideration of SSE's approach to sustainability, ensuring that the expectations of stakeholders in respect of SSE's economic, social and environmental impacts are integrated within, and consistent with, strategic objectives and matters relating to the employment, retention and development of the skilled and talented people on which the successful execution of SSE's strategy depends.

Details of the areas which have shaped the Board agendas in 2018/19 are set out on pages 82 to 87 and comprise the strategic matters outlined above alongside the key decisions required to support and resource their effective delivery. This includes establishing effective governance and risk management, and promoting behaviours that align with SSE's values and purpose, and protect its licence to operate for the benefit of its stakeholders.

**"In a fast-changing environment, it is important that as a Board, we continually test, challenge and develop our strategy."**

The Board strategy review process is designed to achieve this, with clear analysis provided at every Board meeting and a full review every June. This allows us to take informed decisions on the critical issues."

**Crawford Gillies**  
Senior Independent Director

## Board meetings and activity in 2018/19 continued

### SSE'S STRATEGY

#### STRATEGIC PILLAR #1

##### Focusing on the core...



...by maintaining safe and efficient operation of low-carbon and flexible thermal assets.

#### STRATEGIC PILLAR #2

##### Developing, operating and owning...



...applying world-class skills and experience to the low-carbon infrastructure needed now and in the future.

#### STRATEGIC PILLAR #3

##### Creating value...



...through disciplined investment and transactions that contribute to its primary financial objective.

#### STRATEGIC PILLAR #4

##### Being sustainable...



...by pursuing targets aligned to four UN Sustainable Development Goals.

## SETTING AND OVERSEEING DELIVERY OF STRATEGY

### COMPANY PURPOSE

Reconsideration of SSE's core purpose

### SSE RENEWABLES

The development of SSE's offshore wind portfolio

Opportunities within SSE's onshore wind portfolio

### THERMAL

Investment in complementary flexible thermal generation and review of the generation mix

### REGULATED NETWORKS BUSINESSES

The reliable operation of SSE's economically regulated electricity networks and delivery of leading customer service through a programme of capital investment

### INFRASTRUCTURE AND RELATED SERVICES

Providing infrastructure and assets within SSE Enterprise with the best platform for success

Considering the future of SSE Energy Services

### INVESTMENTS

Returns and performance of non-core investments and assets

### PERFORMANCE

Operational performance of SSE's businesses

### SUSTAINABILITY

Strategy centred on sustainability



Link to  
strategic  
pillar

Link to Group  
Principal Risk

### What was reviewed and considered?

		Reviewed the definition of SSE's core purpose, in light of the Company's long-term strategic focus and the widely recognised stakeholder interest for increased clarity, at a time when the role of business in society is under significant scrutiny. A re-defined purpose was agreed: to provide the energy needed today while building a better world of energy for tomorrow.
	Large capital projects quality	Reviewed the progress of projects in construction and development including Beatrice, Seagreen, Doggerbank and Viking*, considering: delivery against plan; project financing and consents; project risks; ownership structure; and CfD qualification and governance to support effective compliance with all regulatory requirements. * Viking wind farm is eligible to compete in Allocation Round 3 as "remote island wind".
	Energy infrastructure failure	Considered opportunities for realisation of asset value through partnerships which would benefit from the existing strengths and expertise of each party.
	Large capital projects quality	Received updates on initial findings of the team assessing renewables opportunities in other geographies.
	Financial liabilities	Agreed to sell a stake in Stronelaig and Dunmaglass wind farms and to return value to shareholders and reduce net debt through a discretionary share buyback programme.
	Energy infrastructure failure	Considered the electricity mix and role of industry leading technologies in delivering new-build flexible generation, and security of supply in a low-carbon energy system.
	Energy infrastructure failure	Worked with CCGT supplier Siemens and agreed to invest in the development of a next generation high-efficiency CCGT at Keadby 2, following appraisal of the strategic context, rationale, project economics, market analysis and associated risks.
	Large capital projects quality	Reviewed the progress of existing projects including Ferrybridge Multifuel 2.
	Energy infrastructure failure	Agreed the closure of Fiddlers Ferry Unit 1 following assessment of the market conditions, challenging plant economics, transmission entry capacity position and the long-term policy outlook for coal generation; and considered how to communicate to employees and other stakeholders.
	Large capital projects quality	Reviewed the project plan and progress surrounding the final stages of construction, commissioning and electrification of the Caithness-Moray transmission link, considering: project complexity; delivery against timelines and budget; sub-contractor performance and safety; key risks; regulator engagement; and the role of the asset in deployment of renewable energy to the electricity system.
	Energy infrastructure failure	Granted approval of project funding to support modernisation of existing critical national infrastructure and increase generation connection capacity.
	Energy infrastructure failure	Confirmed the opportunities for future growth in line with the needs cases for transmission links to Orkney, Shetland and the Western Isles, and the need for continued stakeholder engagement surrounding these proposals.
	Large capital projects quality	Reviewed performance and delivery within Distribution under the incentive based framework, considering key metrics and improvement projects within customer service and connections.
	Politics, regulation and compliance	Received updates on the progress of capability studies and collaborative sector-leading Distribution System Operator projects.
	Development and change	Approved strategic divestments which would result in realisation of business potential, whilst safeguarding customer and employee interests, including the planned disposal of SSE Water and the sale of a stake in SSE Telecoms.
	All principal risks	See Significant Developments on pages 88 to 92  .
	Energy infrastructure failure	Reviewed the role of E&P asset investment within SSE's business portfolio and the preliminary findings of the gas discovery within the Glendronach prospect.
	Development and change	Reviewed the performance of each business at every Board meeting and considered: key strategic opportunities and challenges, regulatory, policy and market developments, stakeholder considerations and material business outcomes.
	Safety and the environment	Approved the plan and priorities to further SSE's sustainability impacts and continue delivery of responsible operations including: endorsing a letter of commitment to the UN Global Compact; agreeing a new carbon intensity ambition; approving SSE's Modern Slavery Statement; and adopting four UN Sustainable Development Goals underpinned by specific targets for delivery by 2030, which will in part, guide future executive remuneration.

## Board meetings and activity in 2018/19 continued

# RESOURCING AND SUPPORTING THE DELIVERY OF STRATEGY

**“Our Risk Framework supports the strategic development process, through a robust assessment of the challenges presented by the markets in which we operate, and the implementation of appropriate controls.**

Ensuring that decision-makers have access to relevant risk information is essential to the delivery of our strategy.”

Peter Lynas  
Chair of the Audit Committee

SAFETY, HEALTH AND  
ENVIRONMENT (SHE)

SHE performance and initiatives

EXTERNAL ENVIRONMENT

Reviewing and understanding  
the operating context

FINANCE

Maintaining financial discipline to  
support sustainable delivery of  
strategy and financial objectives

INVESTORS

Engaging with investors and  
remunerating their investment

RESPONSIBLE  
GOVERNANCE

Implementing appropriate  
governance, monitoring  
compliance and managing risk

Link to  
strategic  
pillar

Link to Group  
Principal Risk

What was reviewed and considered?



People and Culture/  
Safety and the  
Environment

Provided continued focus to SHE performance and culture through a standing review and discussion of: SHE KPIs; the impact of initiatives such as updated safety language and communications; SSE's 50by20 strategy and mental health awareness training; and feedback from the SHEAC and Board site visits.



Politics, Regulation  
and Compliance

Monitored Brexit and the work of SSE's dedicated project team surrounding identified risks, mitigating actions, contingency plans and practical preparations including in respect of: people; volatility in financial and energy markets; supply chain and operational disruption; and the impact on applicable EU legislation.



Politics, Regulation  
and Compliance

Considered possible and actual political interventions covering: the control of electricity networks and continuing assessments of strategies to safeguard the interests of shareholders, customers and other stakeholders; capping the cost of energy for GB domestic customers; the GB capacity mechanism standstill period; development of the CfD auction rules; and carbon price support.



Politics, Regulation  
and Compliance

Reviewed regulatory policy and proposals leading to the next price control phase under RIIO-2; the potential for more active network management with the transition to DSO; and Ofgem's views surrounding competition in transmission.



Commodity Prices

Monitored trends and movements within wholesale energy markets and assessed the resultant impact and exposure on short-, medium- and long-term strategy.



Financial Liabilities

Approved the Group budget, reviewing key assumptions, inputs and risks, and monitored performance and variance in results.



Financial Liabilities

Considered the Group funding position and financing requirements with input from the Audit Committee, reviewing the cost of capital and required rate of return, approving the issuance of: a nine year Green Bond and two year floating rate note; and the refinancing and conversion of existing Revolving Credit Facilities to link to sustainability criteria.



Financial Liabilities

Reviewed the long-term financial outlook to provide context for Board-level strategic decisions and discussions.



Financial Liabilities

Received updates on the discussions held with rating agencies and their decision to downgrade SSE's credit rating by one notch, noting the continued relative strength within the sector.



Financial Liabilities

Considered outlook and guidance surrounding expected out-turns and earnings, confirming an interim dividend of 29.3p per share and recommended full year dividend of 97.5p per share.



Politics, Regulation  
and Compliance

Reviewed and approved shareholder communications for release to the market, including but not limited to: the 2017/18 Annual Report and full-year financial statements; the interim financial statements for the six months to 30 September 2018; the 12 September 2018 trading statement; and the materials to support SSE's 2018 financial results and strategic focus on its low-carbon core and complementary businesses.



Politics, Regulation  
and Compliance

Monitored share price performance and reviewed feedback from investors, SSE's brokers and analysts.



Politics, Regulation  
and Compliance

Reviewed and approved the matters to be covered at the 2018 AGM and the 2018 General Meeting, including the issuance of a shareholder Circular in respect of the proposed SSE Energy Services transaction.



Politics, Regulation  
and Compliance

Following regular updates on the work of the Nomination Committee and upon final recommendation, approved: the appointment of Melanie Smith; the re-appointment of Richard Gillingwater, Crawford Gillies and Helen Mahy for a further period of three years; changes to Board Committee membership to support ongoing effectiveness and continuity of experience; declared actual and potential conflicts of interest; the continuing independence of all non-Executive Directors; and the establishment and membership of a Board-level Energy Markets Risk Committee.



Politics, Regulation  
and Compliance

Participated in the three-yearly external evaluation and agreed actions following a review of findings. See pages 98 to 99.



Politics, Regulation  
and Compliance

Reviewed comprehensive updates on the impact of the 2018 UK Corporate Governance Code and following consideration of the changes introduced, agreed holistic action plans to address compliance and alternative governance arrangements where appropriate. See pages 86 to 87.



Politics, Regulation  
and Compliance

Reviewed and approved the governance documents which comprise SSE's Board Charter, including: the Schedule of Matters Reserved for the Board; the terms of reference for each of the Board Committees; SSE's 24 Group-level policies; selected roles and responsibilities within the Board; and the Board Inclusion and Diversity policy.

## Board meetings and activity in 2018/19 continued

# RESOURCING AND SUPPORTING THE DELIVERY OF STRATEGY

## RESPONSIBLE GOVERNANCE

Implementing appropriate  
governance, monitoring  
compliance and managing risk

**"Much of my early focus as a member of the Board has been building my understanding of SSE's businesses and the complexities of the environments in which they operate.**

Having worked extensively in strategy, I was particularly interested to meet the Group Strategy team to get an overview of the process and insight that has led to the development of the SSE strategy and the focus on renewables. Of course, it is people that make an organisation, and with this in mind I have also spent time meeting many of the leaders who will be key to SSE managing change and securing long-term success."

**Melanie Smith**

Independent non-Executive Director

## PEOPLE

Supporting and understanding  
employee views


## IT AND TECHNOLOGY

Monitoring technological  
opportunity and change

## CYBER SECURITY

Understanding context,  
risk and strategy

### Working to comply with the 2018 Code

Following comprehensive review and assessment of the Principles and Provisions set out in the 2018 Code, the Board and its Committees agreed a series of workstreams to address the transition to its revised reporting framework for the next reporting period. Details of specific actions are set out opposite, with timelines for implementation designed to ensure continued compliance with the 2016 Code for the year under review and build on existing and well-established process. Through the above process, the governance documents indicated on page 79  were evaluated and updated as required.

Link to  
strategic  
pillar

Link to Group  
Principal Risk

What was reviewed and considered?



Politics, Regulation  
and Compliance

Monitored and considered external legislative and governance developments of relevance to the SSE Group of companies including: the implementation of GDPR; the Kingman review of the FRC; the Companies (Miscellaneous Reporting) Regulations 2018; and the Wates Corporate Governance Principles for Large Private Companies.



People and Culture

Noted Remuneration Committee feedback on delegated matters including: executive pay and associated performance measures; governance and guidance developments; Remuneration Policy review work and shareholder feedback.



Financial Liabilities

Considered Audit Committee feedback and judged: the Annual Report and Accounts provided a fair, balanced and understandable view noting significant financial judgements and exceptional items; the adoption of the going concern basis of accounting; the appropriate time period for the Viability Statement; the effectiveness of SSE's System of Internal Control; and following a competitive tender process, that Ernst and Young LLP be appointed External Auditor for the year ending 31 March 2020, subject to approval by shareholders at the 2019 AGM.



Safety and the  
Environment

Noted feedback from the SHEAC which confirmed the annual plan of work for the Committee, including an increased focus on environmental impacts and alignment of membership to include Group Sustainability.



Commodity Prices

Reviewed the initial operations and matters considered by the newly formed Energy Markets Risk Committee which included progress against the agreed approach to hedging.



Politics, Regulation  
and Compliance

Monitored compliance performance across all businesses and jurisdictions including regulatory submissions and commitments.



Development  
and Change

Considered the output of a review into the operational framework below SSE's Group Executive Committee including proposed internal structural changes, strategic alignment and talent management and capabilities.



Politics, Regulation  
and Compliance

Reviewed and confirmed the Risk Appetite and Principal Risks in relation to SSE's businesses and operations see pages 66 to 71.



People and Culture

Considered feedback from the Directors at every Board meeting surrounding relevant observations and learnings following site visits and face-to-face engagement see page 96.



People and Culture

Reviewed findings from the Great Place to Work survey and endorsed action plans to enhance engagement to support how employee feedback was being addressed.



People and Culture

Approved the appointment of Sue Bruce as non-Executive Director for Employee Engagement, considering initial activity and the development of the role see page 95.



Development  
and Change

Reviewed the impact and opportunities of technological advances within the strategic context of each business area.



Cyber Security  
and Resilience

Provided specific focus to Group-wide IT and cyber security strategy and risk, measuring progress and approving the adoption of a Cyber Risk Appetite Statement.

### 1. Board Leadership and Company Purpose

- Agreed movement in the oversight of whistleblowing arrangements from the Audit Committee to Board.
- Created the role of non-Executive Director for Employee Engagement (see page 95).
- Approved a revised Company Purpose (see pages 82 to 83).

### 2. Division of Responsibilities

- Confirmed the revised policy stance that all external appointments should be subject to prior Board approval.

### 3. Composition, Succession and Evaluation

- Reviewed the Board Inclusion and Diversity Policy and agreed to the adoption of an ambition for female membership (see page 102).
- Discussed the tenure of the Chair (see page 103).

### 4. Audit, Risk and Internal Control

- Agreed to the further integration of emerging risk into the established risk management processes (see pages 66 to 71).

### 5. Remuneration

- Confirmed Remuneration Committee responsibility for setting Group Executive Committee pay (see page 126).
- Agreed appropriate mechanisms for reviewing pay and employment conditions throughout the Group (see page 126).
- Agreed updated post-cessation shareholding requirements for Executive Directors (see page 118).
- Agreed updated pension arrangements for new Executive Director appointments (see page 118).

## Significant developments from the reporting year

# ENSURING OUR CORE BUSINESSES ARE EQUIPPED FOR THE FUTURE

The Board monitors and assesses the external operating context to ensure that at any time, in a given set of circumstances, appropriate decisions are taken. This often requires balancing the needs of those parties interested or affected by a particular decision, and requires a sound understanding of stakeholder views alongside the range of possible outcomes. During 2018/19, a significant proportion of the Board's time was spent in this way, through the work which was undertaken to ensure that SSE's core businesses are equipped for the future.

This was not without challenge, as political debate has continued surrounding energy affordability, legitimacy and policy, and so

too have the uncertainties in respect of Brexit-related outcomes. The factors which impacted upon decision-making throughout the year were therefore complex and at times fast-changing. The timeline below highlights just some of the developments and decisions which were considered by the Board, and details follow of the way in which it has worked to understand, respond and mitigate their respective impact where appropriate.

Specific focus is provided to the events which relate to the decision not to proceed with the SSE Energy Services transaction, in its previously agreed form, through combination with npower, and the revised approach to managing commodity price

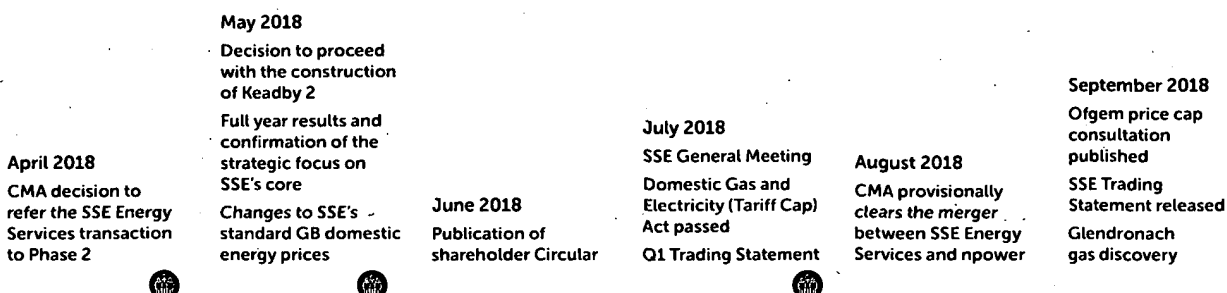
exposures which was accelerated following the September 2018 Trading Statement. These events, in conjunction with a number of unexpected market developments, such as the judgement of the Court of Justice of the European Union which has impacted the GB Capacity Market scheme, and Ofgem's view surrounding competition in transmission, have demanded both increased agility and time commitment outside of the agreed meeting schedule. Throughout this, the forward plan of business for the year has remained unchanged and identifying opportunities to secure and create maximum value through strategic investments and disposals has remained a priority.

## Timeline of related Board activity and key considerations during 2018/19

### Ongoing uncertainty surrounding Brexit



Scheduled Board meeting considering agreed business in line with the annual forward plan and ongoing developments



Developments relating to SSE Energy Services

Developments relating to the revised approach to managing commodity price exposure

Developments relating to strategic delivery

Other significant developments

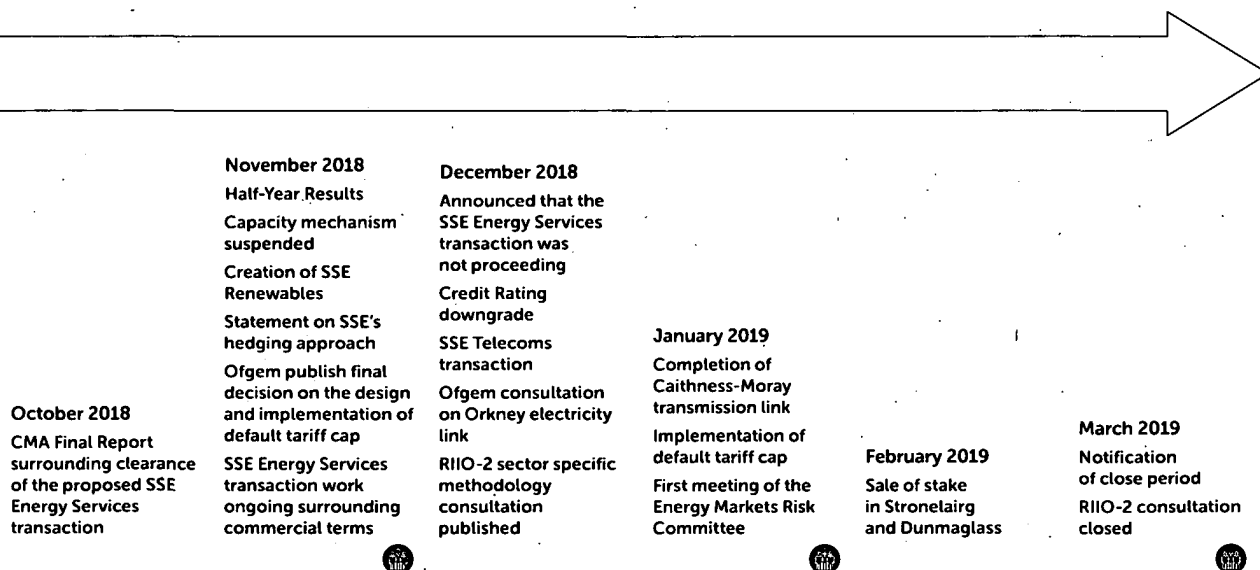
## SSE Energy Services: Doing the right thing for customers, employees and shareholders

### Background

In November 2017, SSE announced the proposed demerger of SSE Energy Services and immediate combination with npower, to form a new independent UK incorporated energy supply company. It was intended that the shares in this independent company would be admitted to the Premium listing segment of the Official List, and to trading on the Main Market of the London Stock Exchange, with an anticipated completion date of during the last quarter of 2018 or first quarter of 2019. The transaction was subject to both shareholder and regulatory approval, which was to be sought in 2018/19 in line with an agreed timeline and the requisite statutory dates, and was the subject of wide stakeholder interest.

### Developments and Board focus

During 2018/19, the Board received updates on, and provided focus to, SSE Energy Services at every Board meeting and intervening Board call. In addition to these scheduled engagements a number of between-meeting briefings and decisions were required. The key developments, considerations, engagement and actions, in the period from April 2018 to December 2018, and from the decision-point not to proceed to date, are detailed on pages 90 to 91.



## Significant developments from the reporting year continued

### December 2018 decision-point and work to date

In December 2018, the Board agreed that the proposed Energy Services transaction should not proceed. The identified financial challenges posed by complex market developments, which impacted upon the performance of the respective businesses and the joint business plan, could not be met in a sustainable way for the benefit of customers, employees or shareholders. The decision reflected the uncertainty that would result should discussions remain ongoing, and the changing balance between agreed risk and probable positive outcome of the transaction completing as planned. Other options, including a standalone demerger and listing; a sale; or an alternative transaction, would be considered. The Board remain committed to securing the right future for SSE Energy Services in line with the below priorities.

#### Strategic

Unlocking the potential of SSE Energy Services in a radically changed operating environment remains key. This means empowering the business so that it can respond efficiently and effectively to relevant trends, such as: new political and regulatory commitments; increased small supplier market share; and changing customer expectations. Operation as an independent and focused entity continues to be deemed the appropriate platform for future success.

#### Governance

Efforts continue to build on the significant work to date, to separate SSE Energy Services within the SSE Group. Whilst future options are considered, appropriate governance is being implemented to allow focused and agile execution of its transformative strategy by a dedicated and experienced management team. The Board continue to receive updates and review business performance.

#### Customer

Through an established customer centric culture, SSE Energy Services continues to deliver strong performance across a wide range of measures, and is committed to continuing to secure the appropriate outcomes to meet customers' needs. This includes responding to digitalisation and developing innovative customer solutions.

#### Employees

The talent and hard work of the people within SSE Energy Services is recognised as the business's most valuable asset, as employees continue to support and deliver the ongoing transformation. Dedicated focus is therefore being given to the provision of sustainable, quality employment, and continuing open and clear communication.

#### Shareholders

A significant proportion of income will be derived from regulated networks and renewable sources of energy going forward. All of the options being considered for the future of SSE Energy Services remain consistent with greater visibility of both assets and earnings, and dividend sustainability based on the nature and quality of the underlying management and operations.

### Q1: April to June 2018

#### Key developments

- The CMA referred the proposed SSE Energy Services transaction to a Phase 2 investigation.
- SSE announced an increase in its standard GB domestic energy prices.
- Preliminary results confirmed SSE's plan for the dividend for the five years to 2023.
- Shareholder Circular was approved and issued in advance of the General Meeting scheduled for 19 July 2018.
- The Bill proposing implementation of a default tariff cap continued to progress through Parliament and Ofgem issued discussion papers surrounding its design, followed by a formal consultation on its proposed delivery.
- CEO and CFO designate of the independent company were both appointed.

#### Board considerations

- Confirmed that the strategic rationale, and ability to deliver increased benefit to the energy market and customers, remained appropriate outcomes of the transaction.
- The impact of the sustained rise in wholesale energy and policy costs, which was followed by the difficult decision that SSE's energy prices had to increase as a result.
- The legal duties and responsibilities of the Directors in the preparation of the Circular, and confirmation that it be approved for issuance to shareholders.
- The developments in respect of the possible tariff cap and timelines in which further clarity would be expected.
- Progress of the work which was ongoing to separate SSE Energy Services from the SSE Group.

### Q2: July to September 2018

#### Key developments

- General meeting was held and resolutions to give effect to the transaction were passed with in excess of 92% votes in favour.
- Domestic Gas and Electricity (Tariff Cap) Act 2018 came into force and set out the requirement for Ofgem to design and implement a temporary tariff cap for customers on Standard Variable and default tariffs, following which Ofgem announced a statutory consultation.
- CMA provisionally cleared the proposed SSE Energy Services transaction on the basis that it did not raise competition concerns.
- Chairman designate of the independent company was appointed.

#### Board considerations

- Confirmed that the CMA provisional findings were a positive development and consistent with the continued view that the transaction presented an opportunity to create a more agile, innovative and efficient company which would deliver for the energy market and customers.
- Considered what was known surrounding the proposed default tariff cap and policy position, through assessment of: Ofgem's proposals; the key positives and challenges presented by these; and the possible financial impact.
- The progress of all project workstreams against the agreed timetable and confirmation of project team focus areas including: the preparation of the Prospectus required for listing; integration plans; and the support that was being provided to employees during a period of significant change.



## Q3: October to December 2018

### Key developments

- Consistent with their provisional findings, the CMA confirmed that the SSE Energy Services transaction was cleared subject to a final appeal period. This period subsequently closed in November 2018.
- Ofgem confirmed the methodology that would be applied to cap Standard Variable and default tariffs for customers.
- An announcement was made confirming that SSE and Innogy had entered discussions and were working together regarding potential changes to the commercial terms of the proposed SSE Energy Services transaction. These discussions were expected to last several weeks, and it was likely that completion of the proposed combination would be delayed.
- SSE confirmed in its interim results that discussions remained ongoing and a further update would be provided by mid-December.
- An announcement was made to the market stating the SSE Energy Services transaction was not proceeding.

### Board considerations

- Confirmed the key priorities following the CMA's final clearance and closure of the period for appeal, to ensure that agreed project milestones would be met in order to deliver the proposed transaction.
- The complexities of the methodology, level and input data underpinning the default tariff cap, and their relevant impact on the proposed terms of the transaction.
- The requirement to provide an update to the market as advised through proactive monitoring by the Group Disclosure Committee.
- Confirmed continuing commitment to disposing of SSE Energy Services, and that it was considered highly probable at the reporting date such that it was appropriate to show SSE Energy Services as held for disposal and as a discontinued operation.
- Confirmed that creating a new independent energy supplier remained the core objective, but whether this remained possible as originally contemplated, given recent market developments and respective business performance.
- The ability for any changes to be made to the commercial terms of the proposed SSE Energy Services transaction, to mitigate the impact of identified financial challenges, such as the requirement to post collateral against credit exposure and the ability to obtain and retain an appropriate credit rating.

## Supporting, working and engaging with stakeholders

### Government and Regulators

- Provided ongoing support to the dedicated transaction project team to ensure constructive engagement with the CMA as part of its formal inquiry process.
- Submitted views to Ofgem and engaged in the consultation surrounding the proposed introduction and design of a default tariff cap.

### Employees

- Proactive and timely engagement with employees was managed by a dedicated communications team to update on transaction developments. Focus was provided to explaining what was happening and why, and what this meant for employees.
- Internal channels such as a transaction focused website and Yammer, supplemented email and SSE's Group-wide intranet news streams, and contained factsheets and FAQs.
- An employee consultation forum was in place and additional measures were taken to ensure field-teams had unequivocal access to information.
- Meetings with the Trade Unions covered the progress of the transaction as the impact on employees was discussed at length.
- Consideration was given to the year-on-year results of the Group-wide Great Place to Work Survey and next steps included agreement for an SSE Energy Services culture survey to support ongoing transaction workstreams.
- The Chair engaged with senior leaders within SSE Energy Services and updates were provided on business performance and sentiment.

### Energy Customers

- To ensure continued high levels of customer support, transparent communications explaining the reason, timelines and impact of the SSE energy price increase were issued, and necessary customer support resource agreed.
- Ad-hoc queries about the transaction were dealt with by SSE teams and supported by messaging on customer-facing platforms.
- The Board reviewed performance against SSE Energy Services' Treating Customer Fairly Commitments and complaints performance.
- Customer forum chairs and consumer group representatives provided views surrounding key priorities and perceived challenges for the independent company, digitalisation, the default tariff cap and the impact of culture.

### Shareholders

- The necessary resources were put in place to deal with the potential volume of individual shareholder enquiries relating to the Circular and Notice of General Meeting.
- Full Board attendance at the General Meeting provided shareholders with the opportunity to put forward related questions.
- Shareholder feedback and analyst commentary on the transaction was presented to, and considered by the Board.
- Disclosures were made to the market in compliance with the obligations applicable to a listed company and applicable EU Regulation and followed by pro-active shareholder engagement.

## Significant developments from the reporting year continued

### Commodity price exposure: a revised approach

#### Background

In 2018/19, SSE's Energy Portfolio Management (EPM) division incurred a significant operating loss that was not expected at the start of the financial year. SSE responded to this by adopting a new approach to the management of its energy portfolio, published in November 2018. Commodity prices have been identified as one of SSE's Group Principal Risks for a number of years see pages 66 to 71.

#### What happened

Around the start of 2018/19, as part of its ongoing assessment of SSE's energy portfolio and the risks and opportunities associated with it, and drawing on external as well as internal analysis, the Board agreed with management's analysis that wholesale gas prices would most likely fall from the then prevailing levels.

As a combined result of the above; the uncertainty about the timing, level and impact of the default tariff cap eventually introduced on 1 January 2019; and mindful of the extent to which the value and earnings of SSE's assets are linked to energy commodity prices, the Board agreed that SSE should maintain a "short" position on its gas requirements, with a view to securing the gas needed to meet those requirements when prices were lower. This judgement was also influenced by the fact that there is lower market liquidity for energy-related commodities over longer time periods. Adopting energy positions of this kind, based on analysis and judgement, was not unusual, or unprecedented for SSE, reflected in its previous risk management and derivative financial instrument disclosures relating to International Accounting Standard 39.

In addition to ongoing management oversight of financial and operational performance, each year, following approval of the annual budget in March, the Board monitors financial and operational performance monthly, including significant market commodity price movements and their impact. During the early months of 2018/19, wholesale gas prices proved to be higher than expected for longer than expected. This is illustrated by the fact that over the first 6 months of 2018/19, UK gas prices rose by around 50% for each of the forward looking three seasons (winter 18/19, summer 19 and winter 19/20)<sup>1</sup>.

In its Trading Statement in July 2018, SSE said that the effects of persistently high wholesale gas prices could potentially impact on its full-year results. A significant portion of the increase summarised above, particularly in respect of the 2018/19 winter, occurred subsequently, in August and early September. In this period, there was unusually high volatility in the UK gas markets and the prices represented some of the highest seen in over 20 years for forward seasons.

#### What the Board did

Following agreed action to effectively "cap" the adjusted operating loss in EPM that arose as a result of gas prices being higher than expected for longer than expected, the completion of the monthly financial analysis and reporting process in September 2018 showed the impact that the persistently high gas prices experienced in the first part of the financial year were set to have on SSE's financial performance. The Board therefore approved the Trading Statement which was published on 12 September 2018. This loss out-turned at £284.9m for 2018/19 and is currently forecast to be around £115m for 2019/20.

The Board then accelerated a review of how SSE should manage future sources of exposure to fluctuations in the volume and price of key energy commodities following the planned separation of SSE Energy Services. The objective of this, was to identify and implement an approach consistent with SSE's increasing focus on its core businesses of regulated energy networks and renewable sources of energy, complemented by flexible thermal generation and business energy sales. This review also took account of the views of shareholders, expressed in discussions following the Trading Statement in September 2018, and was endorsed and approved for publication by the Board in November 2018.

#### Action taken

In November 2018, SSE published on [sse.com](https://www.sse.com) a new approach to managing energy commodity price exposures and giving shareholders enhanced visibility over it. The stated objective of this was to take a more systematic and transparent approach to managing SSE's exposure to volatility in the volume and price of five principal commodities (power, gas, coal, oil and carbon emissions allowances) and so make their impact on shorter-term earnings more visible and predictable.

This means SSE will now generally seek to hedge its broad exposure to commodity price variation 12 months in advance of delivery, and will transition to this approach such that it will be in place from the start of the 2020/21 financial year, ensuring that trading positions cannot have a material impact on SSE Group earnings. In the interests of transparency, commentary on this will be included in SSE's financial results statements. Energy commodity-related risk itself will be managed within SSE's business units, with EPM becoming an operational and transactional function to ensure business units' requirements are met.

The Board has also established a new sub-Committee – the Energy Markets Risk Committee – whose principal purpose is to oversee implementation of the new approach. Tony Cocker is the non-Executive Chair and the Committee convened for the first time in January 2019. Its dedicated Committee Report is set out on page 112 and its terms of reference are available on [sse.com](https://www.sse.com).

#### The future

SSE had already concluded that its increasing focus on regulated energy networks and renewable sources of energy, would require a new approach to managing its exposure to volatility in the volume and price of energy commodities. The adoption of this new approach was accelerated in light of the events described above.

The Board believes the action taken since September 2018, represents the right response to the issues summarised in the Trading Statement published that month. The approach identified and adopted in November 2018 is more systematic and should also make the impact of any such volatility on year-to-year adjusted operating profit more visible.

<sup>1</sup> Bloomberg UK gas prices (NBPI).

## Engaging with SSE's stakeholders

A critical aspect of working constructively with SSE's six key stakeholder groups is the engagement which takes place to understand material issues of interest, and set out below are details of the engagement mechanisms that exist within SSE, which ultimately support the Board's understanding of relevant stakeholder views. This approach ensures that all decision-making is adequately informed and is supportive of a Director's duty under Section 172 of the Companies Act 2006. Further details of how SSE's relationship with its stakeholders shapes and influences strategic considerations, around issues material to them, can be found on pages 22 to 23.

### ENERGY CUSTOMERS

Proactive and continual engagement with SSE's millions of customers, assesses the quality of service provided and allows identification of customers' needs to ensure that SSE's products and services remain relevant and reliable. Daily engagement with customers through digital platforms such as social media, allows SSE to gather views, engage and share important information in real-time, as well as run targeted awareness-raising campaigns. Customer service performance is regularly reported to the Board through Citizens Advice Bureau ratings, Net Promoter Scores and outcomes against incentive based performance measures set by Ofgem. Customer forum chair meetings are attended by the Chief Executive which allows feedback to be gathered and shared with the Board, key focus areas include: energy affordability; support for vulnerable customers; and smart meters. Annually, the Board review and approve SSE's Treating Customers Fairly priorities which further reflect customer views and the AGM provides "Customer-Shareholders" with the opportunity to ask questions of the Directors.

### EMPLOYEES

SSE engages with its around 20,000 employees to understand areas of importance in respect of the working environment, career development and Company culture. Views are gathered annually through the Great Place to Work survey, with findings, trends and actions, fed-back and agreed by the Board and businesses. The dedicated site visits covered on page 96, internal conferences and events – such as the SSE Safety Conference, and in 2019, the Wholesale conference and a trainee roundtable – are attended by both Directors and senior leaders. These provide the opportunity for face-to-face engagement and two-way communication of key messages and views, as well as direct observation of culture. SSE's intranet site contains internal blogs from the Board; and live Q&As are held via YamJam after Group Executive Committee meetings. The Remuneration Committee Chair meets Trade Union officials during the year and going forward there is a tailored plan for the non-Executive Director for Employee Engagement – see page 95.

### SHAREHOLDERS

SSE engages with its shareholders, providing updates on financial performance and its plans for the future through: regular financial reporting; the AGM; the investor pages on [sse.com](http://sse.com); investor roadshows in the UK and US where the Chief Executive and Finance Director meet SSE's largest active shareholders; attendance at investor conferences; engagement on specific matters such as Directors Remuneration; and ad hoc investor calls and meetings. Updates on shareholder matters form a regular input to monthly Board meetings and calls, and SSE uses the feedback from all its shareholder engagement to inform: long term strategy; its approach to Environmental, Social and Governance (ESG) matters; and how it reports on these and other relevant areas. SSE engages actively with key ESG investor analysts and provides feedback and input to their assessments of the company to ensure accurate representation of SSE's ESG performance and approach.

### GOVERNMENT AND REGULATORS

SSE engages with government and regulators to communicate the company's business strategy and investment decisions, as well as to assist the development of regulation and policies which have a material impact on SSE and its customers. This is done in a fair and balanced way in accordance with the principles set out in SSE's Political Engagement Policy and SSE has dedicated teams responsible for engaging with governing and regulatory bodies. In 2018/19 SSE engaged on key issues including Brexit, carbon pricing and the Labour Party's nationalisation policy; and the Board receive regular updates from departments and project teams working on SSE's responses to these and other issues, such as fair treatment of customers, security of supply and the economic impact of investment. More detail can be found on page 13.

### SUPPLIERS AND CONTRACTORS

Constructive engagement with suppliers and contractors sets fair expectations on delivery and safety performance and ensures good outcomes for local supply chains and the environment. SSE's strategic supplier relationship management programme (SRM) monitors performance of suppliers that have a critical influence on the growth of the Group. SRM has the ultimate aim of enhancing performance and strengthening relationships, and provides quarterly or half-yearly steering group meetings, which are a forum for dialogue with the supply chain on other topics, including safety, innovation, external markets and business overviews. This work is led by SSE's Procurement team and updates are provided to the Board as part of the major project update and review process. SSE also undertakes regular safety, health and environment, and quality audits on its sites and engages directly with its suppliers on key issues to ensure its values are upheld throughout its supply chain. In 2018/19 SSE introduced a modern slavery checklist as part of its Large Capital Projects Quality assurance programme, to ensure compliance on-site with SSE's modern slavery requirements.

### CIVIL SOCIETY, COMMUNITIES AND NGOS

SSE's businesses engage with these groups to gain their support, help influence emerging policy and to lend SSE's weight to campaigns that align with the Group's strategy and values. SSE also gathers the views of these stakeholders to inform decision-making on key projects and business strategies, through channels such as public consultations and stakeholder advisory panels. The Chair of the Board is a member of the Future of the Corporation Corporate Advisory Group, which meets regularly to support the British Academy's project and consider research developments and advise on future plans around the role of business in society. In November 2018, he led the business response to the research, highlighting the importance of tax in the social contract and the value of privately-owned utilities working in the public interest. In May 2019 the Chief Executive stood down as Vice-President of Eurelectric, having played his part in building the group's vision for acceleration of decarbonisation.

## Culture and engaging outside of the Boardroom

**"Spending time outside of the Boardroom and experiencing the operating environment within SSE's businesses, is fundamental to increasing understanding of the cultural context in which employees work."**

SSE's future success relies on the skill and talent of its people, and as a Board, we have a role to play in ensuring that the decisions we take provide appropriate support. This includes promoting responsible, inclusive and ethical behaviour, and endorsing SSE's safety licence of "if it's not safe, we don't do it". The record safety performance from the reporting year is something that SSE can be especially proud of, and is reflective of the time and focus spent on the No. 1 priority of getting everyone home safe at the end of every working day."

**Helen Mahy**  
Chair of the Safety, Health and Environment Advisory Committee

### Understanding and monitoring culture

"Doing the right thing" is at the heart of SSE's ethical business culture and is embodied within the agreed vision, purpose and strategy as set by the Board. The SSE SET of core values underpin this approach, which seeks to go beyond compliance and ensure that the interests of all stakeholders and society are respected. It is these values which remain the guide to responsible business behaviour and decision making at every level within the organisation. Further details of the agreed principles, policies, standards and cultural initiatives which support and help employees understand what is expected of them, can be found on pages 32 to 35 and within SSE's Sustainability Report.

At Board-level, commitment to SSE's core values is demonstrated through transparent operations and engagement outside of the Boardroom, which ensures the Directors lead by example, reinforcing the cultural tone and expected behaviours.

**🛡️ Safety** remains SSE's No 1 priority and during the year there was again Director attendance at the Group-wide safety conference and a meeting of the SHEAC hosted at the operational site of Slough Heat and Power see pages 96 and 114.

**👥 Service** and reliability for all of SSE's customers is overseen through Board-level review of: relevant commitments such as Treating Customers Fairly within both the domestic and business energy supply businesses; customer service ratings; and performance metrics including those under the Networks' incentive regime and business response during extreme weather events. A number of the above are also agreed measures in the performance related elements of executive pay.

**📈 Efficiency** of operations and effective delivery of strategy has been supported through Board-level endorsement of a revised Group operating model for implementation from 1 April 2019, which will empower each business to lead the transition to a low-carbon future.

**🌱 Sustainability** has been placed right at the front and centre of this strategic priority following the recent adoption of four key business objectives, aligned to UN Sustainability Goals, with further linkage to executive reward.

**🏆 Excellence** continues to be supported through the delivery of large capital projects in line with agreed plans, and the pursuit of value-creating opportunities for shareholders. This was exemplified during the period with the completion of the Caithness-Moray transmission link on time and within budget, and the agreement to dispose of stakes in some of SSE's renewables portfolio.

**👤 Teamwork** continues to be appraised and reported annually through the Board evaluation process, with inclusive teamwork and decisive leadership being further recognised as a driver of employee engagement. As such, this has been an early areas of focus for Sue Bruce in her role as non-Executive Director for Employee Engagement.

### Listening to the employee voice

Cultural alignment across SSE and within each business, is monitored and assessed by the Board through a combination of the direct contact highlighted above, and a number of recognised indicators as depicted below. Through discussion of relevant observations including the implications for future Board work, and review of the recognised indicators, culture is covered both implicitly and explicitly at every Board meeting.

During 2018/19, the Directors engaged in site visits across Great Britain and Ireland to enhance understanding of day to day operations, observe the practical execution of strategy, and gather insights into employee relations and sentiment. The benefits of personal interaction and informal discussion in learning more about employee's backgrounds, career development, and how people feel about their working environment within SSE, is recognised as invaluable by the Board. Feedback from visits is therefore present as a standing item on every meeting agenda and some of the key insights gained by the Directors are set out on page 96. Of particular note during the period, was the consistently positive messaging surrounding the impact of behavioural safety and health training which has been provided to employees through the ongoing 50by20 initiative. These observations applied across operational, field- and office-based roles and included the adoption of tools such as charters to drive the desired performance culture, increased awareness and support in respect of mental health, and the adoption of SSE's safety licence "if it's not safe, we don't do it".

### RECOGNISED INDICATORS OF CULTURE REVIEWED BY THE BOARD AND ITS COMMITTEES INCLUDE:

- Outputs from the Great Place to Work survey.
- Whistleblowing reports.
- Safety performance, initiatives and trends.
- Compliance updates covering listed company and regulatory obligations.
- Internal audit reports and findings.
- Absenteeism rates.
- Progress in respect of inclusion and diversity.
- Training completion rates.
- Directorate reports covering business specific matters.

### **Engaging with employees to support sustainable decision-making**

SSE's most important asset is its people, a point illustrated by SSE being the only FTSE organisation to have measured the value of the Human Capital it borrows from society. In line with this focus on valuing people, and in consideration of the newly-introduced recommendations of the 2018 Code, the Board approved the appointment of Sue Bruce as the non-Executive Director for Employee Engagement in November 2018.

As Chief Executive, Alistair Phillips-Davies, assisted by Group HR, leads and supports SSE's employees through the design and delivery of people strategy; with the Board receiving progress updates in respect of its implementation. The newly-created non-Executive role will therefore enhance previously established Board oversight, by advocating and directly representing the employee voice during relevant Board discussions.

By dialling into existing and wide-ranging listening channels and tools; such as regular anonymous employee surveys, well attended face to face employee roadshows, direct Q&A sessions with senior leaders through online channels such as Yammer, and well-established employee consultation channels, including those with SSE's recognised Trade Union representatives, Sue Bruce will build an awareness of the key issues most relevant to employees. Sharing these insights directly with the Board will reinforce consideration of relevant views during decision-making and ensure considered and informed action is taken where appropriate.

Looking ahead, a detailed programme of planned activities will facilitate engagement with a wide range of employees, which will be further supported by direct feedback, to demonstrate how the views provided have been considered and responded to by the Board. Since appointment, a number of initial meetings have already taken place, which have allowed communication of future aspirations for the role with the workforce. This has included views on the importance of effective employee engagement at times of significant change, which were shared at SSE's Leadership Conference.

**"I see this as a really important role, and in the seven months since the role has been established I have been keen to build on existing channels that already operate effectively.**

I've met three times with Full Time Trade Union Officials and Senior Employee Representatives, where we have had wide ranging discussions around business strategy; the future direction of SSE Energy Services; the approach that is being taken to manage change; and employment terms being applied during business re-structures. These discussions have been positive, with open and honest communication at their heart.

Following these meetings, I've written blogs and have also shared with the Board the key themes and issues that have arisen, to inform the Board's discussions and decisions. I enjoy and welcome these meetings and they will form a key element of my engagement approach going forward.

I have also attended a shadow Board meeting which has been set up to provide both a development and learning opportunity for talented members of the SSE team. These meetings create a platform to allow fresh perspectives and thinking to be shared.

Going forward we have an overall plan of approach which will doubtless be refined as the role develops. In our discussions to date, I have invited views on this, and remain open minded and welcome ideas from colleagues throughout the business as to how collectively we can ensure the employee voice is heard and respected. One aspect of which, is close linkage with the main SSE employee engagement survey, which runs annually, and is a key way to really listen to the employee's viewpoint. Post-survey I'll attend focus groups to understand in more detail the real issues that are most important to the SSE workforce. I'm very much looking forward to these discussions."

**Sue Bruce**  
Non-Executive Director for Employee Engagement

## Culture and engaging outside of the Boardroom continued

Strategic area	Site visits included	Relevant insights gathered to inform future discussion
SSE Renewables	Greater Gabbard offshore wind farm	<ul style="list-style-type: none"> <li>Ensuring appropriate plans are in place for the recruitment, retention and development of employees located at remote operational sites.</li> <li>The broad range and complexity of the engineering and project challenges faced by the renewable fleet when in development and post-commissioning.</li> <li>The impact of projects on local communities and the transfer of learnings from existing initiatives and stakeholder engagement, to ensure benefit and value continue to be created for affected groups.</li> <li>Optimisation of operations in volatile market conditions including the impact and dependency on weather, and the role played by this asset class in the low-carbon transition.</li> </ul>
	Galway onshore wind park	
	Clunie hydro station	
Thermal	Ferrybridge Multifuel 1 and 2	<ul style="list-style-type: none"> <li>The visible commitment to safety and the requirement for specific priorities and focus areas to be tailored by site to support operations.</li> <li>Continued sharing of project knowledge to strengthen identified competencies in the development, operation and ownership of large scale assets including the integration of new and advanced technologies into plant construction plans.</li> <li>The key considerations and value which can be derived from joint ventures and combining of complementary expertise.</li> <li>The opportunities available to support the stated commitments relating to climate change and cleaner energy, through regeneration of existing infrastructure.</li> </ul>
	Keadby and Keadby 2	
Regulated networks businesses	Regional networks depots in Portsmouth and Oxford	<ul style="list-style-type: none"> <li>The compliance and assurance processes required to fulfil commitments to customers and the Regulator, and to effectively own and operate critical national infrastructure.</li> <li>Clear employee commitment to addressing customers needs and to ensure continued high standards of service and vulnerability support.</li> <li>The unique terrain and environment in which large capital projects are being delivered and the innovative solutions that are being adopted to mitigate safety risks, increase project efficiencies and overcome challenges.</li> <li>The positive impact of strong team engagement on health, wellbeing and performance with consideration for the support currently provided by SSE in these areas.</li> <li>The role of transmission licence holders in facilitating increased renewable capacity within the GB electricity system and the principles that should be applied to ensure connections are efficient, co-ordinated and economic, whilst having the least possible impact on the environment.</li> </ul>
	Sections of the Caithness-Moray transmission link	
	Blackhillock substation	
Infrastructure and related services	SHEAC meeting at Slough Heat and Power	<ul style="list-style-type: none"> <li>Project challenges from the perspective of contractors including those in relation to demolition at Slough Heat and Power.</li> <li>Opportunities presented by energy market trends and developments and the ways in which SSE Enterprise is responding, including, distributed energy, electric vehicles and changing infrastructure requirements.</li> <li>The high quality of work and innovation present within new and emerging project areas which focus on the development of customer-centric solutions.</li> <li>The systems of work adopted within SSE Rail to ensure safe operations within the working environment.</li> <li>The challenges of introducing a new customer service system and rolling out smart meters within Business Energy, and the responsibilities of each team in respect of dedicated customer support and relations.</li> </ul>
	SSE Enterprise projects	
	Business Energy	
Sustainability	Engagement with SSE's Group Sustainability team	<ul style="list-style-type: none"> <li>The overarching role of sustainability and its integration into strategic considerations to ensure that in the long term, SSE safeguards its responsible approach.</li> <li>Progress and outputs of the work to date surrounding community investment, and the future priorities for the funds available to support relevant initiatives and projects.</li> <li>Climate change action plans; developments in reporting; and the increased regulatory requirements and expectations surrounding non-financial matters.</li> </ul>

## Board induction, development and evaluation

### Induction and development

#### Board induction

Following appointment, all Directors engage in an induction process which has been designed to suit their individual needs. The tailored and comprehensive programme is agreed through discussion with the Chair and Company Secretary, and is reflective of existing knowledge and experience, and any agreed roles within the Board and its Committees. The meetings and activities are selected to ensure that any new Director is adequately informed and equipped to participate in Board discussions, with a sound understanding of long-term strategy, business operations, the sectoral context and Company culture. Engagements involve meetings with key personnel, technical briefings and site visits, which allow for conversations to take place with a representative cross-section of SSE's workforce. An appropriate time period is allowed in which to complete the agreed engagements, such that directorate knowledge can be built over time. Details of the induction programme which was agreed for Tony Cocker and Melanie Smith are set out below.

	Tony Cocker	Melanie Smith
<b>Specific technical updates prioritised to support value creation through application of existing knowledge to Board and Committee discussions</b>	<ul style="list-style-type: none"> <li>– SSE's Group Principal Risks, control environment, Internal Audit and Assurance activities.</li> <li>– The role and operations of Energy Portfolio Management.</li> <li>– Engagement with the Renewables Operations Centre.</li> </ul>	<ul style="list-style-type: none"> <li>– Briefings from SSE's dedicated strategy team.</li> <li>– An HR update on people, talent and development.</li> <li>– Site visit to Dublin in order to understand priorities and considerations in respect of operating across two jurisdictions.</li> </ul>

Activities and updates to provide background and context surrounding SSE's purpose, strategy, business operations and performance.

Area	Briefing provided by	Matters covered and discussed
<b>Governance</b>	Company Secretary and Director of Investor Relations	SSE's governance framework, Board-related policies and logistics, and an overview of the evolving governance landscape including recent developments relevant to the SSE Group. The work of the Investor Relations team and shareholder perspectives.
<b>Operating environment</b>	MD, Corporate Affairs and Sustainability	SSE's approach and key priorities in relation to: strategy development; corporate communications; reporting; and political advocacy including the importance of ensuring stakeholders' concerns are fully considered and reflected.
<b>Sustainability</b>	Director of Sustainability	SSE's approach to sustainability, including an analysis of recent key stakeholder trends, the primacy of climate change, carbon emission targets and important social and economic impacts.
<b>External view of SSE</b>	SSE's Brokers, Credit Suisse and Morgan Stanley	An up-to-date view of investor, shareholder and market sentiment, and an overview of the broker-shareholder relationship.
<b>Strategy implementation</b>	Chief Executive	The energy sector, long-term strategic priorities, financial performance, and an overview SSE's key stakeholder groups including their material concerns and issues.
<b>Finance</b>	Finance Director	Finance and the control environment including capital structure and funding. Recent shareholder and analyst feedback and SSE's equity story. The relationship with SSE's External Auditor.
<b>Safety, health and environment</b>	Group Safety, Health and Environment Manager	SSE's safety culture including ongoing initiatives, targeted communications and policies to support all areas of SHE performance and safe working.
<b>Legal and regulation</b>	General Counsel and MD, Corporate and Business Services	Regulatory and legislative matters including any significant issues facing the Group.
<b>Business overview</b>	MDs of SSE's businesses and key members of leadership teams	Meetings covering business plans, performance, assets, operations, material issues and opportunities.
<b>Operations</b>	Operational personnel	Considerations in respect of asset and business operations, and insight into SSE's culture through visits to selected key sites.

#### Director development and training

At any point in time, the Directors are invited to identify areas in which they would like additional information, further meetings or briefings, following which the Company Secretary will arrange and ensure that the necessary resources are in place. The resultant sessions can be internally or externally facilitated, and can originate from an identified training requirement, or may be an area of interest to a Director or the full Board.

As part of SSE's mandatory training programme, all Directors are further required to complete dedicated courses covering areas which are deemed material to their role. These address statutory obligations and ethical considerations including: the legal duties of a Director; competition law; bribery law; fraud awareness; GDPR; and inclusion and diversity.

## Board induction, development and evaluation continued

**"I was welcomed onto the Board at an exciting time, not just for SSE, but the sector more widely.**

I believe SSE stands out in that it is particularly well placed – thanks to its assets, skills and experience – to seize the growth opportunities presented by decarbonisation. Of course, I have had an appreciation for SSE for many years, but throughout my induction I have been particularly impressed by the commitment to the low-carbon strategy of my fellow Board members, the executive team, and employees in the field. Nevertheless, delivery of that strategy will be challenging. SSE operates in a complex sector that is highly sensitive to market and regulatory forces and global competition. I'd like to think my sector experience and understanding of commodity markets and utilities regulation can be brought to bear on supporting the business through the transition that SSE's is undergoing – and helping to implement a new hedging approach as Chair of the Energy Markets Risk Committee is just one part of that."

**Tony Cocker**

Chair of the Energy Markets Risk Committee

### Annual evaluation of Board performance and effectiveness Progress against the 2017/18 internal Board evaluation

In 2017/18, the performance and effectiveness of the Board was reviewed through an internally facilitated evaluation process, the agreed actions from which included enhancement of both internal and external stakeholder engagement in relation to strategic discussions and culture, as well as focus on inclusion and diversity, and succession. These areas have been progressed within the period, through: ongoing Board engagement on strategy development; an increase in the number and breadth of Board site visits and shareholder engagements; and continual development of Nomination Committee focus including the adoption of a Board gender diversity ambition.

### 2018/19 External Board evaluation

#### Process

#### Stage 1

##### Selection of external evaluation provider

In line with recognised best practice, an external evaluator was engaged to conduct the 2018/19 Board evaluation. The selection process was led by the Chair and Company Secretary, who met with three different providers prior to confirming the appointment of Schneider-Ross<sup>1</sup>. Their distinctive review approach was one of the key considerations which informed this decision, as it was agreed to undertake the evaluation through the lens of inclusion and diversity. This focus was judged to provide a more informative output in relation to open thinking, constructive Board challenge and optimising the diverse skills and experience within the Boardroom.

#### Stage 2

##### Agree remit and scope

Initial meetings between the Chair, the Company Secretary and Schneider-Ross were used to agree the purpose, scope, timing, and practicalities of the evaluation. This included agreement of the below key themes for the evaluation to explore, and the appropriate mechanisms to ensure a suitably comprehensive assessment could be carried out.

Thematic evaluation focus areas:

- Board composition and dynamics;
- strategic and financial decision making;
- people decision making; and
- Board systems and processes.

#### Stage 3

##### Information gathering and meeting observation

Views were gathered through a combination of contact with key personnel, direct observation of Director interaction within the Board meeting context, and written feedback.

Between the months of July and mid-September 2018, Schneider-Ross had qualitative discussions with each individual Director; the Company Secretary; Jeremy Beeton and Katie Bickerstaffe, who had both recently stepped down from the Board; and nine regular attendees of Board meetings, including, the Director of Human Resources, MD, Corporate Affairs and Sustainability, MD, Networks, Director of Risk, Audit and Insurance and SSE's External Auditor, KPMG. Schneider-Ross subsequently attended and observed the September 2018 Board meeting.

The above was followed by the issuance of a questionnaire, as developed by Schneider-Ross, in consultation with the Chair and Company Secretary, in October 2018. This was completed by the Board and Company Secretary, and adapted for circulation to a selection of both regular and less frequent attendees of Board and Board Committee meetings, in order to gather a broad range of perspectives.

#### Stage 4

##### Feedback and report findings

Initial findings and an early draft of the evaluator's report were discussed at a meeting between Schneider-Ross, the Chair and Company Secretary in December 2018. Following additional desk research and the provision of supplementary information throughout December, a finalised report of findings as described below, was presented to the Board by Schneider-Ross, at their January 2019 meeting.



## Findings

### The Board

The Trading Statement in September 2018 that set out expected losses in Energy Portfolio Management was published while the Board evaluation was ongoing, and so provided additional context for the contributions of those participating in the evaluation process. Those contributions were reflected in the report of Board evaluation findings, which was completed in December 2018 and considered by the Board in January 2019.

The evaluation concluded that the SSE Board is effective, identifying many components reflective of best practice, and indicative of an engaged and high performing Board, namely:

- diversity, with complementary perspectives that are not dominated by one or two individual Directors;
- non-Executive Directors who invest the time and energy to make a positive difference;
- a Chair who sets an exemplary tone and creates an inclusive Boardroom environment;
- Executive Directors who seek to engage, rather than manage the Board; and
- good Board systems and processes that are kept under review by an able Company Secretary.

In turn, within SSE, these positive attributes were identified as leading to:

- a transparent Board where different perspectives are aired and financial discipline is strong;
- an approach to strategy development that makes good use of non-Executive Director input and encourages a focus on the long-term success of the Company;
- a preparedness to take bold strategic decisions such as that in relation to SSE Energy Services; and
- a strong focus on, and where appropriate, progressive approach to, corporate governance.

Areas identified for further focus in support of continuous improvement were:

- reinforcing the importance of constructive challenge in the Boardroom;
- challenging management to continually improve SSE's ability to manage change and monitoring respective progress; and
- supporting management in attracting and developing talent from a wide range of backgrounds.

Following a period of consideration, a detailed action plan was formally agreed by the Board in March 2019. This featured:

- a planned Board session on Confirmation Bias;
- greater use of "warm up" sessions to aid Board preparations in respect of complex or material decisions; and
- further development of internal reporting to the Nomination Committee on actions to enhance inclusion and diversity.

Integration into relevant Board work and existing process is currently underway and details of progress will be reported in future.

### Board Committees

Through the process described above, it was confirmed that the operations of the Board Committees, and their relationship with the Board itself, remain effective. Identified actions from the overall Board evaluation will be used to inform future Committee work where appropriate, with respective progress also monitored and assessed.

### Individual Director performance

During the year each Director participated in a detailed review of individual performance which was carried out by the Chair. Through this process, each Director was invited to suggest areas for desired knowledge development or in which additional or refresher training was required, following which, the Company Secretary would ensure that appropriate internal or external arrangements were in place. In conjunction with the conflicts of interest and independence review as detailed on page 103 [1](#), the continuing contribution of each Director was confirmed to be both positive and supportive of SSE's long-term success.

The process for evaluating the Chair was managed by the Senior Independent Director, which involved a separate meeting with the non-Executive Directors and included feedback from the Executive Directors. It was confirmed by all, that through a period of strategic transition, within a challenging operating context, Richard has provided steady and focused leadership to the Board. This is supported through dedicating sufficient time to the role, setting an appropriate, respectful style and tone for Board discussions, and nurturing a balanced and collaborative Board culture, which encourages full Director participation and effective meeting flow. A sound understanding of SSE's culture, strong business ethics and the relevant external experience he possesses, were further noted as key attributes.

As agreed in 2017/18, a Report from the Chair has been included on the standing Board agenda to provide feedback and relevant perspectives from the routine shareholder and stakeholder engagements which are carried out through the role. Going forward, it was noted that further benefit could be derived from increased, dedicated, non-Executive Director time, to allow further constructive discussion of Board matters, in addition to initial thinking on strategic or material considerations. Both of which would allow maximum benefit to be realised from the available non-Executive support and challenge. As a result, appropriate arrangements have been made within the Board schedule for 2019/20.

### More information

More information on the activities which address the agreed actions from the 2017/18 Board evaluation can be found on the following pages:

- Strategic development pages 81 to 87 [1](#)
- Board site visits pages 96 [1](#)
- Inclusion and diversity pages 102 to 103 [1](#)

<sup>1</sup> Schneider-Ross has no other connection with SSE or its individual Directors.

## Nomination Committee Report

### Dear Shareholder,

The Nomination Committee continues to play a key role in supporting SSE's long-term sustainable success. The development and execution of appropriate strategy, creation of a supporting culture and promotion of guiding behaviours to ensure responsible and measured decision-making, are all underpinned by balanced and effective leadership. It is our responsibility to review and judge that within the Board and senior management this is in place, and that robust succession and development plans support this going forward.

In line with the above, during 2018/19 we have welcomed two new non-Executive Directors to the Board; having recommended the appointment of Tony Cocker in the last reporting period, and completed the recruitment process which recommended the appointment of Melanie Smith in the year under review. Tony and Melanie took up their respective positions on 1 May 2018 and 1 January 2019, and as a Committee, we believe these appointments enhance the experience of the Board and represent a continuing fit with SSE's future needs. The dedicated search process

which is used in relation to non-Executive appointments is set out on page 101.

We further thank Katie Bickerstaffe and Jeremy Beeton following their stepping down from the Board for their dedication to the role, as they ceased to be Directors on 30 April 2018 and 19 July 2018 respectively. Following the changes outlined, the Board comprises the Chair, six independent non-Executive Directors and three Executive Directors.

The Committee met six times in the year, and in addition to considerations surrounding progressive Board refreshment, we have assessed the impact of the directorate changes on Board Committee membership. A number of recommendations were made and agreed in the period to retain the appropriate knowledge and skill to support the activities of each Committee, and further details of these changes can be found in the report that follows.

At Board Committee-level, we have also seen the creation of the Energy Markets Risk Committee, whose role and membership has been designed to oversee the transition to SSE's revised approach to managing commodity price exposures. This Committee met for the first time in January 2019, and further details of its specific remit can be found in its terms of reference, which are available on [sse.com](http://sse.com), and its dedicated report on page 112.

All of the work set out above, is considered within the context of our standing commitment to inclusion and diversity. Our efforts in respect of monitoring the progress of agreed initiatives across the Group, and to enhancing the breadth of difference within the Board, senior management and the talent pipeline, must remain centred on credible

outcomes which support SSE's strategic and long-term intent. Through critical review of our Board inclusion and diversity policy, and supportive of our aim in achieving a Board that is generally gender-balanced, we proposed the adoption of a specific ambition surrounding female membership for implementation with immediate effect. This is now in place and set at a level of 33%, to be maintained on average over a three-year rolling period. On pages 102 and 103 we include details of progress against our agreed ambition, alongside a description of the Board's policy on inclusion and diversity and how this has been implemented during the period. This is accompanied by information on our activities in relation to wider inclusion and diversity and people strategy, which include the opportunities for leadership and talent progression.

Through a holistic review of the changes introduced by the new 2018 Code and in preparation for its application in the next reporting period, we have also assessed forward-looking matters relevant to the Nomination Committee's work. One aspect of which, is the suggested mechanisms for engaging with the workforce in order to understand and increase awareness of their views. In consideration of the well-established channels which are currently in place to listen and gather employee feedback, the creation of a dedicated non-Executive Director for Employee Engagement was deemed a complementary next step for the Board. The experience possessed by Sue Bruce through her previous appointments, in conjunction with her exposure and activities as Remuneration Committee Chair, resulted in the recommendation that she be appointed to this role. The Board approved this with effect from November 2018, and related work has included the development of a role profile and an engagement strategy and plan, details of which can be found on page 95.

In line with the 2018 Code, members of the Committee further considered the position of Company Chair tenure. Details of the process in which I did not participate are included on page 103.

I hope you find the following report interesting, and supportive of our focus on ensuring that SSE is equipped with the skills and capabilities for future success.

Members	Independent non-Executive Director	Member Since	Attended/ scheduled
Richard Gillingwater (Committee Chair)	N/A	2008	6/6
Jeremy Beeton <sup>1</sup>	Yes	2014	2/2
Sue Bruce	Yes	2014	6/6
Tony Cocker <sup>2</sup>	Yes	2018	5/5
Crawford Gillies	Yes	2015	6/6
Peter Lynas	Yes	2014	6/6
Helen Mahy	Yes	2016	6/6
Melanie Smith <sup>3</sup>	Yes	2019	2/2

The Company Secretary is Secretary to the Nomination Committee.

1 Jeremy Beeton stepped down from the Nomination Committee and Board on 19 July 2018.

2 Tony Cocker was appointed to the Board from 1 May 2018 and joined the Nomination Committee on 19 July 2018.

3 Melanie Smith was appointed to the Board from 1 January 2019 and joined the Nomination Committee at this time.

**Richard Gillingwater CBE**  
Chair of the Nomination Committee  
21 May 2019

## **The role of the Nomination Committee**

The Nomination Committee is responsible for ensuring the Board, its Committees and SSE's senior management have the correct balance of skills, knowledge and experience, to effectively lead SSE 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, vision, culture and values. The way in which this is supported through the current Board composition is set out on page 77 [\[E\]](#).

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. With enhancement of the mechanisms used to engage with the workforce, the Committee is now also responsible for recommending candidates for the role of non-Executive Director for Employee Engagement.

The full responsibilities of the Nomination Committee are set out in its terms of reference, which have been updated during the year in light of the revised 2018 Code. They are available to view in full on [sse.com](https://www.sse.com) [\[E\]](#).

## **Nomination Committee activities in 2018/19 Board succession**

Throughout the reporting period, the Committee continued to focus on the succession pipeline for the Board and senior management, with the need for further diversity on the Board being a key consideration in assessing potential new appointments. 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 constructive challenge within the Boardroom, would be beneficial to Board decision-making as a whole. In respect of senior executive roles, a higher focus on SSE's ability to attract and develop a diverse range of people will be further required during 2019, in order to manage the opportunities and change presented through implementation of the revised Group operating model.

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. As such, Russell Reynolds Associates<sup>1</sup>, were initially engaged in 2017/18 to assist the Committee with the search and identification of two independent non-Executive Directors to join the Board. This was to take place over a time frame of around 18 months and conducted as two separate directorate searches.

Details of the initial stage in this process was outlined in the 2018 Annual Report and resulted in the appointment of Tony Cocker as a non-Executive Director from 1 May 2018. Full details of Tony's experience and external appointments can be found on page 75 [\[E\]](#).

The second stage in this process, to support the appointment of an additional non-Executive Director is outlined below.

### **Search for an additional non-Executive Director**

Discussions took place between Russell Reynolds Associates, the Chair and Chief Executive surrounding the specification for the role. Potential areas to inform the search process were agreed to include a strong business focus, clear knowledge of the customer and international experience, in addition to an enhanced focus on diversity. A long list of candidates comprising different nationalities, including 10 serving executives was shared with the Committee in July 2018.

Following meetings between the Chair, Chief Executive and Russell Reynolds Associates a short list was compiled looking at level of experience, and broad skillset. The preferred candidates then met with the Chair, Chief Executive, Senior Independent Director and the Finance Director, with follow-up discussions by the Committee reflecting upon the ability to input into and challenge the strategic development process and support Company culture. The resulting recommendation to the Board was that Melanie Smith be appointed to the role and on 14 November 2018, it was announced that Melanie would join SSE as a non-Executive Director from 1 January 2019.

This followed confirmation of the time commitment required and a review of existing engagements for any actual or potential conflicts of interest.

Full details of Melanie's experience and external appointments can be found on page 76 [\[E\]](#).

## **Board Committee membership**

To ensure that the Board Committees retain the correct balance of skills and experience, the Nomination Committee monitor overall composition and membership. As a result of the directorate changes during 2018/19, the below changes were recommended and subsequently agreed by the Board.

Following the AGM on 19 July 2018, Peter Lynas became a member of the Remuneration Committee and Tony Cocker joined the Nomination, Audit, and Safety Health and Environment Advisory Committees. Helen Mahy also became Chair of the Safety, Health and Environment Advisory Committee as of this date.

Upon appointment on 1 January 2019, Melanie Smith joined the Nomination Committee, before becoming a member of the Safety, Health and Environment Advisory Committee on 22 January 2019.

As announced previously, Sue Bruce assumed the role of Remuneration Committee Chair on 19 July 2018, and on 22 January 2019 stepped down from the Audit Committee.

Wider representation of SSE's businesses was agreed in respect of the membership of the Safety, Health and Environment Advisory Committee and Rachel McEwen, Director of Sustainability and Nathan Sanders Managing Director SSE Enterprise Utilities, joined as members on 13 November 2018.

## **Non-Executive Director for Employee Engagement**

During 2018/19, the Nomination Committee considered the appointment of an existing non-Executive Director to the newly created role of non-Executive Director for Employee Engagement. Following recommendation and Board approval, Sue Bruce assumed this position in November 2018 and further details are set out on page 95 [\[E\]](#).

## **Changes to senior management**

As explained on page 79 [\[E\]](#), throughout 2018/19 SSE reviewed its Group operating model to improve and streamline the governance and decision-making processes across its businesses. As part of this work, the following changes have taken place.

<sup>1</sup> Russel Reynolds Associates, previously Zygos Partnership, have no other connection with the Company and are accredited for the FTSE 350 category under the enhanced voluntary code of conduct for Executive search firms.

## Nomination Committee Report continued

In November 2018, SSE announced the creation of SSE Renewables and appointed Jim Smith as Managing Director of this business.

Rob McDonald was appointed Managing Director, Transmission and will build on the track record of success in Transmission, focusing on the pipeline of available investment opportunities, and preparations for the implementation of the RIIO-T2 Price Control from 2021.

Liz Tanner, former Director of Legal, became General Counsel on 1 March 2019.

In line with the above, Jim Smith and Rob McDonald are PDMRs and members of the newly formed Group Executive Committee and Liz Tanner attends meetings.

As the revised operating model reaches fruition during 2019/20, the Committee will continue to oversee relevant senior management opportunities across SSE.

### Talent development

The Committee has continued to focus on talent and the ability to attract, retain and progress individuals to improve the overall capability of the Company. This has been facilitated through regular engagement with Group HR and with the managing directors of SSE's businesses. The Committee has remained informed of the inclusive approach to setting up leadership teams for the revised Group operating model, which has involved the open posting of all roles to provide talented individuals with the opportunity to apply. Senior positions have been benchmarked externally to ensure that the best talent is appointed to any role.

The Committee has overseen internal talent progress targeted mainly on two groups of people – potential future members of the Group Executive Committee and a broader leadership talent pool. Working with external partners, SSE has assessed and put in place development plans for members of these groups.

For the leadership talent pool, there are 65 individuals in the process of an 18-month development programme. Members of the Nomination Committee have engaged directly with some of these individuals with plans for further interventions as the programme progresses.

A new development programme for talented people deeper within the organisation, has been agreed for 2019/20 to further enhance the overall emerging leadership capability.

Additional information on the strategic development plans to further people development across the Group can be found on pages 32 to 35.

### Inclusion and diversity

The Nomination Committee and Board are committed to ensuring that together the Directors possess the correct diversity of skills, experience, knowledge and perspectives to support the long-term success of the Company. In this regard, the role of diversity in promoting balanced and considered decision-making which aligns with SSE's purpose, values and strategy is fully recognised.

All Board appointments are made on an objective and shared understanding of merit, in line with required competencies relevant to SSE as identified by the Nomination Committee, and consistent with SSE's Board Inclusion and Diversity Policy, which further requires processes to be employed such that a diverse pool of candidates can be identified and considered. This Policy was reviewed during the period to ensure that it remains appropriate to SSE and reflects recognised societal and stakeholder expectations, and is available to view on [sse.com](http://sse.com). Details of how the Policy is implemented in practice are set out on page 103, through the process used to support directorate appointments in line with SSE's succession plans.

As set out in the Inclusion and Diversity Policy, ambitions may be developed and integrated into existing strategy and succession plans, to provide transparency surrounding where the Board aspires to be and allow reporting of any progress made. To be meaningful, these must be credible and realistic, and address the requirement for orderly succession and transition between appointments. The Board has therefore set an ambition of 33% female membership, to be maintained on average over a three-year rolling period, recognising the sensitivity

of this level to changes in both the Board's size and composition. The implementation of this ambition is believed to be in line with the ethos of the Hampton-Alexander Review, which is further supported within SSE through its "IN", "ON" and "UP" strategy to improve gender balance across the organisation, and more specifically within leadership roles – see pages 32 and 34. It is also consistent with achieving the ultimate goal of a Board that is generally gender-balanced.

The current measure against the above ambition (using previous 3 years from 31 March 2019) is 30% female membership. Further, Melanie Smith's appointment and Maori background has increased the ethnic diversity of the Board in line with the recommendations set out in the Parker Review. Additional measures which are used to assess the diversity of the Board, are set out below.

#### Director gender split as at 31 March 2019

■ Male (7)  
■ Female (3)

#### Director age range as at 31 March 2019

■ 41-50 (2)  
■ 51-60 (5)  
■ 61-70 (3)

#### Chair and non-Executive Directorship tenure

## BOARD CHAIR TENURE

To support the development of an inclusive and diverse talent pipeline, SSE's HR function was tasked with delivering a number of agreed supporting initiatives throughout 2018/19. Progress on these initiatives was reviewed by the Committee during the year and included: increasing diversity on the Executive Committee sub-Committees; promoting the number of roles advertised that support flexible working arrangements; and ensuring that the majority of all opportunities are openly advertised. As this work moves forward, the Committee will continue to monitor and assess the progress made by these initiatives.

SSE's increased participation in industry specific groups was also targeted during 2018/19, with SSE being an active contributor in the National Skills Academy for Power I&D Forum, a member of the UK voluntary POWERful Women (PfW) initiative, and the Chief Executive being involved directly as a founding member of the recently formed PfW Energy Leaders' Coalition.

### Board and Committee tenure

During the year the Committee recommended the re-appointment of Richard Gillingwater, Crawford Gillies and Helen Mahy to the Board for a further three-year term, subject to annual re-election by shareholders. This followed confirmation of their independence and continuing effective contribution to the Board, for which each individual abstained from their own review.

### Director conflicts and independence

In January 2019, 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 2016 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 and objective judgement of each of the non-Executive Directors 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. A number of actions for further improvement were also agreed, and included: maintaining focus on Board composition; a Confirmation Bias session to support ongoing work on inclusion and diversity; and focus on attracting external, and developing internal, talent from a wide range of backgrounds for senior roles.

### Board Chair tenure

In recognition of the 2018 Code position on Chair tenure, the current leadership brought by Richard Gillingwater was assessed against the balancing needs of the Company and current succession plans. This involved conversations between the Chief Executive, Company Secretary, non-Executive Directors and Executive Directors. The outcome of these discussions is presented opposite. Richard Gillingwater and any other non-Executive Director who would be potentially conflicted were not involved in the deliberations of the Board on this matter.

Richard Gillingwater was first appointed to the Board of SSE in May 2007 and became Chair in July 2015. While mindful of the 2018 Code position, the Board of SSE continue to believe that Richard should Chair the Board for a further period, ending no later than 31 March 2021, when the RIIO-2 Price Control process will have concluded. Richard has agreed to do this subject to being re-elected to the Board at the Company's AGM. In reaching this conclusion, Richard's other current appointments have been taken into consideration.

The Directors believe that it is in the interests of SSE's shareholders and other stakeholders that the Board, and therefore the Company as a whole, should continue to benefit from his objective judgement and the culture of openness and debate that he promotes. The qualities he brings to the role of Chair were highlighted in the 2018/19 independent external Board evaluation – see page 99.

In addition, they believe that by agreeing to remain as Chair for a limited time, Richard will continue to deploy over 20 years' knowledge of the energy sector and the Company as the re-shaping of the SSE Group continues; and enable SSE to benefit from his deep insight on strategic, government and regulatory matters. This will be particularly important while the future of the UK's relationship with the EU, and its consequences for politics, regulation and markets in the UK and Ireland, remains so uncertain. It will also be critical while the process for determining the RIIO-2 Price Control, which is of central importance to SSE's earnings in the 2020s, moves towards its conclusion.

All of SSE's six independent non-Executive Directors have been appointed from dates no earlier than 1 September 2013. A time-limited extension to Richard's service as Chair will enable effective succession plans to be implemented and allow a thorough and successful handover to a new Chair to lead the Board, and support SSE being a successful and sustainable business in the 2020s. A process for identifying the new Chair will get under way in the course of this year.

In light of this, SSE expects to explain its position with regard to the 2018 Code provision on Chair tenure, rather than to comply with it, in its Annual Report 2020, when reporting against the 2018 Code comes into effect.

## Audit Committee Report

### Dear Shareholder,

As Chair of the Audit Committee (the Committee), I am delighted to present the Committee's report for the financial year ending 31 March 2019. This report is intended to provide shareholders with an insight into how key topics are considered during the year, together with how the Committee discharged its responsibilities.

The Committee held four meetings in 2018/19 in line with the financial reporting calendar, with an additional meeting arranged as part of the external audit tender process. Whilst this report gives insight into matters consistent with last year's report, I would like to draw your attention to a number of other areas considered during the year.

Firstly, this year the Committee has overseen a competitive tender process for a new External Auditor. A case study of the external audit tender process can be found on page 109. As announced in January 2019, Ernst and Young LLP (EY) have been identified as the new External Auditor and will undertake its review of the half-year results and audit for the full-year ending 31 March 2020. The appointment of EY as External Auditor is a matter which requires shareholder approval, and I would like to recommend that you support this appointment at the 2019 AGM. Please allow me to take the opportunity to thank the team at KPMG for their excellent contribution as SSE's auditor and we look forward to working with EY in the future.

The second matter to highlight relates to our Internal Audit Function, which plays an integral role in SSE's Assurance Framework and provides regular reports to the Committee. I reported last year that an external quality assessment of the function would be completed during the year and the results of this assessment are reported on page 111 of this report.

We also reviewed work undertaken for several accounting policy projects during the year, including IFRS 15 (Revenue from Contracts with Customers) and IFRS 9

(Financial Instruments). We also reviewed the implementation plan and disclosures relating to IFRS 16 (Leases) which have been adopted by the Group with effect from 1 April 2019. Further information on accounting policies are provided in note 2.

In addition to the routine business, the Committee for the year ahead will have three areas of focus:

- Oversee the appointment of EY as External Auditor to ensure there is a smooth and orderly transition;
- Monitor and evaluate the completion of the recommended actions identified by the external quality assessment of Internal Audit; and
- Assess the impact of regulatory changes affecting the audit industry and how this will impact SSE and the work of the Committee.

I hope that you find this report informative and can take assurance from the work undertaken by the Committee during the year to deliver its key responsibilities.

**Peter Lynas**  
Chair of the Audit Committee  
21 May 2019

### Committee role, members and attendance

The Committee's role is to support the Board within the Corporate Governance Framework 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. The Internal Control and Risk Management in relation to SSE's energy market related exposures are overseen by the newly established Energy Markets Risk Committee.

The composition of the Committee currently comprises four non-Executive Directors as Committee members, with details of their attendance provided in the table below. Tony Cocker was appointed as a member in July 2018 bringing his extensive knowledge of the energy sector, and Sue Bruce stepped down as a member in January 2019 but regularly attends meetings to gain insight to support her role as Chair of the Remuneration Committee.

The Committee meetings are routinely attended by: the Company Chair; the Finance Director; the Director of Risk, Audit and Insurance; the External Auditor; and the Deputy Company Secretary (who is Secretary to the Committee). In addition, the Committee also invites other senior finance and business managers to attend certain meetings. This allows the Committee to be given a deeper level of insight on certain business matters.

The Board believes the Committee to have the appropriate composition, skills and experience to discharge its responsibilities. The external evaluation of the Board and its Committees confirmed the effective operation of the Audit Committee.

Members	Independent non-Executive Director	Member Since	Attended/scheduled
Peter Lynas <sup>1</sup> (Committee Chair)	Yes	2014	5/5
Tony Cocker <sup>2</sup>	Yes	2018	4/4
Crawford Gillies <sup>3</sup>	Yes	2015	3/5
Helen Mahy <sup>4</sup>	Yes	2016	5/5
Sue Bruce <sup>5</sup>	Yes	2014	4/4

1 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.

2 Extensive knowledge of the energy sector gained through a 20 year career with E.ON, including as CEO and Chair of E.ON UK plc. Tony Cocker was appointed to the Board from 1 May 2018 and joined the Audit Committee on 19 July 2018.

3 Crawford Gillies was unable to attend two meetings during the year due to prior engagements which could not be re-arranged. On each occasion, Crawford provided feedback on the business being considered to the Committee Chair and this was duly raised at the meeting.

4 Energy sector experience through previous role as Company Secretary and General Counsel of National Grid plc.

5 Sue Bruce stepped down as a member of the Audit Committee on 22 January 2019.

## Meetings and Activities in 2018/19

The Committee met on five occasions during the year and has met once since the end of the financial year. The additional meeting held this year was to consider presentations from audit firms as part of the external audit tender process.

A forward plan of agenda items informs the business considered at each meeting and is

regularly reviewed and developed to ensure the work of the Committee is focused on key matters. This, along with ongoing challenge, debate and engagement, allows the Committee to effectively discharge its responsibilities.

In addition to the scheduled meetings, the Committee Chair 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.

Meetings of the Committee are held in advance of the Board meeting to allow the Committee Chair to provide a report of the key matters discussed, and this provides the opportunity for the Board to consider any recommendations.

## Audit Committee responsibilities

### 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, they are 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.

### 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.<sup>1</sup>

### Internal Audit

- review and approve the Internal Audit Plan and monitor its implementation; and
- review and monitor the effectiveness of the Internal Audit function.

<sup>1</sup> The Committee Terms of Reference were updated in March 2019 to reflect the new 2018 Code position covering the Board's responsibility for the oversight of matters relating to whistleblowing. The Committee's Terms of Reference are available on [sse.com](http://sse.com)

## Key matters considered by the Committee during the year

### May 2018

<ul style="list-style-type: none"> <li>– Considered the appropriateness of accounting in relation to the Significant Financial Judgements and Exceptional Items in 2017/18.</li> <li>– Reviewed the Preliminary Results and 2018 Annual Report, including alternative performance measures, viability statement and going concern and made a recommendation to the Board.</li> <li>– Received reports on the status of various accounting projects including: IFRS 15 (Revenue Recognition); IFRS 9 (Financial Instruments); and the then planned demerger of SSE Energy Services.</li> <li>– Received a report on the Group's tax position.</li> <li>– Reviewed letters of representation issued to the External Auditor for the full year results prior to them being agreed by the Board.</li> <li>– Reviewed the response to the Financial Reporting Council (FRC) letter on 2017 Annual Report and ensured that recommendations were embodied within the 2018 Annual Report.</li> </ul>	<b>Financial Reporting</b>
<ul style="list-style-type: none"> <li>– Considered the accounting, financial control and audit issues from the External Auditor's report on the 2017/18 audit.</li> <li>– Reviewed the effectiveness of the external audit process.</li> <li>– Reviewed the independence of the External Auditor.</li> <li>– Monitored the level of non-audit fees and approved any new non-audit engagements.</li> <li>– Assessed the plan for the tender of the external audit contract.</li> <li>– Held a private meeting with the External Auditor.</li> </ul>	<b>External Audit</b>
<ul style="list-style-type: none"> <li>– Reviewed the effectiveness of the Internal Audit function.</li> <li>– Received an update on the delivery of the 2017/18 Internal Audit plan and progress with the 2018/19 Internal Audit plan.</li> </ul>	<b>Internal Audit</b>
<ul style="list-style-type: none"> <li>– Reviewed Treasury operations, including the funding plan, liquidity and going concern.</li> <li>– Reviewed the viability statement and supporting analysis.</li> <li>– Reviewed the System of Internal Control and made a recommendation to the Board on its effectiveness.</li> <li>– Received an update on SSE's preparation for the implementation of the General Data Protection Regulation.</li> </ul>	<b>Risk management and internal control</b>
<ul style="list-style-type: none"> <li>– Received a report on the disclosure of information to KPMG.</li> <li>– Agreed the narrative of the 2017/18 Audit Committee Report.</li> </ul>	<b>Governance</b>

## Audit Committee Report continued

<b>September 2018</b>	
<ul style="list-style-type: none"> <li>– Agreed the external audit plan for 2018/19.</li> <li>– Agreed the external audit engagement and audit fee for 2018/19.</li> <li>– Discussed the FRC's latest Audit Quality Review on KPMG.</li> <li>– Reviewed the Non-Audit Services Policy.</li> <li>– Monitored the independence and level of non-audit fees and approved any new non-audit engagements.</li> <li>– Monitored the employment of former auditors.</li> <li>– Reviewed the materiality threshold for the 2018/19 audit.</li> <li>– Received an update on the status of the external audit tender.</li> <li>– Reviewed the accounting of the then planned demerger of SSE Energy Services.</li> </ul>	<b>External Audit</b>
<ul style="list-style-type: none"> <li>– Received an update on the work of Internal Audit, including progress with the 2018/19 Internal Audit plan.</li> </ul>	<b>Internal Audit</b>
<ul style="list-style-type: none"> <li>– Received an update on the work of the Group Compliance function.</li> <li>– Reviewed the arrangements, incidents and trends arising from whistleblowing.</li> <li>– Considered a report on the key risks and controls arising from operations within Energy Portfolio Management.</li> </ul>	<b>Risk management and internal control</b>
<ul style="list-style-type: none"> <li>– Reviewed the Committee's terms of reference.</li> </ul>	<b>Governance</b>
<b>November 2018</b>	
<ul style="list-style-type: none"> <li>– Considered the Key Accounting Judgements and the Interim Financial Results.</li> <li>– Reviewed letters of representation issued to the External Auditor for the half-year results prior to them being agreed by the Board.</li> <li>– Received reports on the status of various accounting projects including: IFRS 15 (Revenue Recognition); IFRS 16 (Leases); statutory accounts; and update of exceptional items policy.</li> <li>– Recommended to the Board the accounting treatment of the then planned demerger of SSE Energy Services at the half-year.</li> </ul>	<b>Financial Reporting</b>
<ul style="list-style-type: none"> <li>– Considered the accounting, financial control and audit issues from the External Auditor's report on the 2018/19 half year audit.</li> <li>– Reviewed the independence of the External Auditor.</li> <li>– Monitored the level of non-audit fees and approved any new non-audit engagements.</li> <li>– Received an update on the status of the external audit tender.</li> <li>– Held a private meeting with the External Auditor.</li> </ul>	<b>External Audit</b>
<ul style="list-style-type: none"> <li>– Received an update on the work of Internal Audit, with progress provided on the 2018/19 Internal Audit plan.</li> </ul>	<b>Internal Audit</b>
<ul style="list-style-type: none"> <li>– Reviewed Treasury operations, including the funding plan, liquidity and going concern.</li> <li>– Reviewed the output of an exercise to test SSE's defences against cyber security threats.</li> <li>– Received an update on progress with the Group Risk Programme.</li> <li>– Received an update on Group-level fraud risks, corruption and anti-financial crime governance.</li> </ul>	<b>Risk management and internal control</b>
<ul style="list-style-type: none"> <li>– Approved the Committee business planner and areas of focus for 2019/20.</li> </ul>	<b>Governance</b>
<b>December 2018</b>	
<ul style="list-style-type: none"> <li>– Reviewed proposals and received presentations from tendering audit firms and made a recommendation to the Board to appoint a new External Auditor of the Company for the year beginning 1 April 2019.</li> </ul>	<b>External Audit</b>
<b>February 2019</b>	
<ul style="list-style-type: none"> <li>– Received an update on the adoption of IFRS 16: Leases.</li> <li>– Reviewed a report on the statutory accounts preparation process for the subsidiary companies within the SSE Group.</li> </ul>	<b>Financial Reporting</b>
<ul style="list-style-type: none"> <li>– Considered the findings from the External Auditor's controls report.</li> <li>– Monitored the level of non-audit fees and approved any new non-audit engagements.</li> </ul>	<b>External Audit</b>
<ul style="list-style-type: none"> <li>– Received an update on the work of Internal Audit, with progress provided on the 2018/19 Internal Audit plan.</li> <li>– Agreed the Internal Audit Plan for 2019/20.</li> <li>– Reviewed a report on the external quality assessment of Internal Audit and Group Compliance.</li> </ul>	<b>Internal Audit</b>
<ul style="list-style-type: none"> <li>– Received an update on the work of the Group Compliance function.</li> <li>– Considered scenarios to stress test the viability assessment.</li> <li>– Held a private meeting with Director of Risk, Audit and Insurance.</li> </ul>	<b>Risk management and internal control</b>
<ul style="list-style-type: none"> <li>– Discussed the reporting themes to be included in the 2019 Audit Committee Report.</li> <li>– Reviewed a report on Anti-Corruption and Financial Crime Governance.</li> <li>– Considered the output of the performance evaluation of the Committee which was undertaken as part of the wider Board evaluation.</li> </ul>	<b>Governance</b>
<b>May 2019</b>	
<ul style="list-style-type: none"> <li>– Considered the appropriateness of the accounting in relation to the Significant Financial Judgements and Exceptional Items in 2018/19.</li> <li>– Reviewed the Preliminary Results and 2019 Annual Report, including alternative performance measures, viability statement and going concern and made a recommendation to the Board.</li> </ul>	<b>Financial Reporting</b>



## May 2019 continued

<ul style="list-style-type: none"> <li>Received a report on the Group's tax position.</li> <li>Reviewed letters of representation issued to the External Auditor for the full year results prior to them being agreed by the Board.</li> </ul>	<b>Financial Reporting</b>
<ul style="list-style-type: none"> <li>Considered the accounting, financial control and audit issues from the External Auditor's report on the 2018/19 audit.</li> <li>Reviewed the effectiveness of the external audit process.</li> <li>Reviewed the independence of the External Auditor.</li> <li>Monitored the level of non-audit fees.</li> <li>Held a private meeting with both the exiting and incoming External Auditor.</li> </ul>	<b>External Audit</b>
<ul style="list-style-type: none"> <li>Received an update on delivery of the 2018/19 Internal Audit plan and an update on the 2019/20 Internal Audit plan.</li> </ul>	<b>Internal Audit</b>
<ul style="list-style-type: none"> <li>Reviewed Treasury operations, including the funding plan, liquidity and going concern.</li> <li>Reviewed the viability statement and supporting analysis.</li> <li>Reviewed the effectiveness of the System of Internal Control and made a recommendation to the Board.</li> </ul>	<b>Risk management and internal control</b>
<ul style="list-style-type: none"> <li>Received a report on the disclosure of information to the External Auditor.</li> <li>Agreed the narrative of the 2018/19 Audit Committee Report.</li> </ul>	<b>Governance</b>

## 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. In preparing the Financial Statements for 2019 there are several areas requiring the exercise by management of judgement or a high degree of estimation. Throughout the year, the Finance team worked closely with the External Auditor 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 the External Auditor – to ensure appropriate rigour has been applied. Other key accounting judgements applied in the preparation of the Financial Statements for 2019 are provided in note 4.2.

## Significant financial judgements

Significant financial judgements for the year ended 31 March 2019	How the Audit Committee addressed these significant financial judgements
<p><b>Carrying value of certain non-current assets:</b> The carrying value of certain non-current assets in the Group – including thermal generation plants (specifically, Keadby, Marchwood and Great Island) and gas production assets – 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 note 4 and note 15 to the Financial Statements.</p>	<p>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 presented in the management paper and considered the detailed reporting from, and findings by, the External Auditor.</p> <p>Following this review, the Committee supported the recommendation to recognise a combined impairment reversal of £27m in relation to these assets in the financial year.</p>
<p><b>Accounting for estimated revenue:</b> The Group's household energy and services business in Great Britain is presented as held for disposal as at 31 March 2019. Despite the presentation as held for disposal, the estimation of revenue arising from its energy supply business remains a significant financial judgement in the preparation of the Group's consolidated financial statements. Revenue from energy sales includes 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 note 4 and note 18 to the Financial Statements.</p>	<p>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 the External Auditor. Following this review, the Committee supported this judgement.</p>
<p><b>Accounting for Group pension obligations:</b> The estimates in relation to the cost to the Group of providing future post-retirement benefits can have a material impact on the financial position of the Group. These estimates require assumptions to be made about uncertain events such as discount rates and longevity. Further details are provided in note 4 and note 23 to the Financial Statements.</p>	<p>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 considered the findings of KPMG in relation to the scheme's key assumptions relative to market practice. Following this review, the Committee supported the judgements made.</p>
<p><b>Presentation of Energy Services:</b> On 17 December 2018, the Group announced that the proposed transaction with innogy would not be proceeding, as the Group determined it would not be in the best interests of customers, employees or shareholders. The Group continues to believe that the best long-term future for the business lies outside of the SSE group and has been actively progressing a range of options including a possible sale, alternative transaction or standalone listing. The Group is therefore also continuing with steps to increase SSE Energy Services' autonomy and independence and continue progress towards new, alternative ownership or a listing by the second half of 2020. Further details of the new structure are provided in note 4.</p>	<p>At 31 March 2019, the Committee and Board has reassessed the IFRS 5 criteria for presentation of the business as held for disposal. Given the Group's stated commitment to dispose of SSE Energy Services; the significant work performed to separate the business as an independent, self-sufficient entity within the Group; and significant progress made on delivery of a listing or new, alternative ownership by the second half of 2020, the Audit Committee and Board has reconfirmed that the IFRS 5 criteria have been met and therefore it remains highly probable that a disposal transaction will be completed. The Group has therefore presented the SSE Energy Services business as a discontinued operation and held for disposal. "Held for disposal", as presented throughout the 2019 Annual Report and Financial Statements may be either "held for sale" or "held for distribution" as defined by IFRS 5.</p>

## Audit Committee Report continued

### Going concern and Viability Statement

The Committee agreed the parameters of, and reviewed the supporting report for, the going concern statement (see A6.3 Accompanying Information to the Financial Statements) and the statement on the Board's assessment of the prospects of the Company (the viability statement on page 67).

The Committee had 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.

The Committee reviewed the period covered by the viability statement and continues to be of the view that a three-year period remains the most appropriate timespan in this regard.

### Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the 2019 Annual Report and Accounts to assist the Directors discharge their requirement to state that, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy is as follows:

- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by senior management to consider messaging and balance;
- comprehensive reviews undertaken by the Company's brokers to ensure consistency and balance;
- 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 2019 Annual Report.

### External Audit External Auditor

KPMG was appointed as the External Auditor in 1999 following a formal tender process. At the 2018 AGM, shareholders re-appointed KPMG as the External Auditor of the Company for the year ended 31 March 2019 and authorised the Committee to fix their remuneration. The current lead Audit Engagement Partner, Bill Meredith, is in the fifth and final year of his term.

As reported in the SSE Annual Report since 2014, the Board believed it was in the best interests of the Company and shareholders to tender the audit contract for the year ending 31 March 2020.

Based on the output of a robust external audit tender process, the Committee recommended, and the Board confirmed, the appointment of EY as the new External Auditor for the year ended 31 March 2020. The appointment of EY requires shareholder approval and will be proposed to shareholders at the 2019 AGM. The case study opposite provides information on the audit tender process and transition arrangements.

The Committee confirms the tender has complied with provisions of the CMA Audit Order.

### Effectiveness

On behalf of the Board, the Committee continued to review the effectiveness of the External Auditor on an ongoing basis to ensure the quality, rigour and challenge of the external audit process is maintained.

The Committee recognises the importance of management engagement in 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 has reviewed the following:

- 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 2018/19;
- quality, knowledge and expertise of the KPMG audit engagement team;
- the competence with which KPMG handled and communicated the key accounting and audit judgements;
- the communication and engagement between management, KPMG and the Committee;
- the output from a questionnaire completed by senior management seeking views on KPMG's capability, performance and professional scepticism in providing external audit services; and
- KPMG's latest FRC Audit Quality Review report and actions it was taking to address identified issues.

The Committee confirmed the external audit process provided by KPMG has been delivered effectively.

### Independence and objectivity

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of KPMG through a combination of:

- assurances provided by the External Auditor on the safeguards in place to maintain independence;

- oversight of the non-audit services policy and fees paid; and
- oversight of policy on employing former auditors.

### Non-Audit Services Policy

The Non-Audit Services Policy governs the engagement of the External Auditor to provide non-audit services. This policy was reviewed by the Committee during the year to ensure that it remained fit for purpose.

Non-Audit Services are split into three categories for the purposes of approval:

- **Audit-Related Services.** Services that would usually be pre-approved by the Committee as part of the approval of the total annual audit fee;
- **Permitted Non-Audit Services.** Services where the Committee has approved the use of the External Auditor 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.
- **Prohibited Non-Audit Services.** Services where the External Auditor is not permitted to deliver the type of work as it could compromise independence.

The Committee keeps under review the services KPMG provides by reviewing a report at each meeting.

### External Auditor Fees

Fees for Audit and Audit-Related Services incurred during the year amounted to £1.4m and £1.1m for Permitted Non-Audit Services. Fees paid to KPMG during the year are made in note 6 to the Financial Statements.

The permitted Non-Audit services were:

- **Demerger Related Fees.** The Committee determined during 2017/18 that it was appropriate for KPMG to provide the required due diligence and reporting accountant services in respect of the then planned demerger of SSE Energy Services and this continued during 2018/19. KPMG undertook an ethics review, 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 fee for this work during 2018/19 was £0.8m for the preparation of the circular and listing prospectus for the demerger of SSE Energy Services, and an additional £0.25m for transaction synergy related work. Both of these amounts are included within the total reported £1.1m for Permitted Non-Audit Services.

- **Other Services.** KPMG was not instructed to provide any other significant new Non-Audit Services for the Group in 2018/19. Permitted Non-Audit Services of £0.05m principally related to the issuance of debt and regulatory accounts and returns required by Ofgem. The Committee was satisfied that the work was best handled by KPMG because of its knowledge of the Group.

#### Fees paid to KPMG

- Audit and Audit Related Services – £1.4m
- Permitted Non-Audit Services – £1.1m

### Internal Control and Risk Management

The Board has delegated to the Committee responsibility for reviewing the effectiveness of SSE's System of Internal Control. This covers all material controls including financial, operational and compliance controls, in addition to the financial reporting process.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders. These evaluations are assessed by the Finance Director and a letter is provided to the Committee summarising the work conducted in the year to improve the control environment and making a recommendation on the overall effectiveness of the System of Internal Control.

In addition, when undertaking the review of the effectiveness of the System of Internal Control, the Committee considers the Assurance Evaluations undertaken annually by the Managing Directors of each of SSE's operating divisions. These assurance evaluations consider 10 key management control areas and includes any planned improvements to enhance controls. These improvements are tracked, with updates reported to the Chief Executive on a regular basis.

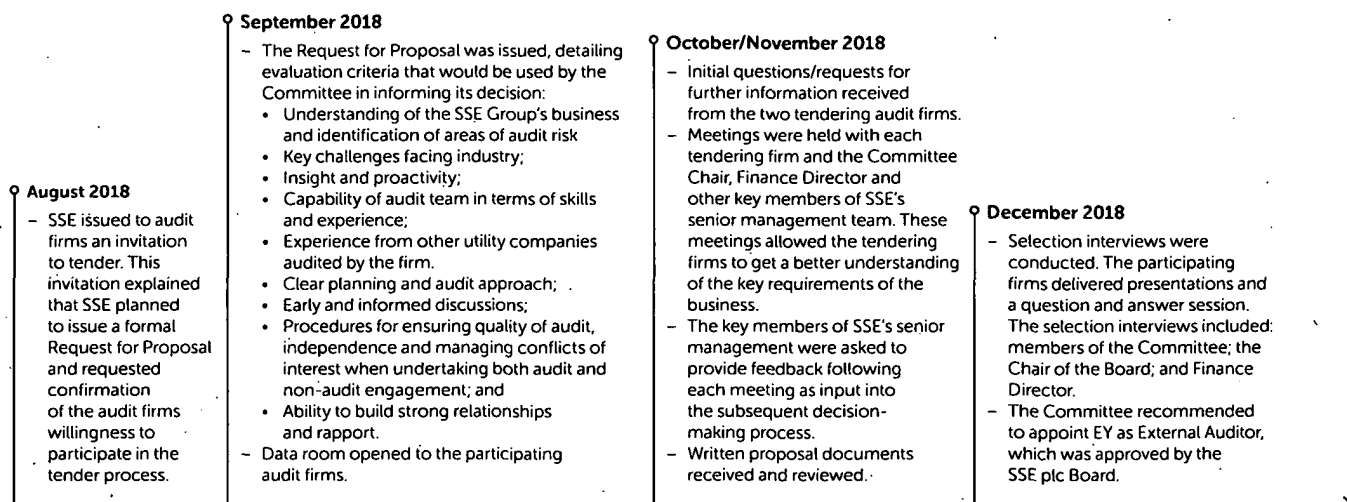
## External Audit Tender – Case Study

The External Auditor tender process was overseen by the Committee. A series of reports and updates were provided to the Committee in preparation and to monitor progress. The firms requested to tender were

chosen having given proper regard to the complexity of the Group, with the tender competed by highly capable and experienced audit firms with strong track records and technical expertise.

The tender was open to audit firms outside the Big Four. KPMG was not invited to tender having been the Group's auditors since 1999.

#### Key milestones of the external audit process



#### Audit Transitional Plans

The proposed External Auditor, EY, is undertaking activity in preparation for the external audit of the SSE Group for the 2020 audit cycle. This will aid a smooth transition and allow EY to embark on the 2020 audit as well prepared as possible. This activity includes:

- A review of its non-audit services provided to the SSE Group and the necessary steps to ensure auditor independence;

- Liaising with the outgoing External Auditor during the 2019 audit cycle, including shadowing at key audit meetings.
- Meetings with key members of the SSE senior management team at Group and business level.

EY will complete the review of the half-year results and audit for the full-year ending 31 March 2020.

The Committee will monitor the transition of the auditor throughout the year to ensure the effectiveness and independence of EY.

The Board will seek approval for EY to be elected as External Auditor at the 2019 AGM for the year ending 31 March 2020.

## Audit Committee Report continued

### Risk Management

The Group's Risk Management Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only therefore provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board carried out a robust assessment of the Principal Risks facing the Group (as set out on pages 66 to 71), being those that have the potential to threaten the business model, future performance, solvency or liquidity.

### Internal Control and Risk Management effectiveness

Following the Committee's review and recommendation, the Board agreed that SSE's System of Internal Control (including risk management) continues to be effective, although the Board has revised its approach to the management of commodity risk as set out on page 92. This was in accordance with the requirements of the FRC Guidance on Risk Management, Internal Control and related Financial and Business Reporting.

Taking into account the actions taken, the Board also confirms that no significant failings or weaknesses have been identified during the year and up to the date of this Annual Report. Processes are in place to ensure that necessary action is taken, and progress is monitored where areas for improvement have been identified.

### 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 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 Chief Executive, the Committee and the Company Chair.

### Internal Audit Plan

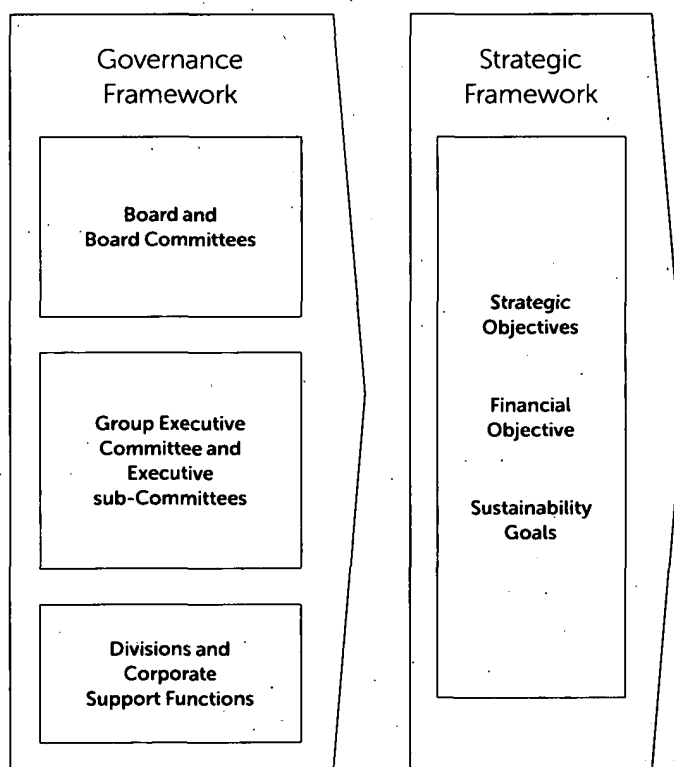
The annual Internal Audit Plan is structured to align with SSE's strategic priorities and key risks. An integrated assurance mapping and planning process is undertaken to ensure that Internal Audit work is appropriately aligned to, and coordinated with, the activities of other relevant assurance providers across the Group. The Internal Audit Plan comprises both fixed and flexible elements to be able to respond to any change in priorities and requirements. The plan also includes audits of key transformational programmes, financial control and areas relating to responsible behaviour and non-financial risk.

At each Committee meeting, the Internal Audit Plan progress is reviewed along with significant findings and the tracking of remedial actions. The Committee also tracks overdue actions.

## SYSTEM OF INTERNAL CONTROL

The elements that make up the System of Internal Control are:

- **Governance Framework.** 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 78 of the Directors' Report.
- **Strategic Framework.** This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework. For further details please see pages 2 and 3 of the Strategic Report.
- **Risk Management Framework.** This framework supports each Division in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- **Assurance Framework.** An integrated programme of audit and assurance activity that is independent of the day to day operations of the Divisions and Corporate Functions. It is made up of Group Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment Services.
- **Standards and Quality Framework.** Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



### Internal Audit Effectiveness

The Committee keeps under review the effectiveness of the activities undertaken by Internal Audit by monitoring the following:

- **Internal audit feedback.** Reports on: the development and delivery of the internal audit plan; the delivery of actions from reviews; audit resource and expertise; and "management awareness" and priorities.
- **Management feedback.** Output of post-Audit Surveys and the views of the Chief Executive, Finance Director and other Senior Management.
- **Internal Auditor feedback.** Feedback provided by the External Auditor.
- **External quality assessment.** An external Independent review was completed during the year, with the output of this review described below.

Having considered the external quality assessment of Internal Audit, the Committee confirms it is satisfied with the overall performance of the Internal Audit Function.

### External quality assessment of Internal Audit

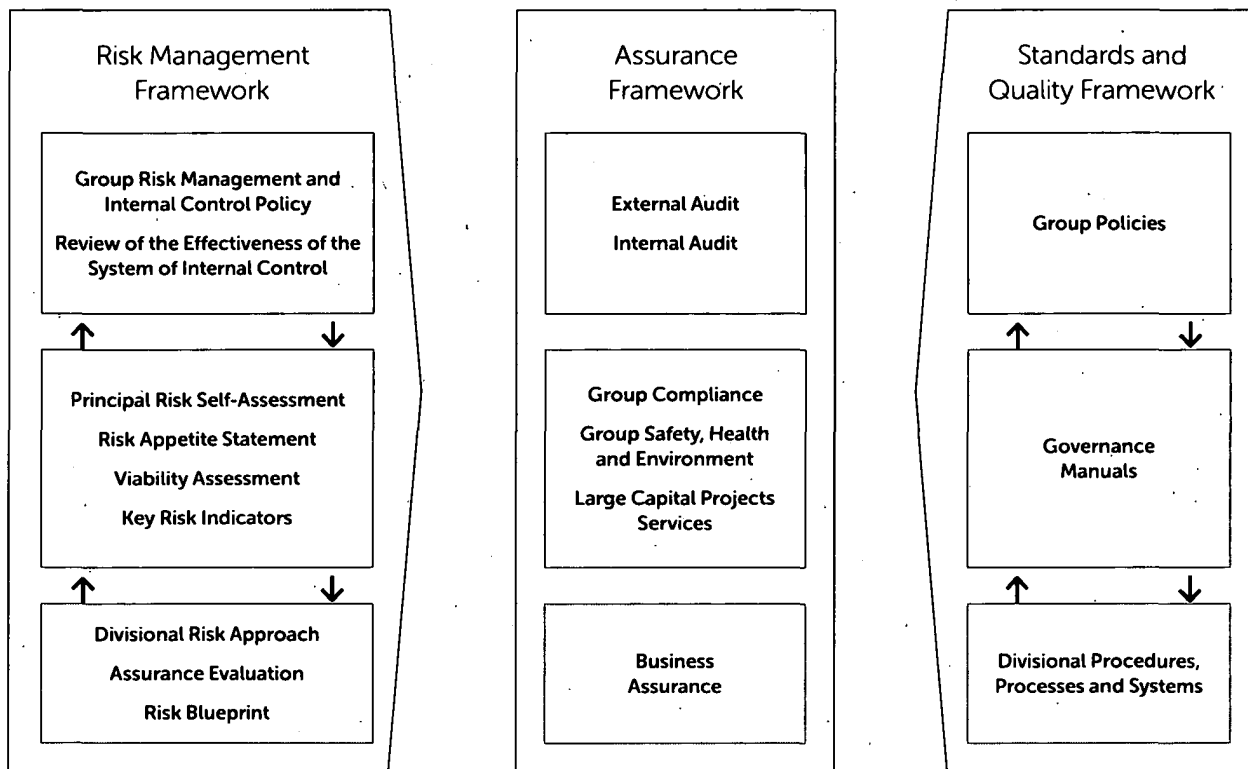
During the financial year, BDO carried out an external quality assessment of SSE's Internal Audit function. The objective of this assessment was to evaluate the degree of Internal Audit's conformance with the requirements of the Chartered Institute of Internal Auditors (CIIA) standards, which includes the International Professional Practices Framework (IPPF) and the Code of Conduct. Performance against leading practices and comparable organisations were also considered. Conformance with CIIA standards requires that external assessments must be conducted at least once every five

years by a qualified, independent assessor or assessment team from outside the organisation, SSE has chosen for these to be conducted every three years.

The assessment considered Internal Audit's positioning within the organisation and the quality of its planning and operational procedures. The assessment incorporated survey and sample interviews of Internal Audit's stakeholders across the Group, along with a review of working papers and outputs from a number of recent internal audits.

BDO's assessment concluded that the Internal Audit function was exhibiting a

satisfactory level of maturity for the business and is generally performing to a good standard. SSE scored the generally conforms (highest) rating for 47 of the standards and a partially conforms rating for the other five. The assessment highlighted some improvement opportunities to further enhance the Group's overall Assurance Framework. An action plan has been developed to address these enhancements which will be monitored and evaluated by the Committee.



## Energy Markets Risk Committee Report

### Dear Shareholder,

I am pleased to present the report from the Energy Markets Risk Committee (EMRC) for the financial year ending 31 March 2019, which aims to provide shareholders with information on the initial activities and work undertaken by this newly created Board Committee since its first meeting in January 2019.

The background and context to the establishment of the EMRC is set out on page 92 of the Directors' Report and follows the significant operating loss incurred within SSE's Energy Portfolio Management division announced to the market in September 2018. Following Board endorsement and in consideration of shareholder views, which sought enhanced transparency surrounding SSE's management of commodity price exposures going forward, revised governance arrangements were agreed in the reporting period and published on [sse.com](http://sse.com) in November 2018. These included a stated approach to hedging, and a defined framework for the management of risk arising from exposure to energy market volatility. It is our role as a Committee to oversee and ensure effective implementation of these revised arrangements by April 2020.

Looking forward to the next 12 months, the EMRC will operate in line with its terms of reference and report to the Board on the progress of the agreed transition.

I hope that you find the following report interesting, clear and useful.

**Tony Cocker**  
Chair of the EMRC  
21 May 2019

SSE's hedging approach  
can be read in full on  
[sse.com](http://sse.com)

### Role

The purpose of the Committee is to oversee SSE's energy markets risk exposures. In doing so, the Committee assists the Board in the effective discharge of its responsibilities in relation to risk management and internal control in this area. Detailed responsibilities are set out in the Committee's terms of reference, which can be found on [sse.com](http://sse.com).

### Membership and composition

The membership of the Committee is set out in the table below and comprises three non-Executive Directors, two Executive Directors and the Director of Group Risk, Audit and Insurance. The Chief Executive and the Director of Energy Portfolio Management and Investment routinely attend meetings, with an Assistant Company Secretary acting as Secretary. Biographical information of individual members' background and experience are contained on pages 74 to 76.

To assist the Committee in the discharge of its responsibilities, relevant senior managers can be invited to attend and present certain items of business and provide additional levels of insight, whilst the agreed composition of the Committee facilitates the sharing of experience held by the non-Executive Directors. As Committee Chair, Tony Cocker brings extensive knowledge from his career in the energy industry, and Richard Gillingwater and Crawford Gillies both provide valuable insights and a wealth of knowledge from various senior roles in the private and public sectors.

Members of the EMRC are appointed by the Board following recommendation by the Nomination Committee, with the current membership approved in November 2018.

### Meetings and activities in 2019

Since the Committee's establishment three meetings have been held, two meetings prior to, and one following the financial year end.

The matters considered at each meeting are informed by a forward plan of business, which is designed to ensure the Committee can discharge its responsibilities in line with its terms of reference. The Committee has several standing items which are considered at each meeting which are:

- A review of the Energy Markets Risk report, which allows the Committee to:
  - Oversee the implementation/monitor the progress of the implementation of revised hedging arrangements by April 2020;
  - Monitor Energy Portfolio Management's counterparty credit risk exposures; and
  - Consider the current liquidity of energy markets.
- Reports from Internal Audit and details of action plans related to the Energy Portfolio Management business.
- Updates received on emerging risks/issues which could influence energy markets.

In addition to these standing items, the Committee selects certain focus areas for detailed review. Since the Committee's formation, these focus areas have included:

- Reviewed its terms of reference to ensure that they are fit for purpose, followed by onward recommendation to the Board for approval;
- Reviewed and approved the Committee's forward-looking Business Planner; and
- Received a report on the trading of Ireland's Integrated Single Electricity Market.

The business discussed at Committee meetings and the timely circulation of reports and information, together with ongoing challenge, debate and engagement, enables the Committee to discharge its responsibilities in line with its terms of reference. The Committee will continue to develop and regularly review the forward plan of business to accommodate any emerging issues and risks to the Group in relation to energy markets.

Members	Independent non-Executive Director	Member Since	Attended
Tony Cocker (Committee Chair)	Yes	2019	2/2
Richard Gillingwater	Yes	2019	2/2
Crawford Gillies	Yes	2019	2/2
Martin Pibworth	No	2019	2/2
Gregor Alexander	No	2019	2/2
Gavin Brydon <sup>1</sup>	N/A	2019	2/2

<sup>1</sup> Gavin Brydon was Director of Risk, Audit and Insurance during the financial year.

## Safety, Health and Environment Advisory Committee Report

### Dear Shareholder,

Having become Chair in July 2018, I am pleased to present the Safety, Health and Environment Advisory Committee (SHEAC) report for the year ended 31 March 2019. On behalf of the Board, I would like to thank Jeremy Beeton for his significant contribution as a member of the Committee from 2011 and as Committee Chair since 2014.

SSE brings together people with talent, skill and common values to create value for shareholders and society by developing, operating and owning energy-related infrastructure and businesses. SSE operates in a hazardous industry, with unique safety, health and the environment (SHE) challenges and risks facing each of its business areas. For this reason, SSE promotes a strong safety culture through its Safety value and a mantra of "if it's not safe, we don't do it". This mantra has become our safety "licence" and is designed to make sure all employees are empowered to do the right thing and as a result can get home safe.

I am encouraged by the executive team to get out and visit operations to see first hand some of the real SHE challenges that face the business, as well as hear about the positive action that is taking place. Over the year I have visited operational sites across SSE's key businesses, as well as attending the Group safety conference, and I have been pleased to see safety is taken very seriously by all. I was particularly impressed by my visit to Galway Wind Park in Ireland, where I saw the strong focus on environment and ecology at the site, and by the great work I witnessed the Networks business around mental health awareness, when I visited its site in Portsmouth.

SSE's SHE performance for 2018/19 continues to show a year-on-year improvement. There are fewer people hurt, fewer Road Traffic Collisions and fewer environmental permit breaches. Continuing progress has also been made to address mental health issues, with the introduction of Mental Health First Aiders, as well as strong ground work to develop a more comprehensive Group Environment Strategy.

Considerable progress is being made towards SSE's 50by20 ambitions, which you can read more about in this report, but the Committee remains mindful of the challenges of ensuring SSE's contractors have the same safety outcomes as SSE does.

The change in Chair provided an opportunity to refocus the Committee's approach to meeting its objectives more effectively.

This has included changing the membership of the SHEAC to broaden the skills and perspectives of the Committee and increasing visibility through more operational site visits. Insights gained have been hugely instructive and have informed the work and considerations of the SHEAC.

I hope that you find the following report a useful explanation of both our work and of SHE performance during the year.

**Helen Mahy CBE**  
Chair of the SHEAC  
21 May 2019

### 2018/19 performance

#### Safety

✓ 0.16

Total Recordable Injury Rate – employees and contractors combined (per 100,000 hours worked)

✓ 82

Number of people hurt

#### Health

2,850

Accumulative total of managers trained in mental health awareness

#### Environment

✓ 4

Environmental permit breaches

Members	Independent non-Executive Director	Member Since	Attended
Helen Mahy (Committee Chair) <sup>1</sup>	Yes	2016	4/4
Sue Bruce	Yes	2013	4/4
Tony Cocker <sup>2</sup>	Yes	2018	3/3
Melanie Smith <sup>3</sup>	Yes	2019	1/1
Colin Nicol	N/A <sup>7</sup>	2016	4/4
Jim Smith	N/A <sup>7</sup>	2016	4/4
Rachel McEwen <sup>4</sup>	N/A <sup>7</sup>	2018	0/1
Nathan Sanders <sup>5</sup>	N/A <sup>7</sup>	2018	1/1
Mark Patterson	N/A <sup>7</sup>	2013	4/4
Jeremy Beeton <sup>6</sup>	Yes	2011	1/1

1 Helen Mahy assumed the position of Chair of the SHEAC on 19 July 2018.

2 Tony Cocker was appointed to the Board from 1 May 2018 and joined the SHEAC on 19 July 2018.

3 Melanie Smith was appointed to the Board from 1 January 2019 and joined the SHEAC on 22 January 2019.

4 Rachel McEwen became a member of the SHEAC on 13 November 2018. She was unable to attend the Committee meeting in March 2019 due to a prior engagement that could not be rearranged.

5 Nathan Sanders became a member of the SHEAC on 13 November 2018.

6 Jeremy Beeton stepped down from the SHEAC and Board on 19 July 2018.

7 Senior executive from within the business.

## Safety, Health and Environment Advisory Committee Report continued


### Responsibilities

The role of the SHEAC is to advise the Board on matters relating to safety, health and the environment. It provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve SHE performance and culture.

The SHEAC reviews and oversees the implementation of three significant Group policies: Safety and Health Policy; Environment and Climate Change Policy; and Sustainability Policy.

The Committee ensures it has access to a range of both internal and external stakeholder perspectives to help it better achieve its core focus – to review SHE performance and advise on the strategy to bring about a positive culture of continuous improvement.

Finally, given that SHE matters largely relate to SSE's external impacts, the SHEAC has an overarching role in supporting SSE's commitment to be a sustainable company that makes a positive contribution to the communities and societies of which it is part.

Full detail of the remit of the SHEAC is set out in its terms of reference, which were reviewed during the year and are available on [sse.com](http://sse.com) .

### Composition

The membership of the SHEAC currently comprises four non-Executive Directors, the Chief Sustainability Officer, three Senior Managers with significant operational responsibilities in SSE's Wholesale, Networks and Enterprise businesses, 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 several changes to the composition of the Committee over the course of 2018/19. Helen Mahy took on the role of Chair of the SHEAC after Jeremy Beeton stepped down from the Board following the AGM on 19 July 2018. In addition, two non-Executive Directors (Melanie Smith and Tony Cocker), the Chief Sustainability Officer and the Managing Director of SSE Enterprise Utilities joined the Committee. These new members bring a broader range of skills and perspectives to the SHEAC, providing wider representation of SSE's businesses and more comprehensive consideration of external social and environmental impacts.


The SHEAC provides a leadership forum for the non-Executive Directors to share their knowledge and expertise with senior management. Tony Cocker has extensive knowledge of the sector, including insight into operational matters. Melanie Smith brings important perspective from a variety of retail and customer focused industries. Their addition to the Committee complements the knowledge of existing members – Helen Mahy brings a wealth of knowledge from her career in the energy industry and from chairing the SHE Committee at Stagecoach Group plc, and Sue Bruce provides valuable insights from various senior roles in the public sector.

The Chief Executive routinely attends meetings and the Deputy Company Secretary is Secretary to the SHEAC.

### Meetings and activities in 2018/19

The SHEAC met four times in 2018/19, with one of these meetings including a visit to the operational site of the Slough Heat and Power plant in Berkshire. The SHEAC has an annual work plan designed around SSE's Enduring Goals, with standing items covering safety, health and environmental performance; incidents and trends; risks; and priorities.

## INCREASING VISIBILITY OF PERFORMANCE

A focus for the SHEAC in 2018/19 has been to increase the visibility of progress being made "on the ground" through increased operational site visits. During 2018/19, members of the Committee undertook various site visits through the agreed Board calendar. The agendas for these visits are tailored to reflect the particular operations of the site including relevant SHE matters where appropriate. See page 96  for more detail. As a Committee, the SHEAC undertook a site

visit to Slough Heat and Power combined heat and power (CHP) plant in Berkshire – the UK's largest dedicated biomass plant which burns wood chips, biomass and waste paper. SSE has planning permission to construct a Multifuel facility at the site, which will have a generating capacity of up to 50MW. The visit covered operational, decommissioning and demolition aspects at the site.

SSE has worked with its principal contractor to arrive at the safest option for the demolition work to be carried out. During the visit, the SHEAC met with senior representatives from the contractor and got a tour of the site to see first-hand the scale of the demolition activity planned. There will be no explosive demolition associated with this project, instead the boilers will be lowered from the boiler house, which will then be deconstructed. Other safety provisions of the project include the provision of an onsite paramedic.

Significant environmental monitoring is also taking place in relation to the works. Strict controls around limits for noise, vibration and dust, and measures for monitoring these have been agreed with Slough Borough Council.



With the transition to a new Chair of the Committee, the opportunity was taken to consider how the SHEAC could operate to meet its terms of reference more effectively. Areas of enhancement included: increasing visibility of progress being made "on the ground" through more site visits; broadening the content of meetings; and changing the membership of the Committee to reflect the changes in priority of the business. The above work, in conjunction with the annual Board and Committee evaluation process which was again carried out during the year, confirmed that the work of the SHEAC remains appropriate and that the Committee continues to fulfil its stated remit.

The SHEAC also continued to monitor the rollout of the 50by20 strategy: to reduce SSE's Safety incident rate by 50%; to have no life changing injuries; to have 50% increase in our people active on health; and, to get everyone home safe.

Other matters which the SHEAC focused on during the year included: process safety performance; deep dives into SSE's different business areas to focus on the key SHE issues they face; occupational health and wellbeing performance; rollout of the new Safety Family language; and the approach to reporting SSE's sustainability impacts.

The Group Safety, Health and Environment Committee (GSHEC), which reports into the Group Executive Committee, supported the strategy of the SHEAC in the continual improvement of SHE management and performance, by overseeing the eight Enduring Goal Subgroups which sit under the GSHEC. These are:

- 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 2018/19

SSE's safety performance has improved across all key measures between 2018/19 and the previous year; however, incidents and accidents still occur. SSE's rolling Total Recordable Injury Rate (TRIR) for employees and contractors combined fell to 0.16 per 100,000 hours worked, from 0.20 the previous year. There were also considerably fewer potentially life changing injuries, falling to three from 13 the previous year.

The SHEAC fully endorses the safety licence of "if it's not safe, we don't do it" which is at the heart of SSE's 50by20 strategy for safety improvement that was progressed across the Group in 2018/19.

With its safety licence now firmly embedded across the business, SSE has continued to build on this momentum throughout 2018/19, in particular through the adoption of the Safety Family principles:

- We take care of ourselves and each other.
- We take pride in our work and work place.
- We plan, scan, and adapt.
- We see, sort it, report it.

SSE also continued to roll out its influencing behaviours training and to date over 9,000 employees have taken part, which represents most of SSE's employees in operational roles. This training has helped employees understand how normal human behaviours can influence our work and has reinforced positive discussions around safety.

Progress has been made towards addressing mental health issues, with around 550 colleagues trained as Mental Health First Aiders and 2,850 managers trained in mental health awareness and support, as at 31 March 2019.

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. In 2018/19, SSE's environmental permit breaches fell by over two thirds compared to the previous year, to four from 15. During 2018, SSE successfully completed its transition to the most recent version of the environmental management system (EMS) Standard, ISO14001:2015, for key business units which interact with the environment. The implementation of the EMS ensures appropriate management systems are in place to provide more rigorous and structured management of environmental issues and impacts.

In addition to this, considerable progress has been made to develop a Group Environment Strategy which will introduce simple but powerful Group-wide environmental targets for the short-, medium- and long-term.

More information on SSE's SHE performance for 2018/19 can be found in the Sustainability Report 2019.

## AREAS OF FOCUS

### 2018/19

#### SHEAC evaluation process

**Outcome:** Action taken to change the membership of the SHEAC, broaden the content of meetings and introduce more operational site visits.

#### Occupational Health and Wellbeing

**Outcome:** Oversaw extension of the pilot musculo-skeletal and mental health initiatives to additional business areas and focused on rates of absenteeism arising from stress, anxiety and depression.

#### Process Safety

**Outcome:** Reviewed progress on process safety performance and took an in depth look at process safety in SSE's Wholesale business.

#### Environment

**Outcome:** Approved and provided feedback on the development of a more comprehensive Group Environmental Strategy.

#### Sustainability impact reporting

**Outcome:** Feedback provided on, and approach approved for, the reporting of SSE's social and environmental impacts in its Sustainability Report 2019.

#### Communications

**Outcome:** Oversaw the new Safety Family language rollout and endorsed recruitment of coaches and champions to reinforce the positive Safety Family culture.

### 2019/20

#### Safety Family

Oversee the rollout of SSE's Empowering Supervisors programme.

#### Contractor Safety

Continuing focus on Contractor Safety and influencing good SHE practices among contractors.

#### Occupational Health and Wellbeing

Promote effective use of existing tools and supporting processes to make a positive contribution to health and wellbeing.

#### Environment

Further development and embedding of a comprehensive Group Environment Strategy.

#### Performance and culture

Ensure continued focus and improvement of SSE's SHE performance against a backdrop of business change.

## Remuneration Committee Chair's Statement

### Dear Shareholder,

The objective of the Directors' Remuneration Report for 2018/19 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 2018/19.

The report also describes how remuneration links to the Company's purpose and strategy; how the Remuneration Committee works, and how it has considered the perspectives of SSE's stakeholders. After three years our Directors' Remuneration Policy is due for renewal this year and thus we have set out in detail the Directors' Remuneration Policy which will be subject to a binding vote at the 2019 AGM.

In the course of engagement throughout 2018/19, we have received clear feedback from shareholders and other stakeholders that they would welcome incentives that are linked to climate change and sustainability for senior leaders. Within the context of the existing remuneration policy, the Remuneration Committee agreed in March 2019 to align an element of the Annual Incentive Plan to the achievement of four fundamental business goals for 2030. Those four goals are themselves aligned to the Sustainable Development Goals (SDGs) of the UN, setting a framework for how sustainability should be regarded by SSE's leadership team.

### Linking Executive Directors' remuneration with SSE's purpose and strategy

Our remuneration policy is designed to be sustainable and simple and to facilitate diligent and effective stewardship that is vital to the delivery of SSE's core purpose of providing the energy needed today and building a better world of energy for tomorrow, 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 fundamental 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 are essential to SSE's success. 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. Using reference points such as the ratio of the Chief Executive's pay to pay in SSE (which we have again chosen to disclose voluntarily) and wider workforce pay considerations are as important to us as the use of external benchmark data when setting executive pay levels.

SSE is committed to being transparent in the way it does business. To this end, and mindful of the continuing public debate about executive pay, the Committee strives to keep remuneration arrangements clear, consistent and simple to enable effective stakeholder scrutiny. In part our decision to renew the Directors' Remuneration Policy on broadly the same basis as before, is based on the belief that the current arrangements are embedded into the business and well understood both internally and externally.

The provision of energy needed today and building a better world of energy for tomorrow 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. Our remuneration policy promotes sustainable performance over the longer term through significant deferral of remuneration and holding periods. Equally, Executive Directors are expected to demonstrate commitment by building and maintaining a substantial personal shareholding in the business.

### Performance-related pay out-turns in 2018/19

Stakeholders are concerned that the variable elements of remuneration should clearly reflect performance in relation to objectively set targets and that failure to achieve such targets should not be glossed over.

The Annual Incentive Plan (AIP) is determined against a broad range of financial, operational, strategic and personal performance targets collectively designed to reflect business performance each year. In 2018/19, the formulaic assessment resulted in an outcome of 39% of the maximum opportunity.

Nevertheless, it is impossible to overlook the fact that SSE's financial results for 2018/19 fell well short of what was expected at the start of the financial year, and so the Committee concluded that it should exercise its discretion and make no AIP award to the three Executive Directors.

The Performance Share Plan (PSP) awards granted in 2016 are due to vest following the 2018/19 financial year, subject to financial, operational and value-creation performance measured over the three-year period. These have been objectively assessed as resulting in an out-turn of 26% of the maximum opportunity.

This is the second time in three years that the Committee has exercised its discretion to reduce – or in this case eliminate – an award under the AIP. While the Committee values greatly the leadership, capability and insight of the Executive Directors, it is in their

### Members and meetings

Members	Independent non-Executive Director	Member since	Attended/scheduled
Sue Bruce (Committee Chair)	Yes	2018	3/3
Jeremy Beeton <sup>1</sup>	Yes	2014	1/1
Crawford Gillies	Yes	2015	3/3
Richard Gillingwater	N/A	2007	3/3
Peter Lynas <sup>2</sup>	Yes	2018	2/2

1 Jeremy Beeton stepped down from the Remuneration Committee and Board on 19 July 2018.

2 Peter Lynas joined the Remuneration Committee on 19 July 2018.

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interests and that of SSE as a whole that remuneration policy should be strong on paper and robust in practice.

### UK Corporate Governance Code

The new UK Corporate Governance Code comes into effect for SSE from 1 April 2019, but as set out on pages 86 and 87, the Board has already implemented many of its provisions and will continue to develop these over the next year.

As announced in November 2018, I have been formally appointed as the designated non-Executive Director for Employee Engagement. This is a role that is responsible for wider employee engagement, not just with regards to remuneration, but as the Remuneration Committee Chair I am well positioned to feed back to the whole Committee, so we are fully aware of employee sentiment and views when making decisions on executive pay. As part of my Remuneration Committee responsibilities, I have continued to meet with representatives of SSE's recognised Trade Unions during the year, and meetings have covered a range of business issues including executive pay.

The Committee has responsibility for overseeing pay for the Group Executive Committee (GEC) and is kept well informed of pay and employment conditions throughout the Group. However, we have formalised this so that the Committee has full responsibility for setting GEC pay and reviewing all-employee reward will now form a standing item which is considered at least annually by the Committee.

### Policy review

Many of the prevailing themes of the new Code are already incorporated in SSE's remuneration policy. However, the timely review of the remuneration policy ahead of its renewal at the 2019 AGM has given us the opportunity to reconfirm this and adjust as required. At the same time the Committee has been cognisant of proxy agency and investor guidance as well as feedback we have received from shareholders as part of our ongoing engagement.

As noted in the Strategic Report, SSE's evolving business model is now focused on regulated energy networks and renewable energy. Despite these business changes our core reward principles are enduring and we think the current policy is flexible enough to allow some modifications to the way we implement our pay arrangements. We have therefore decided to propose some specific minor amendments in 2019 and to review again when the evolving business model is more clearly established.

As part of the policy review, we consulted with our major shareholders and prominent proxy agencies on a number of points. The engagement was particularly helpful in forming the Committee's approach on the three following areas:

- Pension arrangements – we are proposing a new policy for new executive appointments to the Board to align pension contributions with the wider employee population.
- Post-employment share ownership – our Executive Directors are already required to hold shares to the value of two times their salary. In respect of post-employment share holdings, SSE was in the vanguard of practice on this. Deferred bonus awards which have vested (the career share awards) are held for one year after employment ceases. We are proposing to increase the shareholding period from one year after employment ceases to two years as an extension to our existing policy, combined with (a) our approach to good leavers under incentive plans (where the default approach does not allow accelerated vesting), (b) the holding period attached to our PSP awards (which continues to apply post-cessation) and (c) taking into account the current shareholdings of the longest-serving Directors. On a conservative estimate, the net value of the shares that the Chief Executive will hold under this policy will be around 300% of salary.
- Maximum PSP levels – the current recruitment policy suggests a maximum PSP level of 225%. This is to be reduced to 200% for new appointments, in line with the maximum for the current Chief Executive.

Whilst the Committee is of the view that this renewed policy inclusive of the changes above is fit for purpose, it will be kept under review in light of developments in the business model and strategy. If felt appropriate, a new remuneration policy may be proposed for shareholder approval within the usual three-year life of a policy. Any such change would be the subject of consultation with major shareholders and other stakeholders as required.

### Implementation of pay policy 2019/20

The Committee agreed to a salary freeze for Executive Directors for 2019/20 which is below or in line with the wider SSE employee population. Performance measures have also been updated to reflect our changing business model, most notably a change to AIP to incorporate a new sustainability measure.

### Aligning UN SDGs to the Annual Incentive Plan

We have made changes to the non-financial measures of the AIP to create a balanced approach to the performance measures of the most senior leaders, designed with a variety of stakeholders in mind. With four new business goals for 2030 designed to tackle climate change and support global goals for sustainable development, the Remuneration Committee agreed that 20% of the AIP would be focused on the performance against meeting these long-term goals. The goals are: cutting the carbon intensity of electricity generated; trebling renewable output; accommodating 10m electric vehicles; and, championing fair tax and the real Living Wage. These goals represent the most material contribution SSE can make to the UN SDGs and chime with feedback given by both SSE's shareholders and stakeholders. This new approach to the non-financial element of the AIP will be implemented in full in 2019/20.

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 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

Chair of the Remuneration Committee  
21 May 2019

### SUMMARY OF COMMITTEE'S ACTIVITIES DURING THE YEAR

- Review of Executive Directors' performance
- Analysis of UK regulatory and market practice
- Board engagement with SSE employees and recognised Trade Unions
- Risk assessment in respect of Directors' Remuneration Policy
- Review of Directors' Remuneration Policy for 2019/20 and beyond
- Setting performance metrics and targets for 2019/20
- Below Board pay/all-employee pay

## Remuneration at a Glance

### Remuneration policy in 2019/20

The illustration below shows how SSE intends to operate its Directors' Remuneration Policy in 2019/20. SSE's core reward principles remain unchanged and therefore the policy will renew at the 2019 AGM on broadly the same basis as the previous policy. The policy is set out in full on pages 120 to 127.

	Element	Max	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
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 allowance	Pension accrual/allowance paid					
Variable pay – at risk	Annual Incentive Plan (AIP)	CEO 150% of salary. FD and ED 130% of salary 67% cash/33% career shares		AIP cash paid	AIP career share awards granted		Awards vest	
	Performance Share Plan (PSP)	CEO 200% of salary. FD and ED 175% of salary 2-year holding period	PSP awards granted			PSP awards vests		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 two years after cessation of employment					

### Proposed changes to the Directors' Remuneration Policy

SSE has pursued opportunities to lead the way on good corporate governance, and many of the changes to the UK Corporate Governance Code were adopted early. As an extension of this, there are three key changes proposed to the remuneration policy, these are:

		Previous policy	Revised policy	Rationale
Fixed Pay	Pension (for new Executive Director appointments)	Pension contributions set with consideration to the cost of the arrangements, market practice, the pension arrangements which operate elsewhere in the Company and the arrangement which was in operation at that time when the Executive Director was originally appointed.	Pension contributions and/or cash allowance capped at 12% of salary for new Executive Director appointments.	To better align pension provisions of new entrants to all employees. The Group has a wide variety of pension arrangements and the contributions for the defined contribution scheme range from 6% to 21% of salary. Taking into account the service profile of the Group's employees (more than 60% have at least five years' service) a contribution of 12% of salary is well aligned.
Variable pay – at risk	PSP maximum (for new Executive Director appointments)	The maximum PSP level for new recruits was 225% of salary.	The maximum PSP level for new recruits has been reduced by 25% to 200% of salary in line with the current CEO's arrangements.	We listened to shareholders' views and this is in line with our commitment to being a responsible employer.
Additional governance	Post-cessation shareholding	Holding requirement for career shares under AIP until one year after cessation of employment.	From 2019/20 onwards, all career shares deferred under AIP will require to be held by the Executive Director until two years post-cessation.	We listened to shareholders' views and want to further support long-term commitment and stewardship.

## Factors in renewing the policy

The Remuneration Committee considered a range of factors in renewing the remuneration policy for Executive Directors in 2019, one of which was alignment with pay practices across the wider workforce. The table below illustrates how remuneration policy and practice compares across the different groups of employees throughout SSE.

	Base Salary	Benefits	Pension	Short Term Incentive	Long Term Incentive
<b>Executive Directors</b>				Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred as career shares.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
<b>Group Executive Committee</b>	Base salary is typically set with reference to the market and wider workforce considerations.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless they have opted or cashed out. The arrangements are diverse and the employer cost typically ranges from 3% to 38% of salary when both DC and DB are taken into account.	Annual Incentive Plan considering performance of the Group (directly linked to the above), the business and the individual. 25% of the total award is deferred as shares for three years.	The Leadership Share Plan is also linked to strategic performance measures and those with direct impact on strategic output are eligible.
<b>Senior Management</b>	Annual increases are typically in line with or less than the wider employee population.				
<b>Wider Workforce</b>	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.		Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above).	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAYE) plan.

## Strategic performance

Executive Directors' remuneration is strongly linked to strategic performance. Some of SSE's strategic performance measures are detailed below, with an indication of how they link to remuneration. While financial performance has shown a general decline, SSE has delivered against its dividend target and performed well against a range of non-financial measures.

Adjusted EPS <b>67.1p</b> AIP and PSP	DPS <b>97.5p</b> AIP and PSP	TSR (FTSE 100) <b>Rank 63</b> of 92 PSP	TSR (MSCI) <b>Rank 19</b> of 21 PSP	Taxes Paid <b>£404m</b> in the UK AIP (Excellence)
Total Recordable Injury Rate <b>0.16</b> per 100,000 hours worked AIP (Safety)	Citizens Advice Complaints League <b>Rank 5</b> of 35 PSP and AIP (Service)	Cashflow <b>10.3%</b> AIP (Efficiency)	Renewable Output <b>9,779</b> AIP (Sustainability)	Job Supported <b>105,250</b> in UK and Ireland AIP (Teamworking)

In light of financial performance, the Remuneration Committee has exercised discretion over the out-turn of AIP and applied a downward adjustment to the award. Subsequently, Executive Directors will receive no payment in respect of this element of remuneration. Shares awarded under the PSP in 2016 will payout at 26% of maximum.

## Directors' Remuneration Policy

The following sets out SSE's Directors' Remuneration Policy (the "Policy"). The Policy is subject to a binding shareholder vote at SSE's AGM on 18 July 2019 and, if approved, will apply from this date.

The Remuneration Committee believes that SSE's remuneration principles are enduring and that the existing policy sufficiently addresses current legislation whilst maintaining adequate flexibility to withstand recent business changes. For these reasons, it is proposed that the policy remains broadly unchanged in 2019, and that it is reviewed again when the evolving business model is more clearly established.

The key changes between this Policy and the policy which was approved by shareholders at SSE's AGM on 21 July 2016 relate to the following:

- Recruitment policy in relation to employer's pension contributions for new appointments are to be capped at 12% of base salary in line with the wider workforce (see page 120 [120](#)).
- The holding period for deferred career shares awarded under the Annual Incentive Plan (AIP) is to be extended from one-year post-cessation of employment to two years (see page 121 [121](#)).
- The maximum PSP level is to be reduced from 225% to 200%, in line with the current CEO, for any new appointments (see page 122 [122](#)).

### Base Salary

Purpose and link to strategy	The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.
Operation	<p>The Committee sets base salary taking into account:</p> <ul style="list-style-type: none"> <li>– the individual's skills, experience and performance;</li> <li>– salary levels at other FTSE 100 companies and other energy businesses;</li> <li>– remuneration of different groups of employees and wider internal pay arrangements; and</li> <li>– the overall policy objective to remain below market median on a total remuneration basis for the FTSE 20-50 excluding financial services companies.</li> </ul> <p>Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.</p>
Maximum opportunity	<p>Salary increases will normally be capped at the typical level of increases awarded to other employees in the Company. However, increases may be above this level in certain circumstances, including but not limited to:</p> <ul style="list-style-type: none"> <li>– where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience;</li> <li>– where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted; and</li> <li>– where a larger increase is considered necessary to reflect significant changes in market practice.</li> </ul>
Performance measures	When setting and reviewing salaries annually, the Remuneration Committee considers Executive Directors' performance to ensure that SSE fulfils its core purpose of providing energy needed today and striving for a better world of energy for tomorrow. They should also assess delivery on SSE's strategic focus of creating value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.
<b>Pension</b>	
Purpose and link to strategy	<p>Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals of the business.</p> <p>The approach to pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.</p>
Operation	<p>The current Chief Executive and Finance Director participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme, the same schemes which any employee recruited at that time participates in. These schemes are funded final salary (subject to the cap on future increases in pensionable pay described below) pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below.</p> <p>The current Energy Director receives a pension allowance in lieu of accruing future pension benefits. This predates his appointment as an Executive Director and is in line with other former defined benefit scheme members who have opted out. The Committee will operate alternative pension provisions for new appointments to the Board, in line with arrangements for SSE employees.</p>
Maximum opportunity	<p>For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60. From 1 April 2017, future pensionable pay increases will be capped at RPI + 1% (regardless of the level of any actual increases in salaries).</p> <p>For new appointments, employer's pension contributions are capped at 12% of base salary in line with arrangements for SSE employees.</p>
Performance measures	Not applicable.

<b>Benefits</b>	
Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation	<p>The objective is to provide the appropriate level of benefits taking into account market practice at similarly sized companies and the level of benefits provided for other employees in the Company.</p> <p>Core benefits currently include car allowance, private medical insurance and health screening.</p> <p>Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme.</p> <p>In the event that an Executive Director was required to relocate to undertake their role, the Committee may provide additional reasonable benefits to reflect the relevant circumstances.</p> <p>The Committee may introduce or remove particular benefits if it is considered appropriate to do so.</p> <p>Travel and business-related expenses incurred which may be treated as taxable benefits will be reimbursed in accordance with the Company's expenses policy.</p>
Maximum opportunity	<p>When determining the level of benefits the Committee will consider the factors outlined in the "Operation" section.</p> <p>The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and there is no maximum benefit level.</p>
Performance measures	Not applicable.
<b>Annual Incentive Plan (AIP)</b>	
Purpose and link to strategy	<p>In line with the need to achieve a suitable balance of fixed and variable remuneration, the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets. The performance targets are linked to SSE's strategy and core purpose.</p> <p>Compulsory deferral into SSE shares provides alignment between Executive Directors' interests and the long-term interests of shareholders. This alignment is reinforced as the deferral takes the form of an award of career shares, which are shares that cannot be disposed of for two years after the Executive Director has stepped down.</p>
Operation	<p>The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year.</p> <p>Performance is typically assessed over a financial year. Below threshold performance, no payment is made. Where performance reaches or exceeds the maximum, 100% of bonus for this element is payable.</p> <p>The award will normally be delivered:</p> <ul style="list-style-type: none"> <li>– 67% in cash; and</li> <li>– 33% in deferred shares, which will be granted as a career share award</li> </ul> <p>The Committee may determine that a different balance of cash and deferred shares may be awarded.</p> <p>Deferred shares are granted in the form of a career share award under the Deferred Scheme. Career share awards will normally vest three years from the award date (unless the Committee determines an alternative vesting period is appropriate) subject to continued employment with accrual of dividends over that period. Until vesting, the awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>Following vesting, the after-tax number of shares under the career share award will be held in a nominee account until the second anniversary of the cessation of the Executive Director's employment with the Company (irrespective of the circumstances of such cessation) or, if earlier, until death or the occurrence of a change of control of the Company. In the event that the Committee implements the career deferral holding period in such a way that Executives do not have beneficial ownership of the shares, dividends may accrue or be paid during the holding period following vesting.</p> <p>In certain circumstances as set out in the plan rules the Committee may at its discretion apply malus to outstanding awards under the AIP or unvested career share awards prior to the relevant vesting or payment date, and/or claw back the cash or share portion of awards under the AIP for up to three years after the cash payment date of the relevant award. The Committee may adjust and amend the terms of the career share awards in accordance with the Deferred Scheme rules.</p>
Maximum opportunity	Maximum annual incentive opportunity is equal to 150% of base salary for the Chief Executive and 130% of base salary for the Finance and Energy Directors.

## Directors' Remuneration Policy continued

<b>Annual Incentive Plan (AIP) continued</b>	
Performance measures	<p>The annual incentive is normally based on a mix of financial measures and measures related to the strategic performance of the business.</p> <p>A minimum of 50% of the annual incentive will be based on financial performance.</p> <p>The strategic performance of the business is generally determined with reference to its core purpose of providing energy needed today and striving for a better world of energy for tomorrow, and therefore normally includes matters such as safety, customer service in the Networks and Business Energy business and investment decision-making and execution, as well as the personal performance of the Executive Directors. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan.</p> <p>In determining the final out-turn the Committee considers Executive Directors' management of, and performance in, all of the business issues that arose during the year.</p> <p>The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p> <p>Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance.</p> <p>The part of the AIP that is deferred in the form of deferred shares or a career share award is not subject to any further performance conditions.</p>
<b>Performance Share Plan (PSP)</b>	
Purpose and link to strategy	The purpose of the PSP is to reward Executive Directors, over a three-year performance period and a further two-year holding period, for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.
Operation	<p>Shares are awarded which normally vest based on performance over a period of three years. Awards granted to Executive Directors will be subject to an additional two-year post-vesting holding period during which time the Executive must retain the post-tax number of shares vesting under the award.</p> <p>No vestings is possible for below threshold performance. The percentage of shares that vest at threshold takes account of the toughness of the target and varies accordingly. All the shares vest if the maximum performance standard is reached or exceeded.</p> <p>The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period.</p> <p>Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>In certain circumstances set out in the PSP rules the Committee may at its discretion apply malus to outstanding awards prior to vesting and/or claw back vested awards for up to three years after the vesting date of the relevant award. The Committee may adjust and amend awards in accordance with the PSP rules.</p>
Maximum opportunity	The maximum value of award that can be granted under the PSP per award is equal to 200% of base salary for the Chief Executive and 175% of base salary for the Finance and Energy Directors.
Performance measures	<p>The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management.</p> <p>Awards vest based on relative total shareholder return, financial based measures and customer satisfaction.</p> <p>At least 70% of the award will be based on financial and relative total shareholder return measures. The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p>
<b>Share Ownership Policy</b>	
Purpose and link to strategy	A key element of SSE's remuneration policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation	<p>Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes and Executive Directors may also choose to buy shares.</p> <p>Vested career shares under the Deferred Scheme (which, except in certain circumstances, must be retained for two years post-cessation of employment) may also count towards the Executive Director's shareholding.</p>
Maximum opportunity	Executive Directors are expected to maintain a shareholding equivalent to two times base salary built up within a reasonable timescale. Consent to sell shares is not normally given (unless in exceptional circumstances) until this level of shareholding is reached.
Performance measures	Not applicable.



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**Chair and Non-Executive Directors' Fees**

Purpose and link to strategy	Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.
Operation	<p>The Committee is responsible for determining fees for the Chair. The Board is responsible for determining fees for other non-Executive Directors.</p> <p>Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy.</p> <p>The fee structure may be made up of:</p> <ul style="list-style-type: none"><li>– a basic Board fee or Chair fee;</li><li>– an additional fee for any committee chairship or membership; and</li><li>– an additional fee for further responsibilities e.g. Senior Independent Director, non-Executive Director for Employee Engagement or periods of increased activity.</li></ul> <p>Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme.</p> <p>Non-Executive Directors do not currently receive any benefits. Benefits may, however, be provided in the future for non-Executive Directors if in the view of the Board this was considered appropriate and they may also be provided in the future for the Chair if in the view of the Committee this was considered appropriate.</p> <p>Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses).</p> <p>It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.</p>
Maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.
Performance measures	There are no direct performance measures relating to Chair and non-Executive Director fees, although the performance of the Board is subject to annual evaluation, including an evaluation of individual members.

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**Performance measures and targets**

The Committee sets a range of performance measures linked to Executive Directors' remuneration that are simple, transparent and balanced. They have a clear link to strategic objectives and support value creation for shareholders. Performance targets will be stretching and maximum performance will only be attained for true out-performance. Where possible, targets will be disclosed prospectively unless commercial sensitivity precludes this, in which case they may be disclosed at an appropriate time retrospectively.

**Committee discretion**

All incentive awards are subject to the terms of the relevant plan rules under which awards are made. The Committee may adjust or amend awards in accordance with the provisions of the relevant plan rules. This includes, but is not limited to, the following discretions:

- In the event of a variation of the Company's share capital or reserves, or a demerger, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest (and be deemed exercised) on the date the resolution for the winding-up is passed.

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation or corporate governance requirements or guidance) without seeking shareholder approval for that amendment.

**Legacy commitments**

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed:

- (i) before 17 July 2014 (the date the Company's first shareholder approved Directors' Remuneration Policy came into effect),
- (ii) before this Policy came into effect provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed or,
- (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

As well as remuneration payments and payments for loss of office under the Directors' Remuneration Policy which was approved by shareholders on 17 July 2014, this includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the Directors' Remuneration Policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

## Directors' Remuneration Policy continued

### Directors' service contracts and non-Executive Directors' letters of appointment

Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs. Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on [www.sse.com](http://www.sse.com).

### Loss of office policy

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive reasonable outplacement support and legal advice at the expense of the Company and any payments required by statute.
- The Company may at its discretion terminate any Executive Director's contract by providing notice or payment in lieu of notice (as set out above).

### AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it will not be subject to deferral into deferred shares. Any vested career shares already awarded will normally continue to be held in a nominee account for two years after the date of cessation (see below).

### Deferred and career shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, unvested deferred and career shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares and unvested career shares shall lapse. Vested career shares shall not lapse.

Vested awards in the form of career shares shall, except in the case of death or change of control, be released two years after the date of cessation of employment, irrespective of the reason for such cessation.

### Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance conditions have been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

The Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Company would not otherwise be properly recognised (for awards under the 2006 PSP, this discretion is limited to circumstances where the Committee determines that PSP shares shall vest for reasons other than death, disability or ill health). In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, unvested PSP share awards will lapse. Vested PSP shares which are subject to a mandatory holding period will not lapse as a result of cessation of employment for any reason.

### Pension

Where an Executive retires through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

Dependent upon the circumstances surrounding the departure of the Executive Director and the financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the UURB pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged by the Committee to be on a cost neutral basis to SSE.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC-approved Scottish Hydro-Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

- (i) Dependents' pensions on death are half of the member's pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Executive Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

- (ii) Post retirement increases are expected to be in line with RPI.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

- (i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.
- (ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- (iii) Post retirement increases are expected to be in line with RPI (guaranteed up to the level of 5% per annum and discretionary above that level).

#### Other arrangements

If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

#### Change of control

On a change of control, Executive Directors' awards will be treated in accordance with the rules of the applicable plan(s). In summary, in the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to dis-apply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised. Any outstanding unvested deferred or career shares from the AIP will vest automatically, and any vested shares subject to a holding period will be released.

#### Recovery provisions

The Committee believes that it is right that it should have the ability to recover pay in circumstances where that pay is later proved to have been unfairly earned. The PSP and AIP have recovery provisions under malus and clawback.

Malus is the ability to reduce or cancel unvested deferred AIP and PSP share awards and would apply under the following circumstances at any point between the grant date and vesting date:

- Material misstatement or restatement of accounts
- Misconduct which results in a materially adverse financial effect
- Serious reputational damage including material environmental or safety issue, or material operational or business failing
- Factual error in calculating payment/vesting
- Serious misconduct

Clawback is the ability to take back value delivered through the cash element of AIP or vested AIP awards at any point: up to three years post-payment of cash under the AIP; and up to three years post-vesting of PSP shares. It applies under the following circumstances:

- Material misstatement or restatement of accounts
- Serious misconduct
- Factual error in calculating payment/vesting

#### Recruitment policy

The Committee will seek to align the remuneration package offered with its Directors' Remuneration Policy outlined on page 120. The overriding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other FTSE 100 companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new appointments the Committee will limit contributions to 12% in line with employees generally.

Variable incentive levels will be in line with those set out in the policy table, with the maximum being no more than the current Chief Executive (AIP 150% of salary, PSP 200% of salary). Whilst it would generally be intended to set consistent performance measures across the executive team, depending on the timing and circumstances of a new appointment, it may be necessary to set alternative measures for the initial awards. PSP awards may be granted shortly following an appointment, subject to the Company not being in a closed period.

The Committee may make awards on appointing an Executive Director to "buy out" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The Committee may make awards under SSE's incentive plans and under the Listing Rules exemption in LR9.4.2 which allows Companies to make grants to a Director to facilitate, in unusual circumstances, the recruitment or retention of that Director. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

#### Shareholders' views

The Committee Chair and the Chair of SSE's Board, on behalf of the Committee, consulted with SSE's largest shareholders in developing the new Policy, as well as representatives from the Investment Association and Institutional Shareholder Services. This included a number of meetings which allowed a discussion of the proposals in the context of SSE's business strategy and the environment in which it operates. The feedback received was extremely helpful in informing the Committee's decisions.

More generally, the Committee Chair, on behalf of the Committee, periodically undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions.

In addition, the Committee also monitors the views of other stakeholders and broader developments in executive remuneration generally.

## Directors' Remuneration Policy continued

### Remuneration engagement across the Company

The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Company although comparison metrics are not used to determine pay policy. Remuneration at all levels in SSE is designed to support its core remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

The table in the At a Glance Section (page 119) illustrates how the core elements of executive pay align with the wider workforce. In summary,

- The senior management population also participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards and the performance metrics support those used at Board level.

- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey the Company invites all employees to provide a view on the benefits and pay that it provides.

The Remuneration Committee is responsible for setting pay for members of the Group Executive Committee (GEC) and reviewing the remuneration arrangements for all employees across the Group.

The Chair of the Remuneration Committee meets at least annually with SSE's recognised Trade Unions to discuss the Company's position on executive remuneration. This covers many of the policy positions explained in this report. Feedback from this meeting is shared with the Remuneration Committee.

### Illustration of the Directors' Remuneration Policy for 2019/20

The charts below indicate a forward-looking potential single figure of remuneration value for 2019/20 at below threshold, target and maximum for each of the Executive Directors. As there have been no changes to base salary or incentive levels, the scenarios below remain unchanged from the previous year.

#### Single total figure of remuneration – an illustration of the application of our policy

Chief Executive



Finance Director

Energy Director

The charts on the previous page are based on the underlying assumptions described below.

**Minimum performance**

In this scenario only the fixed pay elements are payable i.e. base salary, benefits and pension calculated as:

- Base salary effective from 1 April 2019.
- Benefits represent those shown on the single figure table on page 128 .
- Pension is the value of accrual in a typical year (using the same valuation methodology as in the "single figure" table on page 128 .

**Target performance**

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that target level performance had been achieved:

- AIP pays out 50% of maximum opportunity.
- PSP pays out 50% of maximum opportunity.

**Maximum performance**

This is what the Executive Director would receive in addition to the minimum performance element, if the Committee agreed that the maximum level performance had been achieved:

- AIP pays out 150% of base salary for the Chief Executive and 130% for the Finance and Energy Directors.
- PSP pays out 200% of base salary for the Chief Executive and 175% for the Finance and Energy Directors.

**Share Price Growth**

This assumes share price growth at 50% over a three-year period.

## 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 2018 and 2019:

		Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth <sup>7</sup>		Total	
		2018/19 £000s	2017/18 £000s	2018/19 £000s	2017/18 £000s	2018/19 £000s	2017/18 £000s	2018/19 £000s	2017/18 £000s
<b>Fixed Pay</b>	Base Salary <sup>1</sup>	890	864	688	668	515	292	2,093	1,824
	Benefits <sup>2</sup>	25	25	22	21	17	10	64	56
	Pension <sup>3</sup>	351	446	287	332	155	88	793	866
	<b>Total Fixed Pay</b>	<b>1,266</b>	<b>1,335</b>	<b>997</b>	<b>1,021</b>	<b>687</b>	<b>390</b>	<b>2,950</b>	<b>2,746</b>
<b>Variable Pay</b>	AIP <sup>4</sup>	0	1,013	0	679	0	296	0	1,988
	PSP <sup>5</sup>	390	371	264	286	0	0	654	657
	<b>Total Variable Pay</b>	<b>390</b>	<b>1,384</b>	<b>264</b>	<b>965</b>	<b>0</b>	<b>296</b>	<b>654</b>	<b>2,645</b>
<b>Total<sup>6</sup></b>		<b>1,656</b>	<b>2,719</b>	<b>1,261</b>	<b>1,986</b>	<b>687</b>	<b>686</b>	<b>3,604</b>	<b>5,391</b>

- 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 values for Alistair Phillips-Davies and Gregor Alexander represent the increase in capital value of pension accrued over one year times a multiple of 20 (net of CPI and Directors' contributions) in line with statutory reporting requirements.
- The AIP figures above show the value of the award after the Committee has exercised its discretion to reduce the award to zero.
- The PSP figures for 2017/18 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 2018/19 is based on the average share price in the three months to 31 March 2019 of 1,173.65p, as required by the reporting regulations. The award remains subject to service until May 2019 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. There has been no share price appreciation in relation to the estimated value shown in the table for 2018/19.
- 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 2017/18 figures above show his remuneration pro-rata from this date, including his AIP. Long term incentive awards granted in 2015 and 2016 before he became an Executive Director are excluded and were worth £121,964 and £267,228 respectively.

### Rationale for 2019 single total figure of remuneration

As shown in specific detail in the following sections, in consideration of financial performance, the Remuneration Committee has exercised its discretion to reduce the Annual Incentive Plan (AIP) award for Executive Directors to zero. Failure to meet the threshold performance conditions for relative total shareholder return measures and Adjusted EPS has resulted in a reduced out-turn of the Performance Share Plan (PSP) however, increasing the grant value from 150% to 200% for the Chief Executive and to 175% for the Finance Director means that the values of the awards remain broadly in line with the previous year. As a result, there is a year-on-year decrease for the Chief Executive and Finance Director in the above table and the Committee is satisfied that the total single figure outcomes for all are appropriate.

### Base salary

The salaries shown in the table reflect a 2018/19 salary, effective from 1 April 2018 to 31 March 2019, of £890,293 for the Chief Executive, £688,124 for the Finance Director and £515,000 for the Energy Director. This represented an increase of 3% from the previous year, which was in line with the average performance-based salary increase for the wider SSE employee population.

### 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. They participate in the same defined

benefit pension arrangements that were available to all employees recruited at that time. The schemes were closed in 1999 and the service costs range from 32.5% to 37.5% of salary. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Executive 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 (22 and 28 years ago respectively), 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 Energy Director, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary prior to his appointment as an Executive Director and this remains unchanged. His arrangements are consistent with the approach used for all other members 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 Committee is conscious that this current pension allowance

is greater than that offered to a new joiner elsewhere in the Group. However, it is a legacy arrangement which reflects the long service of the incumbent and is in line with all other employees in similar circumstances.

The overall remuneration package for each Executive Director was set with the current pension provision in mind. Therefore, it forms a fundamental element of the total reward offering and any changes could create an imbalance with other long-serving employees who have similar arrangements.

As set out in the proposed Directors' Remuneration Policy, any new appointment to the Board would have arrangements which are more in line with the wider workforce, taking into account their age, length of service and particular circumstances of the individual and their existing remuneration package. For information, pension benefits in the DC scheme across SSE typically range from 3% to 18% depending on length of service.

The table below details pension accrued for each of the Executive Directors as at 31 March 2019 and 2018.

	Accrued pension as at 31 March 2019 £000s	Accrued pension as at 31 March 2018 £000s
Alistair Phillips-Davies	439	408
Gregor Alexander	404	377
Martin Pibworth <sup>1</sup>	0	0

<sup>1</sup> 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:

1. Set performance measures aligned with strategy
2. Set stretching performance targets
3. Assess performance
4. Take account of wider environment
5. Apply discretion if required

### 2018/19 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 (Personal, Customer and Teamworking) weighted as shown below:

Financial (50%)			Personal (15%)	Customer (15%)		Teamwork (20%)	
Adjusted EPS	Cashflow	DPS	Individual Objectives	Retail	Networks	Business Energy	SSESET Values

#### 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 requires 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 of 52% since 2010 as shown on page 136.

## Annual Report on Remuneration continued

### 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	CUSTOMER	TEAMWORK	
Link to strategy	Simple Stewardship Stakeholders	Simple Sustainable 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	Meeting customers' needs is at the core of the business	Reflects the culture of the business to value colleagues and enjoy working together	
Weighting	30%	10%	10%	15%	15%	20%	
Threshold	112p	13%	RPI				
Max	126p	14%	RPI+2%				
Outcome	67.1p	10.3%	97.5p	See next section			
Performance	0	0	50%	50%	70%	75%	
Out-turn (% of max)	0	0	5%	8%	11%	15%	39%

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 and on the following page provides 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)
<b>Personal 15%</b>	<b>Chief Executive</b> Safety, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Significant improvement to safety performance as a result of established programme. New operating model increased focus on succession and capability. Strong stakeholder engagement in a challenging environment. New Strategy established that focuses key businesses on carbonisation and sets out opportunities for growth.	✓	50%
	<b>Finance Director</b> Safety, Financial, People Development, Transformation, Corporate Function Performance, Succession	Oversaw programme of value-creating disposals with over £600m gains on sale and almost £500m fair value uplift. Sustainable financing delivered with Green Bond issue and ESG-linked Revolving Credit Facility. Effective financial management maintained through discipline in relation to investments and potential mergers and acquisitions. Effective Chair of SGN plc.	✓	50%
	<b>Energy Director</b> Safety, Financial, People Development, Succession, Business Development, Asset Management	Successful progress across major electricity generation projects, enabling value creation. Good operational performance in flexible thermal generation plant and reduction in carbon intensity of electricity generated. Development of significant pipeline of future opportunities in renewable energy. Reorganisation to bring together SSE Renewables.	✓	50%

x= Below expectation

✓= Met expectation

✓✓= Exceeded expectation

✓✓✓= Far exceeded expectation



MEASURE	FACTORS TO BE ASSESSED	SUMMARY PERFORMANCE EVIDENCE	ASSESSMENT	OUTCOME (% OF MAX)
<b>Customer 15%</b>	<b>Retail</b> – 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. Ranked top among the leading suppliers in the uSwitch survey.	✓✓✓	85%
	<b>Networks</b> – A range of measures including customer interruptions and customer minutes lost	Year-on-year improvements across a range of customer satisfaction measures and average ranking position maintained.	✓	50%
	<b>Business Energy</b> – A range of measures including customer complaints and satisfaction	Ranked 2 out of 15 in Citizens Advice business energy supplier analysis.	✓✓	80%
			<b>TOTAL</b>	<b>70%</b>
<b>Teamwork 20%</b>	<b>Safety</b> – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR)	Significant improvements in TRIR and AFR. Improvements in driving performance and environmental performance.	✓✓✓	90%
	<b>Service</b> – Various external Retail and Business Energy ranking surveys, and Networks customer performance measures	See Customer table above.	✓✓	70%
	<b>Efficiency</b> – Controllable costs	Effective oversight of controllable costs while maintaining robust allocation of resources.	✓✓	65%
	<b>Sustainability</b> – Performance in various indices	Maintained MSCI ESG Research "AAA" Leadership rating. Improved CDP Climate Change score from a "B" to an "A-". Achieved fifth year of both Fair Tax Mark accreditation and Living Wage accreditation.	✓✓✓	90%
	<b>Excellence</b> – Progress of key capital projects, gender diversity	Very good progress in delivery of large capital projects across the Wholesale and Networks businesses. Improved Return on Inclusion scores; positive increases in gender split within senior manager group and talent programmes.	✓✓	65%
	<b>Teamworking</b> – Employee Engagement	Great Place To Work 78% response rate. Good progress made on Target Operating Model activity. Maintained position on the Bloomberg Gender Equality Index.	✓✓	70%
			<b>TOTAL</b>	<b>75%</b>
x= Below expectation      ✓= Met expectation      ✓✓= Exceeded expectation      ✓✓✓= Far exceeded expectation				

#### 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. The Committee took into account that SSE's financial results fell well short of what was expected at the beginning of the financial year.

#### 5. Apply discretion if required

Despite a number of notable operational and strategic achievements in the year, for 2018/19 the Remuneration Committee has applied its discretion and decided that no AIP award should be made to Executive Directors. This is the second time in three years the Committee has exercised its discretion to make a downward adjustment to AIP out-turns.

	Maximum potential (% of salary)	AIP earned <sup>1</sup>	AIP cash	AIP deferred
Alistair Phillips-Davies	150%	0	0	0
Gregor Alexander	130%	0	0	0
Martin Pibworth	130%	0	0	0

<sup>1</sup> In a typical year, the total award is made up of 67% cash and 33% which is deferred as shares for three years which are then retained until two years after stepping down from the Board.

## Annual Report on Remuneration continued

### 2018/19 Performance Share Plan

#### 1. Set performance measures aligned with strategy

PSP performance measures encourage strong share price, financial, dividend and customer performance over a three-year performance period. The measures and their weightings are shown below:

Value Creation (40%)		Financial (40%)		Operational (20%)
TSR vs FTSE 100 (20%)	TSR vs MSCI Europe (20%)	EPS (20%)	DPS (20%)	Customer (20%)

#### 2. Set stretching performance targets

The performance target ranges 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 2016 PSP award vesting this year.

PSP	Performance measure					TOTAL
	TSR V FTSE 100	TSR V MSCI EUROPE	EPS GROWTH	DPS GROWTH	CITIZENS' ADVICE COMPLAINTS LEAGUE	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of performance	Relative measure of 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 17	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	
Outcome	<b>Rank 63</b>	<b>Rank 19</b>	<b>Below RPI</b>	<b>RPI +0.2%</b>	<b>Rank 5</b>	
Performance	0	0	0	52%	82%	
Out-turn (% of max)	0	0	0	10%	16%	26%

1 The Citizen's Advice Energy Supplier Complaints League was formerly known as the Consumer Futures Ranking. As there are now 35 companies in the league, threshold performance is at the new mid point of the league. In 2016 when the performance measures were set, there were 18 companies in the league and performance was attained at the mid-point in the league. There are now 35 companies in the league and the philosophy that threshold performance is achieved at above median and maximum performance for rank 1 is maintained.

#### 4. Take account of wider environment

As noted previously, some financial results were below expectation and this has resulted in below threshold performance in relative TSR performance and adjusted EPS. SSE's performance remains strong in relation to the Citizens Advice Complaints League, and dividend growth has been achieved at threshold, which is itself seen as a stretching target in the current environment.

#### 5. Apply discretion if required

While the DPS growth out-turn was above the RPI threshold set in 2016, it was in line with the revised policy position set in 2018. The Committee felt that performance should be assessed taking account of this policy change and they approved reducing the DPS out-turn from 52% to 50%. The Committee is satisfied that the level of vesting is fair reward for the performance delivered. The table below shows the maximum number of shares available, the dividends accrued over the three-year performance period, the total number of shares vesting based on the performance out-turn and the estimated value of these shares.

	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 <sup>1</sup>
Alistair Phillips-Davies	200%	104,081	23,793	33,247	£390,203
Gregor Alexander	175%	70,390	16,089	22,485	£263,895

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 128.

Martin Pibworth was not an Executive Director when the 2016 PSP award was granted and therefore, is not disclosed in the table above.

## Other remuneration disclosures

Fees paid to non-Executive Directors during 2018/19 were as follows:

Non-Executive Directors	Fees £000s	
	2018/19	2017/18
Jeremy Beeton <sup>1</sup>	26	80
Katie Bickerstaffe <sup>2</sup>	7	85
Sue Bruce <sup>3</sup>	86	68
Tony Cocker <sup>4</sup>	68	0
Crawford Gillies	88	85
Richard Gillingwater CBE	389	377
Peter Lynas	88	85
Helen Mahy <sup>5</sup>	80	68
Melanie Smith <sup>6</sup>	17	0
<b>Total</b>	<b>849</b>	<b>848</b>

1 Jeremy Beeton stepped down from the Board as a non-Executive Director on 20 July 2018.

2 Katie Bickerstaffe stepped down from the Board as a non-Executive Director on 30 April 2018.

3 Sue Bruce was assumed the position as Chair of the Remuneration Committee on 30 April 2018.

4 Tony Cocker joined the Board as a non-Executive Director on 1 May 2018.

5 Helen Mahy assumed the position as Chair of the SHEAC on 19 July 2018.

6 Melanie Smith joined the Board as a non-Executive Director on 1 January 2019.

## Annual Report on Remuneration continued

### 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 2019.

Director	*Shareholding requirement as a % of salary (Actual/% met)	Shares owned outright at 31 March 2019	Number of shares		Number of options		Shares owned outright at 31 March 2018
			Interests in shares, awarded without performance conditions at 31 March 2019 (DBS & Retention Awards)	Interests in shares, awarded subject to performance conditions at 31 March 2019 (PSP & LSP)	Interests in share options, awarded without performance conditions at 31 March 2019	Interests in share options, awarded subject to performance conditions at 31 March 2019	
Alistair Phillips-Davies	271% (requirement met)	197,591	51,769	351,847	2,458	–	177,768
Gregor Alexander	318% (requirement met)	179,527	55,384	237,955	2,399	–	163,928
Martin Pibworth	66% (below requirement)	28,164	45,496	108,902	4,916	–	20,132
Jeremy Beeton		–	–	–	–	–	4,534
Katie Bickerstaffe		–	–	–	–	–	6,433
Sue Bruce		2,484	–	–	–	–	2,484
Tony Cocker		5,000	–	–	–	–	–
Crawford Gillies		5,000	–	–	–	–	5,000
Richard Gillingwater		2,208	–	–	–	–	2,000
Peter Lynas		5,000	–	–	–	–	2,000
Helen Mahy		2,027	–	–	–	–	2,027
Melanie Smith		1,099	–	–	–	–	–

\* Shareholding requirement: Executive Directors – 200% of salary, Non-Executive Directors – minimum 2,000 shares.  
Price used to calculate shareholding requirement as % of salary as at 29/03/19 £11.87.

#### 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 2018.

##### Deferred Bonus awards granted in 2018

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	28/06/18	24,841	£13.575	£337,217
Gregor Alexander	Conditional award	28/06/18	16,640	£13.575	£225,888
Martin Pibworth	Conditional award	28/06/18	10,398	£13.575	£141,153

The Deferred Bonus granted in 2018 is equal to 25% of the AIP earned in 2017/18. 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 2018

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Alistair Phillips-Davies	Conditional award	28/06/2018	132,287	£13.575	£1,795,796
Gregor Alexander	Conditional award	28/06/2018	89,466	£13.575	£1,214,501
Martin Pibworth	Conditional award	28/06/2018	66,957	£13.575	£908,941

Alistair Phillips-Davies was granted an award equal to 200% of base salary.

Gregor Alexander and Martin Pibworth were granted awards equal to 175% of base salary.

Performance is measured over three years to 31/03/21. The performance measures and targets are as follows: relative TSR measured against the FTSE 100 (20%); relative TSR measured against the MSCI European Utilities Index (20%); EPS growth at RPI to RPI +10% (20%); DPS growth at RPI to RPI +5% (20%); Customer ranking in Citizen's Advice Complaints league at median to rank 1 (20%).

### 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 2018	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 2019
Gregor Alexander	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	6,130				6,130 <sup>6</sup>	
	DBP 2016 <sup>2</sup>	27/07/2016	27/07/2019	5,302					5,302
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020	13,442					13,442
	DBP 2016 <sup>2</sup>	28/06/2018	28/06/2021			16,640 <sup>5</sup>			16,640
	PSP <sup>1</sup>	25/06/2015	25/06/2018	58,848			49,581	17,654 <sup>6</sup>	
	PSP <sup>1</sup>	27/07/2016	27/07/2019	70,390					70,390
	PSP <sup>1</sup>	26/06/2017	26/06/2020	78,099					78,099
	PSP <sup>1</sup>	28/06/2018	28/06/2021			89,466 <sup>5</sup>			89,466
	Sharesave	02/07/2014	01/10/19-31/03/20	2,213	1,247p				2,213
	Sharesave	03/07/2015	01/10/20-31/03/21	186	1,288p				186
Alistair Phillips-Davies	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	7,931				7,931 <sup>6</sup>	
	DBP 2016 <sup>2</sup>	27/07/2016	27/07/2019	6,860					6,860
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020	20,068					20,068
	DBP 2016 <sup>2</sup>	28/06/2018	28/06/2021			24,841 <sup>5</sup>			24,841
	PSP <sup>1</sup>	25/06/2015	25/06/2018	76,138			64,149	22,841 <sup>6</sup>	
	PSP <sup>1</sup>	27/07/2016	27/07/2019	104,081					104,081
	PSP <sup>1</sup>	26/06/2017	26/06/2020	115,479					115,479
	PSP <sup>1</sup>	28/06/2018	28/06/2021			132,287 <sup>5</sup>			132,287
	Sharesave	02/07/2014	01/10/19-31/03/20	1,202	1,247p				1,202
	Sharesave	06/07/2017	01/10/22-31/03/23	1,256	1,194p				1,256
Martin Pibworth	DBP 2006 <sup>2</sup>	25/06/2015	25/06/2018	4,328				4,328 <sup>6</sup>	
	DBP 2006 <sup>2</sup>	27/07/2016	27/07/2019	4,383					4,383
	DBP 2016 <sup>2</sup>	26/06/2017	26/06/2020	5,715					5,715
	DBP 2016 <sup>2</sup>	28/06/2018	28/06/2021			10,398 <sup>5</sup>			10,398
	PSP <sup>1</sup>	25/06/2015	25/06/2018	26,940			22,697	8,082 <sup>6</sup>	
	PSP <sup>1</sup>	28/06/2018	28/06/2021			66,957 <sup>5</sup>			66,957
	LSP <sup>3</sup>	27/07/2016	27/07/2019	18,534					18,534
	LSP <sup>3</sup>	26/06/2017	26/06/2020	23,411					23,411
	Retention Award <sup>4</sup>	12/01/2017	12/01/2020	25,000					25,000
	Sharesave	02/07/2014	01/10/19-31/03/20	1,202	1,247p				1,202
	Sharesave	06/07/2017	01/10/22-31/03/23	1,256	1,194p				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 4,840 shares, Alistair Phillips-Davies received 6,262 shares and Martin Pibworth received 2,523 shares.

- 1 The performance measures and targets applicable to awards under the PSP are described on page 122. The 2015 award under the PSP vested at 30%.
- 2 One third 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 initial Leadership Share Plan (LSP) award made in 2016 equates to the AIP award earned in 2015/16. The shares awarded are subject to an annual evaluation and may be modified up or down based on customer or financial performance. No modification up or down has been made in any of the three years. The vesting of the award is subject to an "underpin" condition which is the achievement of SSE's dividend policy over the period.
- 4 Awards granted as Retention Share Awards prior to Martin Pibworth's appointment as an Executive Director.
- 5 The market value of a share on the date on which these awards were made was 1,357.50p.
- 6 The market value of a share on the date on which these awards were realised was 1,357.50p.

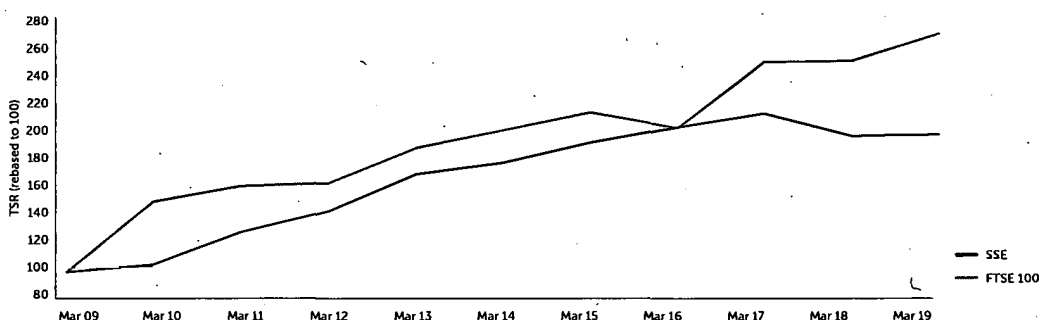
The closing market price of shares at 29 March 2019 was 1,187p and the range for the year was 1,032.50p to 1,440.50p. Awards granted during the year were granted under the DBP 2016 and PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £1,090,468 (2018 – £1,367,263).

## Annual Report on Remuneration continued

### 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 <sup>1</sup> (£'000)	Annual variable element award <sup>2</sup> (% of maximum)	Long term incentive vesting <sup>3</sup> (% of maximum)	Application of discretion
2018/19 (Alistair Phillips-Davies)	1,656	0	26	Downward discretion applied to AIP
2017/18 (Alistair Phillips-Davies)	2,693	78	30	
2016/17 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2015/16 (Alistair Phillips-Davies)	1,696	54	0	
2014/15 (Alistair Phillips-Davies)	2,311	64	0	
2013/14 (Alistair Phillips-Davies and Ian Marchant) <sup>4</sup>	2,546	63	22	
2012/13 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP
2011/12 (Ian Marchant)	1,214	25	0	Downward discretion applied to AIP
2010/11 (Ian Marchant)	1,686	60	0	
2009/10 (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 128.

2 The annual variable element award (AIP) is the figure shown on page 131, and reflected in the "single total figure of remuneration table" on page 128.

3 The long-term incentive (PSP) vesting is the figure shown on page 132, and reflected in the "single total figure of remuneration table" on page 128.

4 For 2013/14, an aggregate number has been applied by combining pro-rata values for each CEO based upon their time in role.

#### Alignment of Directors' Remuneration Policy with pay across the wider employee population

For a number of years, the ratio of the CEO's pay using an average employee earnings figure derived from staffing costs has been voluntarily disclosed. For 2018/19, a pay ratio is again being disclosed voluntarily. The calculation methodology however, has been revised to meet the reporting requirements now clarified for annual reports effective for financial years commencing 1 January 2019. The methodology chosen is a hybrid approach combining Gender Pay Gap data with additional elements of pay which are important components of SSE employees' pay including overtime, employer's contribution to pension and excluding salary sacrifice arrangements. The exclusion of such elements would not present the most appropriate and consistent comparison. The table below shows ratios at the 25th percentile, median and 75th percentile, and will be built on each year accompanied by narrative to explain any movements.

Year	Calculation Methodology	25th percentile		Median		75th percentile	
		Salary	Ratio	Salary	Ratio	Salary	Ratio
2018/19	C	£22,150	75:1	£30,346	55:1	£41,294	40:1

Previous years' disclosures, prior to clarity on the disclosure requirements, are shown below alongside this year's ratio calculated on the same basis. This year's ratio is significantly reduced in comparison to the previous year. While average earnings across SSE have increased by 5%, the Chief Executive's earnings have reduced by 39% due to the reduction in variable pay as described on page 128.

	Chief Executive earnings <sup>1</sup> £	Average SSE earnings <sup>2</sup> £	Pay ratio
2018/19	1,656,000	45,230	36:1
2017/18	2,719,000	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 128.

2 Average employee earnings are based on staffing costs inclusive of the Retail business (in line with GPG reporting) calculated on the same basis as note 8.1 of the accounts, excluding social security costs.

### 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 2019 is explained on page 128.

	2016/17 £m	2017/18 £m	2018/19 £m
Executive Directors' earnings <sup>1</sup>	5.1	5.3	3.6
Dividends to shareholders	906.6	926.1	973.0
Capital and investment expenditure	1,726.2	1,503.0	1,422.9
Total UK taxes paid (profits, property, environment and employment taxes) <sup>2</sup>	385.0	484.1	403.7
Staff costs <sup>3</sup>	679.4	665.6	653.5

1 Calculated on the same basis as the "single total figure of remuneration" table on page 128.

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. The figures for 2016/17 and 2017/18 have been restated to exclude staffing costs for the Retail business in line with the financial accounts.

For every £1 spent on Executive Directors' earnings by SSE in 2018/19, £112 was paid in tax, £182 was spent on employee costs and £395 was spent on capital and investment expenditure. In addition, £270 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 2018 and received £61,000 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 £49,633 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.

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 97 to 99.

#### Risk assessment

The Remuneration Committee carries out a remuneration risk assessment on an annual basis 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 changing governance landscape.

## Annual Report on Remuneration continued

### Shareholder voting in 2018

On 19 July 2018, shareholders approved the Directors' Remuneration Report for the year ended 31 March 2018 and the result is shown below. Also shown below, is the result of shareholder voting on the previous Directors' Remuneration Policy at the AGM on 21 July 2016.

#### Annual Report on Remuneration – shareholder voting in 2018

■ For – 97%  
■ Against – 3%

Total votes cast: 664,139,630  
Votes withheld: 13,484,571

#### Directors' Remuneration Policy – shareholder voting in 2016

■ For – 99%  
■ Against – 1%

Total votes cast: 665,802,316  
Votes withheld: 6,175,339

### Remuneration Committee

The Terms of Reference for the Committee were reviewed during 2018/19 and are available on the Company's website ([www.sse.com](http://www.sse.com)). 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 Chair and Company Secretary. During the year, the Committee formalised its responsibility for setting remuneration for the Group Executive Committee.

The members of the Committee and the meetings attended are set out on page 116. The following agenda items were considered:

MEETING DATE	AGENDA ITEMS
May 2018	AGM season overview, AIP and PSP performance discussions, below-Board remuneration, 2017/18 DRR, PSP, LSP and DBS participants, remuneration advisors annual performance review, 2018-20 Remuneration Committee plan.
November 2018	Market and governance update, 2017/18 DRR review, mid-year performance update, review of performance measures, 2018-20 Remuneration Committee plan.
March 2019	Annual risk assessment, shareholder feedback, market and governance update, Executive Directors' salaries and the Chair's fee, below-Board remuneration, review of performance measures, 2018/19 DRR, Remuneration Committee terms of reference review, 2018-20 Remuneration Committee plan.

### 4. Implementation for 2019/20

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2020:

ELEMENT OF PAY	IMPLEMENTATION FOR 2018/19	COMMENT
Base salary	No changes proposed	In line with the senior management population and below increases across the wider employee population
Benefits	No changes proposed	In line with the wider employee population
Pension	No changes proposed	In line with the wider employee population
Annual Incentive Plan (no change in quantum)	Changes proposed to non-financial targets. Performance measures as follows: Adjusted EPS – 30% Cashflow – 10% DPS – 10% Personal – 15% Stakeholder – 15% SSE's Sustainability Goals – 20%	Financial measures and their weighting remain unchanged. The weighting of non-financial measures also remains unchanged however the measures have been updated to better link to strategy. SSE's Sustainability Goals replaces the former Teamworking measures, and a Stakeholder measure replaces the previous Customer measure. Full details are shown on the following page.
Performance SharePlan (no change in quantum)	No changes proposed: TSR (v FTSE 100) – 20% TSR (v MSCI Europe) – 20% EPS – 20% DPS – 20% Customer – 20%	While the performance measures remain broadly unchanged, the Customer measures will be updated to reflect customer performance in Networks and Business Energy. Full details are shown on the following page.

### AIP performance measures 2019/20

The AIP scorecard will be restructured. The financial elements and weightings of adjusted EPS, cashflow and DPS will remain unchanged. The non-financial elements will be adjusted with new stakeholder and sustainability performance measures, weighted 15% and 20% respectively. Personal objectives will remain unchanged with a weighting of 15%. This is shown on the table on the following page.



Performance Measure	DPS	Cashflow	Adjusted EPS	Personal	Stakeholders	Sustainable Development Goals
<b>Weighting</b>	10%	10%	30%	15%	15%	20%
<b>Description</b>	Return on investment through payment of dividends	Retained cashflow/net debt	Underlying measure of financial performance	To reflect those activities which go beyond the normal responsibilities of the role	Customers, employees and suppliers	Contribution to the four SDGs for 2030

The stakeholder performance measure incorporates: customers in relation to Business Energy and Networks; employees relative to safety, engagement, and inclusion and diversity; and suppliers in respect of contractor safety.

The sustainability measure will be based on the contribution to the UN Sustainable Development Goals. The four fundamental goals for 2030 are: cut the carbon intensity of the electricity generated by 50% by 2030 from a 2018 baseline; treble renewable output by developing more renewable energy that contributes renewable output of 30TWh a year; help accommodate 10m electric vehicles in GB by investing in electricity network flexibility and infrastructure; and, championing Fair Tax and a real Living Wage. The revised performance measures are a more meaningful reflection of both SSE's business operations and the priorities of its stakeholders (see page 24 for more information). Performance against each goal will be measured and disclosed annually. The method for assessing that performance will be a combination of quantitative measures, with independent external assurance of that assessment where appropriate, and qualitative assessment of decisions and actions taken during the year and their impact on the achievement of the 2030 goals.

### PSP performance measures 2019/20

The following table sets out in detail the PSP performance measures for 2019/20:

Performance Measure	TSR v FTSE 100	TSR v MSCI Europe	EPS Growth	DPS Growth	Networks Customer	Business Energy Customer
<b>Weighting</b>	20%	20%	20%	20%	10%	10%
<b>Minimum performance</b>	50th percentile (50% out-turn)	50th percentile (50% out-turn)	RPI (25% out-turn)	RPI (50% out-turn)	Median ranking (25% out-turn)	Median ranking (25% out-turn)
<b>Maximum performance</b>	75th percentile (100% out-turn)	75th percentile (100% out-turn)	RPI +5% (80% out-turn) RPI + 10% (100%) out-turn)	RPI +5% (100% out-turn)	1st place ranking (100% out-turn)	1st place ranking (100% out-turn)

The two new customer performance measures, worth 20% in total, replace the previous customer measure which was worth 20% and related to performance in the Citizens Advice Complaints league. The new measures link to broad measures of customer performance across Networks and Business Energy. This will include Networks Broad Measures of Customer Satisfaction and Customer Complaints, and Citizen's Advice Business Energy supplier customer performance. All other measures and weightings remain unchanged.

### Chair's and non-Executive Directors' fees

Last year, the Chair's and non-Executive Directors' fees increased by 3% in line with the wider workforce, effective from 1 April 2018. At this time, the SHEAC fee increased from £12,000 to £14,000 to reflect the increased remit for that Committee. For 2019/20, it is proposed that no increase is made to fees, in line with Executive Directors and senior managers.

For the new role of non-Executive Director for Employee Engagement, a fee of £10,000 was agreed with effect from 14 November 2018. The Board considered this fee to be commensurate with the responsibilities of the role (see page 80 for full details). Given this is a relatively new role, the fee level will be kept under review to ensure it adequately reflects the actual time commitments associated with the role.

Current fees levels are shown in the table below.

Fee	
Chair	£388,800
Base fee	£70,000
Senior Independent Director	£17,500
Audit Committee Chair	£17,500
Remuneration Committee Chair	£17,500
SHEAC Chair	£14,000
Non-Executive Director for Employee Engagement	£10,000

Dame Sue Bruce DBE  
Chair of the Remuneration Committee  
21 May 2019



## 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 2019.

The Strategic Report is set out on pages 1 to 71 and the Directors' Report is set out on pages 72 to 142. 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 71
Particulars of important events affecting the Company since the financial year	N/A
Greenhouse gas emissions	28 to 31
Employment of disabled people	33
Employee involvement	32 to 35, 93
A summary of the principal risks facing the Company	66 to 71

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 2019 Annual Report and Accounts:

	Page reference
Statement of amount of interest capitalised by the Group during the financial year	184 to 185
Details of any long-term incentive schemes	116 to 139

### Board of Directors Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2019 are provided on pages 74 to 76.

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.

### 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 pages 16 to 17. An interim dividend of 29.3p per Ordinary Share was paid on 15 March 2019. The Directors propose a final dividend of 68.2p per Ordinary Share. Subject to approval at the 2019 AGM, the final dividend will be paid on 20 September 2019 to shareholders on the Register of Members at close of business on 26 July 2019.

### 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 2019, together with details of any changes during the year, is set out in note 22 to the Financial Statements. As at 21 May 2019, the issued share capital of the Company consisted of 1,042,516,928 Ordinary Shares. This figure includes 7,765,411 ordinary shares which are held in treasury (representing 0.74% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended. During the financial year, and up until 21 May 2019, the Company used 93,555 treasury shares to satisfy the requirements of the employee Sharesave scheme.

The Company was authorised at the 2018 AGM to allot shares, or grant rights over shares up to an aggregate nominal amount equal to £169,196,064.50 (representing 338,392,129 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 2019 AGM.

The Company was authorised at the 2018 AGM to allot up to an aggregate nominal amount of £25,379,409.50 (representing 50,758,819 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 2019 AGM.

### Substantial shareholdings

As at 21 May 2019 (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.

Shareholder	Voting rights attached to shares*		Voting rights through financial instruments*		Total of both in %	Nature of holding
The Capital Group Companies, Inc.	98,966,198	9.97%	–	–	9.97%	Indirect, ADR
BlackRock, Inc.	62,533,475	6.09%	11,848,115	1.15%	7.24%	Indirect, Securities Lending, ADR, CFD
UBS Investment Bank	49,558,763	4.93%	2,444,392	0.23%	5.17%	Indirect, Equity Options, Equity Swaps
Invesco Limited	45,775,918	4.69%	–	–	4.69%	Indirect

\* At date of disclosure by relevant entity.

### Authority to purchase shares

At the 2018 AGM, the Company obtained shareholder approval to purchase up to 101,517,639 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the 2019 AGM and close of business on 30 September 2019.

As part of SSE's £200m capital return programme, announced on 1 February 2019, and in accordance with the Company's share buyback authority granted by shareholders at the Company's Annual General Meeting on 19 July 2018 (being 101,517,639 shares), the EU Market Abuse Regulation and Chapter 12 of the UK Listing Rules, SSE have initiated a discretionary share repurchase programme to reduce the share capital of the company. The programme commenced on 1 April 2019 and as at 21 May 2019, the Company purchased 4,352,633 Ordinary Shares at a total cost of £49,999,995.43 at an average market price of 1,148.72 per share. All 4,352,633 of the shares purchased were cancelled and this number represents 0.42% of the issued share capital as at 21 May 2019.

The Directors will, again, seek renewal of their authority to purchase in the market the Company's own shares at the 2019 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 2019, 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 notes A6 to A8 of the Accompanying Information.

### 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 71.

### 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 Note A5 of the Accompanying Information.

### Annual General Meeting (AGM)

The AGM will be held on 18 July 2019 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](http://sse.com) for those who elected to receive documents electronically.

### 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 72 to 142 has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

  
Sally Fairbairn  
Company Secretary  
21 May 2019

## 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 on the same basis.

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 and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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  
21 May 2019

Gregor Alexander  
Finance Director

## Alternative Performance Measures

When assessing, discussing and measuring the Group's financial performance, management refers 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) <small>APM</small>	Profit measure	Operating profit	<ul style="list-style-type: none"> <li>– Movement on operating and joint venture financing derivatives ("certain re-measurements")</li> <li>– Exceptional items</li> <li>– Share of joint ventures and associates interest and tax</li> <li>– Depreciation and amortisation before exceptional charges (including depreciation and amortisation expense on fair value uplifts)</li> <li>– Reversal of IFRIC 18 adjustment on adoption of IFRS 15</li> <li>– Share of joint ventures and associates depreciation and amortisation</li> <li>– Release of deferred income</li> </ul>
Adjusted operating profit <small>APM</small>	Profit measure	Operating profit	<ul style="list-style-type: none"> <li>– Movement on operating and joint venture financing derivatives ("certain re-measurements")</li> <li>– Exceptional items</li> <li>– Depreciation and amortisation expense on fair value uplifts</li> <li>– Share of joint ventures and associates' interest and tax</li> </ul>
Adjusted profit before tax <small>APM</small>	Profit measure	Profit before tax	<ul style="list-style-type: none"> <li>– Movement on operating and financing derivatives ("certain re-measurements")</li> <li>– Exceptional items</li> <li>– Depreciation and amortisation expense on fair value uplifts</li> <li>– Interest on net pension assets/liabilities (IAS 19R)</li> <li>– Share of joint ventures and associates' tax</li> </ul>
Adjusted net finance costs <small>APM</small>	Profit measure	Net finance costs	<ul style="list-style-type: none"> <li>– Movement on financing derivatives ("certain re-measurements")</li> <li>– Share of joint ventures and associates' interest</li> <li>– Interest on net pension assets/liabilities (IAS 19R)</li> </ul>
Adjusted current tax charge <small>APM</small>	Profit measure	Tax charge	<ul style="list-style-type: none"> <li>– Share of joint ventures and associates' tax</li> <li>– Deferred tax including share of joint ventures and associates</li> <li>– Tax on exceptional items and certain re-measurements</li> <li>– Reclassification of tax liabilities</li> </ul>
Adjusted earnings per share <small>APM</small>	Profit measure	Earnings per share	<ul style="list-style-type: none"> <li>– Exceptional items</li> <li>– Movements on operating and financing derivatives ("certain re-measurements")</li> <li>– Depreciation and amortisation expense on fair value uplifts</li> <li>– Interest on net pension assets/liabilities (IAS 19R)</li> <li>– Deferred tax including share of joint ventures and associates</li> </ul>

## Alternative Performance Measures continued

## Purpose continued

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted net debt and hybrid capital [APM]	Debt measure	Unadjusted net debt	<ul style="list-style-type: none"> <li>– Hybrid equity</li> <li>– Outstanding liquid funds</li> <li>– Finance leases</li> <li>– Cash presented as held for disposal</li> </ul>
Investment and capital expenditure (adjusted) [APM]	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	<ul style="list-style-type: none"> <li>– Other expenditure</li> <li>– Customer funded additions</li> <li>– Allowances and certificates</li> <li>– Disposed additions</li> <li>– Joint venture and associate additions</li> </ul>

[APM] Where the Group has referred to an adjusted performance measure in the financial statements the following sign is presented to denote this.

## Rationale for adjustments

## A) Adjustments to profit measure

## 1. Movement on operating and financing derivatives ("certain re-measurements")

## Operating 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 businesses or to optimise the value of its Wholesale assets. Certain (but not all) of these contracts are determined to be derivative financial instruments under IFRS 9 "Financial Instruments" and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IFRS 9 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 in the reporting period, 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 24 months. Conversely, commodity contracts that are not financial instruments under IFRS 9 are accounted for as "own use" contracts.

## 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 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 certain 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 operations in the reporting period.

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

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 tax on joint ventures and associates.

## 4. Share of joint ventures and associate's 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. Reversal of IFRIC 18 adjustment on adoption of IFRS 15

The Group has restated comparative adjusted EBITDA figures following the adoption of IFRS 15 on 1 April 2018. The adoption of the new standard changed the way the Group accounts for electricity distribution connections (see note 2.1), therefore the adjusted measure has been restated to provide consistently prepared comparatives.

## **Rationale for adjustments continued**

### **A) Adjustments to profit measure continued**

#### **6. Depreciation and amortisation expense on fair value uplifts**

The Group's operating strategy includes securing value creation from divestments of stakes in certain assets and businesses, specifically but not exclusively in its Renewables business. Where SSE's interest in such vehicles changes from full to joint control, and the joint arrangement is an equity accounted joint venture, SSE will recognise a fair value uplift on its retained equity investment. Those uplifts will be treated as exceptional (and non-cash) gains in the year of the relevant transactions completing. These uplifts create assets which are depreciated or amortised over the remaining life of the underlying assets or contracts in those businesses with the charge being included in the Group's adjusted depreciation and amortisation expense. The Group's adjusted operating profit, adjusted profit before tax and adjusted earnings per share have therefore been adjusted to exclude this depreciation and amortisation expense from the fair value uplift given the charges derived from significant one-off gains which are treated as exceptional when initially recognised.

#### **7. Release of deferred income**

The Group deducts the release of deferred income in the year from its adjusted EBITDA metric as it principally relates to customer contributions against depreciating assets. As the metric adds back depreciation, the release of the deferred income is also deducted.

#### **8. 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.

#### **9. 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. In the previous year, the current tax APM was 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**

#### **10. 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 profit before tax 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.

#### **11. 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 to better reflect the immediate cash resources it has access to, which in turn better reflects the Group's funding position.

#### **12. 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. Following adoption of IFRS 16 "Leases" on 1 April 2019, this adjustment will also include any liabilities resulting from the treatment of current operating leases under that accounting standard.

#### **13. Cash presented as held for disposal**

A balance of cash has been presented as held for disposal as it will be disposed of on completion of pending transactions. As the Group continues to fund these businesses through intercompany loans and borrowings, and will continue to do so until completion, the cash included within these businesses has been included as an adjustment in the Group's adjusted net debt measure.

### **C) Adjustments to Capex Measure**

#### **14. Other expenditure**

Other expenditure primarily represents subsequently derecognised development expenditure which is excluded to better reflect the Group's ongoing capital position.

#### **15. Customer funded additions**

Customer funded additions represents additions to electricity and other networks funded by customer contributions. Given these additions are directly funded by customers, they have been excluded to better reflect the Group's underlying investment position.

#### **16. 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.

## Alternative Performance Measures continued

**17. Disposed additions**

Disposed additions represents capital additions related to the Group's Stronelaig and Dumnaglass Wind Farms prior to disposal of 49.9% interest on 31 March 2019 and the Group's Telecoms business prior to disposal of 50% interest on 29 March 2019. Prior year disposed additions represent capital additions related to the Group's MFE2 plant at Ferrybridge prior to disposal of 50% interest on 4 September 2017 (see note 12). These have been excluded to better reflect the Group's net capital investment.

**18. 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 2019 £m	March 2018 £m	March 2017 £m
Adjusted operating profit	1,137.6	1,554.8	1,604.6
Adjusted net finance costs	(411.9)	(375.5)	(328.1)
<b>Adjusted profit before tax (PBT) <sup>(APM)</sup></b>	<b>725.7</b>	<b>1,179.3</b>	<b>1,276.5</b>
Adjusted current tax credit/(charge)	6.8	(82.5)	(103.8)
<b>Adjusted profit after tax (PAT) <sup>(APM)</sup></b>	<b>732.5</b>	<b>1,096.8</b>	<b>1,172.7</b>
Hybrid coupon paid	(46.6)	(98.5)	(119.3)
<b>Adjusted profit after tax attributable to ordinary shareholders for EPS <sup>(APM)</sup></b>	<b>685.9</b>	<b>998.3</b>	<b>1,053.4</b>
Number of shares for EPS	1,021.7	1,010.9	1,009.7
<b>Adjusted earnings per share <sup>(APM)</sup></b>	<b>67.1</b>	<b>98.8</b>	<b>104.3</b>
<b>Adjusted EBITDA <sup>(APM)</sup></b>	<b>1,868.6</b>	<b>2,291.8</b>	<b>2,297.6</b>
Depreciation, impairment and amortisation, before exceptional charges	(620.6)	(744.9)	(731.2)
Reversal of IFRIC 18 adjustment on adoption of IFRS 15	-	98.6	131.9
Depreciation charge on fair value uplifts	2.9	4.8	4.1
Release of deferred income	10.2	20.6	18.0
Share of joint ventures and associates depreciation and amortisation	(123.5)	(116.1)	(115.8)
<b>Adjusted operating profit <sup>(APM)</sup></b>	<b>1,137.6</b>	<b>1,554.8</b>	<b>1,604.6</b>
<b>Adjusted operating profit <sup>(APM)</sup></b>	<b>1,137.6</b>	<b>1,554.8</b>	<b>1,604.6</b>
Movement on operating and joint venture financing derivatives	(327.0)	(85.8)	203.1
Exceptional items	1,039.9	(156.4)	88.1
Depreciation and amortisation expense on fair value uplifts	(2.9)	(4.8)	(4.1)
Share of joint ventures and associates interest and tax	(155.4)	(150.4)	(128.4)
<b>Reported operating profit</b>	<b>1,692.2</b>	<b>1,157.4</b>	<b>1,763.3</b>
<b>Adjusted profit before tax PBT <sup>(APM)</sup></b>	<b>725.7</b>	<b>1,179.3</b>	<b>1,276.5</b>
Movement on operating and financing derivatives	(371.8)	(118.8)	255.7
Exceptional items	1,039.9	(156.4)	88.1
Depreciation and amortisation expense on fair value uplifts	(2.9)	(4.8)	(4.1)
Interest on net pension assets/(liabilities)	11.4	2.9	(3.1)
Share of joint ventures and associates tax	(31.7)	(37.8)	(13.7)
<b>Reported profit before tax</b>	<b>1,370.6</b>	<b>864.4</b>	<b>1,599.4</b>
<b>Adjusted net finance costs <sup>(APM)</sup></b>	<b>411.9</b>	<b>375.5</b>	<b>328.1</b>
Movement on financing derivatives	44.8	33.0	(52.6)
Share of joint ventures and associates interest	(123.7)	(112.6)	(114.7)
Interest on net pension (assets)/liabilities	(11.4)	(2.9)	3.1
<b>Reported net finance costs</b>	<b>321.6</b>	<b>293.0</b>	<b>163.9</b>
<b>Adjusted current tax (credit)/charge <sup>(APM)</sup></b>	<b>(6.8)</b>	<b>82.5</b>	<b>103.8</b>
Share of joint ventures and associates tax	(31.7)	(37.8)	(13.7)
Deferred tax including share of joint ventures and associates	71.9	288.1	29.9
Reclassification of tax liabilities	-	(101.3)	-
Tax on exceptional items and certain re-measurement	(91.0)	(115.1)	(97.6)
<b>Reported tax (credit)/charge</b>	<b>(57.6)</b>	<b>116.4</b>	<b>22.4</b>



	March 2019 £m	March 2018 £m	March 2017 £m
<b>Adjusted net debt and hybrid capital</b> <small>[APM]</small>	<b>(9,385.5)</b>	<b>(9,221.8)</b>	<b>(8,483.0)</b>
Hybrid capital	1,169.7	1,169.7	2,209.7
<b>Adjusted net debt</b> <small>[APM]</small>	<b>(8,215.8)</b>	<b>(8,052.1)</b>	<b>(6,273.3)</b>
Outstanding liquid funds	(344.2)	(75.1)	(105.2)
Finance leases	(229.3)	(251.1)	(276.9)
Cash presented as held for disposal	(95.2)	–	–
<b>Unadjusted net debt</b>	<b>(8,884.5)</b>	<b>(8,378.3)</b>	<b>(6,655.4)</b>
<b>Investment and capital expenditure (adjusted)</b> <small>[APM]</small>	<b>1,422.9</b>	<b>1,503.0</b>	<b>1,726.2</b>
Other expenditure	–	–	4.2
Customer funded additions	224.7	82.0	112.8
Allowances and certificates	954.0	712.9	633.5
Additions through business combinations	143.4	–	–
Disposed additions	195.3	60.6	15.6
Joint ventures and associates additions	(292.5)	(110.3)	(105.0)
<b>Capital additions to intangible assets and property, plant and equipment</b>	<b>2,647.8</b>	<b>2,248.2</b>	<b>2,387.3</b>
Capital additions to intangible assets	1,333.3	967.0	779.5
Capital additions to property, plant and equipment	1,314.5	1,281.2	1,607.8
<b>Capital additions to intangible assets and property, plant and equipment</b>	<b>2,647.8</b>	<b>2,248.2</b>	<b>2,387.3</b>

The following table summarises the impact of excluding SSE Energy Services from the continuing activities of the Group in current and prior years:

	March 2019 £m	March 2018 £m	March 2017 £m
Adjusted EBITDA of SSE Group (including SSE Energy Services)	2,008.6	2,622.5	2,591.3
Less: SSE Energy Services	(140.0)	(330.7)	(293.7)
<b>Adjusted EBITDA of continuing operations</b> <small>[APM]</small>	<b>1,868.6</b>	<b>2,291.8</b>	<b>2,297.6</b>
Adjusted operating profit of SSE Group (including SSE Energy Services)	1,227.2	1,833.5	1,878.1
Less: SSE Energy Services	(89.6)	(278.7)	(273.5)
<b>Adjusted operating profit of continuing operations</b> <small>[APM]</small>	<b>1,137.6</b>	<b>1,554.8</b>	<b>1,604.6</b>
Adjusted profit before tax of SSE Group (including SSE Energy Services)	815.3	1,458.0	1,550.0
Less: SSE Energy Services	(89.6)	(278.7)	(273.5)
<b>Adjusted profit before tax of continuing operations</b> <small>[APM]</small>	<b>725.7</b>	<b>1,179.3</b>	<b>1,276.5</b>
Adjusted current tax of SSE Group (including SSE Energy Services)	11.3	130.7	157.7
Less: SSE Energy Services	(18.1)	(48.2)	(53.9)
<b>Adjusted current tax of continuing operations</b> <small>[APM]</small>	<b>(6.8)</b>	<b>82.5</b>	<b>103.8</b>
Adjusted profit after tax of SSE Group (including SSE Energy Services)	804.0	1,327.3	1,392.3
Less: SSE Energy Services	(71.5)	(230.5)	(219.6)
<b>Adjusted profit after tax of continuing operations</b> <small>[APM]</small>	<b>732.5</b>	<b>1,096.8</b>	<b>1,172.7</b>
Adjusted earnings per share of SSE Group (including SSE Energy Services)	74.1	121.6	126.1
Less: SSE Energy Services	(7.0)	(22.8)	(21.8)
<b>Adjusted earnings per share of continuing operations</b> <small>[APM]</small>	<b>67.1</b>	<b>98.8</b>	<b>104.3</b>

The remaining APMs presented by the Group are unchanged in all periods presented by the classification of SSE Energy Services as a discontinued operation.

## Financial statements

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## Consolidated income statement for the year ended 31 March 2019

	note	2019			2018		
		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
<b>Continuing operations</b>							
Revenue (i)	5	7,331.6	–	7,331.6	27,250.4	–	27,250.4
Cost of sales (ii)	6	(5,458.4)	(328.2)	(5,786.6)	(24,884.5)	(89.1)	(24,973.6)
<b>Gross profit</b>		<b>1,873.2</b>	<b>(328.2)</b>	<b>1,545.0</b>	<b>2,365.9</b>	<b>(89.1)</b>	<b>2,276.8</b>
Operating costs	6	(1,063.2)	1,040.2	(23.0)	(1,147.2)	(156.4)	(1,303.6)
Other operating income		41.0	–	41.0	38.0	–	38.0
<b>Operating profit before joint ventures and associates</b>		<b>851.0</b>	<b>712.0</b>	<b>1,563.0</b>	<b>1,256.7</b>	<b>(245.5)</b>	<b>1,011.2</b>
<b>Joint ventures and associates:</b>							
Share of operating profit		283.7	(0.3)	283.4	293.3	–	293.3
Share of interest		(123.7)	–	(123.7)	(112.6)	–	(112.6)
Share of movement on derivatives		–	1.2	1.2	–	3.3	3.3
Share of tax		(31.5)	(0.2)	(31.7)	(37.2)	(0.6)	(37.8)
<b>Share of profit on joint ventures and associates</b>	16	<b>128.5</b>	<b>0.7</b>	<b>129.2</b>	<b>143.5</b>	<b>2.7</b>	<b>146.2</b>
<b>Operating profit from continuing operations</b>	5	<b>979.5</b>	<b>712.7</b>	<b>1,692.2</b>	<b>1,400.2</b>	<b>(242.8)</b>	<b>1,157.4</b>
Finance income	9	87.0	–	87.0	102.1	–	102.1
Finance costs	9	(363.8)	(44.8)	(408.6)	(362.1)	(33.0)	(395.1)
<b>Profit before taxation</b>		<b>702.7</b>	<b>667.9</b>	<b>1,370.6</b>	<b>1,140.2</b>	<b>(275.8)</b>	<b>864.4</b>
Taxation	10	(33.4)	91.0	57.6	(231.5)	115.1	(116.4)
<b>Profit for the year from continuing operations</b>	12	<b>669.3</b>	<b>758.9</b>	<b>1,428.2</b>	<b>908.7</b>	<b>(160.7)</b>	<b>748.0</b>
<b>Discontinued operations</b>							
Profit/(loss) from discontinued operation, net of tax		71.5	(44.0)	27.5	230.6	(58.5)	172.1
<b>Profit for the year</b>		<b>740.8</b>	<b>714.9</b>	<b>1,455.7</b>	<b>1,139.3</b>	<b>(219.2)</b>	<b>920.1</b>
<b>Attributable to:</b>							
Ordinary shareholders of the parent	11	694.2	714.9	1,409.1	1,040.8	(219.2)	821.6
Other equity holders		46.6	–	46.6	98.5	–	98.5
<b>Earnings per share</b>							
Basic (pence)	11			137.9			81.3
Diluted (pence)	11			137.9			81.2
<b>Earnings per share – continuing operations</b>							
Basic (pence)				135.2			64.3
Diluted (pence)				135.2			64.2

(i) On 1 April 2018 the Group adopted IFRS 15, which had the effect of reducing the Group's revenue by £18,989.7m and reducing cost of sales by £18,985.2m. See note 2.1.

The accompanying notes are an integral part of these financial statements.

## Consolidated statement of comprehensive income for the year ended 31 March 2019

	2019 £m	2018 £m
<b>Profit for the year</b>	<b>1,455.7</b>	<b>920.1</b>
<b>Other comprehensive income:</b>		
<b>Items that will be reclassified subsequently to profit or loss:</b>		
Net losses on cash flow hedges	(12.0)	(29.5)
Transferred to assets and liabilities on cash flow hedges	(3.6)	1.4
Taxation on cashflow hedges	2.0	5.0
	(13.6)	(23.1)
Reversal of unrealised losses following disposal of investments recognised in income statement, net of taxation	–	14.4
Share of other comprehensive loss of joint ventures and associates, net of taxation	(33.5)	(6.9)
Exchange difference on translation of foreign operations	(27.1)	27.8
Gain/(loss) on net investment hedge, net of taxation	16.9	(18.3)
	(57.3)	(6.1)
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial (loss)/gain on retirement benefit schemes, net of taxation	(61.4)	178.6
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	(5.2)	47.3
	(66.6)	225.9
<b>Other comprehensive (loss)/gain, net of taxation</b>	<b>(123.9)</b>	<b>219.8</b>
<b>Total comprehensive income for the period</b>	<b>1,331.8</b>	<b>1,139.9</b>
<b>Attributable to:</b>		
Ordinary shareholders of the parent	1,285.2	1,041.4
Other equity holders	46.6	98.5
	<b>1,331.8</b>	<b>1,139.9</b>

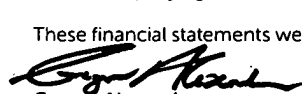
The accompanying notes are an integral part of these financial statements.

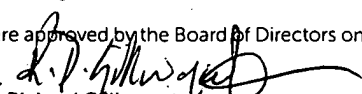
## Consolidated balance sheet as at 31 March 2019

	Note	2019 £m	2018 Restated £m
<b>Assets</b>			
Property, plant and equipment	14	12,429.4	12,343.3
Goodwill and other intangible assets	13	990.2	1,486.1
Equity investments in joint ventures and associates	16	1,899.0	977.0
Loans to joint ventures and associates	16	935.4	781.0
Other investments	16	0.5	4.8
Deferred tax assets	10	302.8	294.7
Derivative financial assets	24	325.9	336.4
Retirement benefit assets	23	537.7	572.1
<b>Non-current assets</b>		<b>17,420.9</b>	<b>16,795.4</b>
Intangible assets	13	800.3	712.5
Inventories	17	228.5	225.9
Trade and other receivables	18	3,144.6	4,071.7
Cash and cash equivalents	21	431.6	232.2
Derivative financial assets	24	1,452.2	1,060.1
Current assets held for disposal	12	1,864.3	117.2
<b>Current assets</b>		<b>7,921.5</b>	<b>6,419.6</b>
<b>Total assets</b>		<b>25,342.4</b>	<b>23,215.0</b>
<b>Liabilities</b>			
Loans and other borrowings	21	697.4	650.3
Trade and other payables	19	4,012.9	4,977.6
Current tax liabilities	10	12.5	117.9
Provisions	20	12.2	20.6
Derivative financial liabilities	24	1,882.4	1,253.1
Liabilities held for disposal	12	1,091.9	-
<b>Current liabilities</b>		<b>7,709.3</b>	<b>7,019.5</b>
Loans and other borrowings	21	8,618.7	7,960.2
Deferred tax liabilities	10	947.0	1,002.8
Trade and other payables	19	355.4	385.3
Provisions	20	1,017.7	812.5
Retirement benefit obligations	23	250.6	237.6
Derivative financial liabilities	24	602.4	566.9
<b>Non-current liabilities</b>		<b>11,791.8</b>	<b>10,965.3</b>
<b>Total liabilities</b>		<b>19,501.1</b>	<b>17,984.8</b>
<b>Net assets</b>		<b>5,841.3</b>	<b>5,230.2</b>
<b>Equity:</b>			
Share capital	22	523.4	511.5
Share premium		879.6	890.3
Capital redemption reserve		34.8	34.8
Hedge reserve		(62.6)	(15.5)
Translation reserve		33.1	43.3
Retained earnings		3,263.3	2,596.1
<b>Equity attributable to ordinary shareholders of the parent</b>		<b>4,671.6</b>	<b>4,060.5</b>
Hybrid equity	22	1,169.7	1,169.7
<b>Total equity</b>		<b>5,841.3</b>	<b>5,230.2</b>

The 2018 balance sheet has been re-presented following a reclassification of certain software assets. See note 1.2.  
The accompanying notes are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 21 May 2019 and signed on their behalf by:

  
Gregor Alexander,  
Finance Director

  
Richard Gillingwater,  
Chair

SSE plc Registered No: SC117119

## Consolidated statement of changes in equity for the year ended 31 March 2019

	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 2018 (ii)	511.5	890.3	34.8	(15.5)	43.3	2,598.6	4,063.0	1,169.7	5,232.7
Total comprehensive income for the year	–	–	–	(47.1)	(10.2)	1,342.5	1,285.2	46.6	1,331.8
Dividends to shareholders	–	–	–	–	–	(973.0)	(973.0)	–	(973.0)
Scrip dividend related share issue	11.9	(11.9)	–	–	–	283.1	283.1	–	283.1
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(46.6)	(46.6)
Issue of shares	–	1.2	–	–	–	–	1.2	–	1.2
Credit in respect of employee share awards	–	–	–	–	–	15.7	15.7	–	15.7
Investment in own shares	–	–	–	–	–	(3.6)	(3.6)	–	(3.6)
<b>At 31 March 2019</b>	<b>523.4</b>	<b>879.6</b>	<b>34.8</b>	<b>(62.6)</b>	<b>33.1</b>	<b>3,263.3</b>	<b>4,671.6</b>	<b>1,169.7</b>	<b>5,841.3</b>

(ii) Opening reserves at 1 April 2018 have been increased by £2.5m following adoption of IFRS 15 (see note 2.1).

	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)
<b>At 31 March 2018</b>	<b>511.5</b>	<b>890.3</b>	<b>34.8</b>	<b>(15.5)</b>	<b>43.3</b>	<b>2,596.1</b>	<b>4,060.5</b>	<b>1,169.7</b>	<b>5,230.2</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated cash flow statement for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Operating profit – continuing operations		1,692.2	1,157.4
Operating profit – discontinued operations	12	35.3	221.8
<b>Operating profit – total operations</b>		<b>1,727.5</b>	<b>1,379.2</b>
Less: share of profit of joint ventures and associates		(129.2)	(146.2)
<b>Operating profit before jointly controlled entities and associates</b>		<b>1,598.3</b>	<b>1,233.0</b>
Pension service charges, less contributions paid	23	(25.5)	(39.5)
Movement on operating derivatives	24	328.2	89.1
Depreciation, amortisation, write downs and impairments		748.2	1,036.8
Charge in respect of employee share awards (before tax)		20.8	21.7
Profit on disposal of assets and businesses	12	(1,122.2)	(34.9)
Release of provisions	20	(33.9)	(20.5)
Release of deferred income	5	(10.2)	(20.6)
<b>Cash generated from operations before working capital movements</b>		<b>1,503.7</b>	<b>2,265.1</b>
(Increase)/decrease in inventories		(3.4)	43.2
(Increase) in receivables		(57.6)	(313.1)
(Decrease) in payables		(116.8)	(97.8)
Increase/(decrease) in provisions		23.8	(7.9)
<b>Cash generated from operations</b>		<b>1,349.7</b>	<b>1,889.5</b>
Dividends received from investments	16	121.9	171.9
Interest paid		(251.9)	(201.8)
Taxes paid		(43.0)	(132.2)
<b>Net cash from operating activities</b>		<b>1,176.7</b>	<b>1,727.4</b>
<b>Purchase of property, plant and equipment</b>	5	<b>(1,226.4)</b>	<b>(1,313.6)</b>
Purchase of other intangible assets	5	(282.4)	(244.7)
Deferred income received		20.9	12.2
Proceeds from disposals	12	1,145.9	151.5
Loans and equity provided to joint ventures and associates	16	(318.0)	(140.4)
Purchase of businesses and subsidiaries	12	(119.8)	–
Loans and equity repaid by joint ventures	16	57.3	128.0
<b>Net cash from investing activities</b>		<b>(722.5)</b>	<b>(1,407.0)</b>
Proceeds from issue of share capital		1.2	16.6
Dividends paid to Company's equity holders		(689.9)	(594.5)
Redemption of Hybrid equity		–	(1,132.4)
Hybrid equity dividend payments		(46.6)	(98.5)
Employee share awards share purchase		(3.6)	(19.8)
New borrowings	21	1,260.0	859.0
Repayment of borrowings	21	(677.1)	(175.4)
Settlement of cashflow hedges		(3.6)	1.4
Repurchase of own shares		–	(371.6)
<b>Net cash from financing activities</b>		<b>(159.6)</b>	<b>(1,515.2)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>294.6</b>	<b>(1,194.8)</b>
Cash and cash equivalents at the start of year	21	232.2	1,427.0
Net increase/(decrease) in cash and cash equivalents		294.6	(1,194.8)
Transfer to held for disposal		(95.2)	–
<b>Cash and cash equivalents at the end of year</b>		<b>431.6</b>	<b>232.2</b>

The accompanying notes are an integral part of these financial statements.

## Notes to the consolidated financial statements for the year ended 31 March 2019

### 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 2019 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 248 to 259 [\[2\]](#).

#### 1.2 Basis of preparation

##### Statement of compliance

The financial statements were authorised for issue by the directors on 21 May 2019. 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 240 [\[2\]](#).

##### 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 219 [\[2\]](#).

##### 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 160 to 163 [\[2\]](#).

##### Changes to presentation

During the year, the Group assessed that its GB domestic energy supply and energy related service activities met the criteria to be presented as held for disposal (see note 4.1 (iii)). As a result, the comparative income statement and related notes have been re-presented to exclude the activities held for disposal, in line with the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

During the year, the Group reclassified certain software assets with net book value of £778.4m at 31 March 2018 (31 March 2017: £700.7m) from property, plant and equipment to intangible assets. The software assets had been classified as property, plant and equipment as they had been considered integral to certain hardware assets. However, on review, the Group has reassessed this classification and presented the assets as intangible assets. Due to the size of the reclassification, an adjustment to the comparative balance sheet has been made. The adjustment has no impact on gross assets, net assets, retained earnings or current profit measures. In addition, the re-presentation has no impact on any of the Group's adjusted performance measures.

### 2. New accounting policies and reporting changes

The 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 219 to 228 [\[2\]](#).

#### 2.1 New standards, amendments and interpretations effective or adopted by the Group

The accounting policies are consistent with those of the prior period, except for the following new standards which became effective for the period beginning on 1 April 2018. There are no other new standards or interpretations effective for the year ended 31 March 2019, in addition to the below, which are considered to have a material impact on the Consolidated Financial Statements of the Group.

##### IFRS 9 "Financial Instruments"

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 based on 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.



## **2. New accounting policies and reporting changes** continued

### **2.1 New standards, amendments and interpretations effective or adopted by the Group** continued

As a result of adopting IFRS 9, unquoted equity instruments previously measured at amortised cost have been classified as equity instruments and measured at fair value through other comprehensive income. The value of unquoted equity instruments reclassified at 1 April 2018 was £4.8m. Adoption has not resulted in changes to the carrying value of these, or any other, financial instruments held by the Group.

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.

#### **(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.

Adoption of IFRS 9 has not resulted in any movement on the calculated impairment provisions. 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 as required by IFRS 9 did not result in a material change to the Group's provisioning at 31 March 2019.

#### **(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.

As previously noted in the 2018 Annual Report, 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.

#### **Transition approach**

The Group has applied the exemption from the requirement to restate comparative information about classification and measurement, including impairment. The impact of adopting IFRS 9 on the Group's Balance Sheet and Retained Earnings was deemed to be immaterial, and as such no adjustments have been recorded on transition.

#### **IFRS 15 "Revenue from Contracts with Customers"**

This standard replaces IAS 11 "Construction contracts", IAS 18 "Revenue", IFRIC 18 "Transfers of Assets from Customers" and several 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:

#### **Transition approach**

The Group has applied the "Modified Retrospective" transition approach, whereby prior periods are not restated to reflect the above changes in accounting policies, with the cumulative effect of initially applying IFRS 15 recognised on 1 April 2018 instead. The Group has also elected to take advantage of the practical expedient whereby contracts that have been completed under the previous accounting policies at the beginning of the earliest period are not restated. The details of the significant changes to revenue accounting policies, as updated in accompanying information note A1.2, and quantitative impact of the changes can be summarised for each Business Area as follows:

#### **Networks**

Revenue relating to Distribution Connections is 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.

#### **Retail – continuing operations**

Revenue and costs relating to Third Party Intermediary companies (used by Business Energy customers to support and advise them in changing Supplier) are offset within cost of sales in the Income Statement, rather than recognised gross as previously applied.

For construction contracts undertaken by the Enterprise segment, revenue is recognised on a "costs incurred" input basis with costs expensed as they occur, rather than the margin mark-up basis previously applied. This change in treatment removes work in progress from the Group's balance sheet.

#### **Retail – discontinued operations**

Revenue and costs relating to customer support schemes (such as the Warm Home Discount) are offset within revenue in the Income Statement, rather than recognised gross as previously applied.

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 – revenue is recognised when the equipment is delivered rather than over the customer contract period as previously applied.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 2. New accounting policies and reporting changes continued

#### 2.1 New standards, amendments and interpretations effective or adopted by the Group continued

##### Wholesale

As previously noted within the 2018 Annual Report, the presentation of sales and purchases of commodity optimisation trades on a gross or net basis varies across the Group's industry peer group. Due to the adoption of IFRS 15, and the clear principles defining "revenue" contained within, a review was undertaken to conclude on whether a gross or net presentation of sales and purchases of commodity trades provided a more relevant reflection of their underlying economic reality. The review, which completed during the first half of this financial year, concluded that whilst a gross presentation of sales commodity optimisation trades was acceptable under previous revenue standards, it neither reflects the revised principles defining revenue nor the underlying economic purpose for this trading and should therefore be presented net in cost of sales alongside purchase commodity optimisation trades. As this change is a direct consequence of adopting IFRS 15, and the clear principles defining "revenue" contained within, the Group has applied the transition approach afforded by that standard and applied a net presentation from 1 April 2018 onwards. This change to presentation had no impact on the operating profit of the Group's EPM segment.

In November 2018, the IFRIC published a tentative pronouncement on the accounting treatment applied to the physical settlement of contracts to buy or sell a non-financial item. This pronouncement, which was subsequently ratified in March 2019, concluded that entities should not reverse previously recognised fair value gains or losses on derivatives through different Income Statement line items upon settlement. In particular, the IFRIC noted that there is no gain or loss on the derivative arising as a result of settlement. We consider the net presentation approach applied by the Group from 1 April 2018 for EPM commodity trades as described above to be consistent with the IFRIC pronouncement.

##### Adoption impact

On adoption of IFRS 15 on 1 April 2018, the opening reserves of the Group were increased by £2.5m, reflecting the IFRS 15 margin now recognised on construction contracts in progress at that date. Going forward the Property, Plant and Equipment and deferred income of the Group are expected to be higher as a result of the adoption of the standard as connections income are amortised rather than recognised on completion. At 31 March 2019 property, plant and equipment balances are £113.9m higher and deferred income is £117.3m higher than they would have been under historical accounting policies. The application of IFRS 15 has resulted in the following revenue and operating profit adjustments being made to the amounts recognised in these Financial Statements:

##### Reported revenue by segment

	Historic revenue policies 2019 £m	IFRS 15 Adjustments 2019 £m	Reported revenue 2019 £m
<b>Continuing operations</b>			
<b>Networks</b>			
Electricity Distribution (i)	793.6	(117.2)	676.4
Electricity Transmission	395.7	–	395.7
	<b>1,189.3</b>	<b>(117.2)</b>	<b>1,072.1</b>
<b>Retail</b>			
Business Energy	2,645.7	(52.8)	2,592.9
Airtricity	1,087.3	–	1,087.3
Enterprise	494.8	(11.0)	483.8
	<b>4,227.8</b>	<b>(63.8)</b>	<b>4,164.0</b>
<b>Wholesale</b>			
Electricity Generation	549.0	–	549.0
EPM (ii)	20,240.8	(18,808.7)	1,432.1
Gas Storage	24.2	–	24.2
Gas Production	30.1	–	30.1
	<b>20,844.1</b>	<b>(18,808.7)</b>	<b>2,035.4</b>
Corporate unallocated	60.1	–	60.1
<b>Total continuing operations</b>	<b>26,321.3</b>	<b>(18,989.7)</b>	<b>7,331.6</b>
<b>Discontinued operations</b>			
SSE Energy Services – Energy Supply	3,510.3	(44.5)	3,465.8
SSE Energy Services – Energy Related Services	119.6	(0.7)	118.9
<b>Total discontinued operations</b>	<b>3,629.9</b>	<b>(45.2)</b>	<b>3,584.7</b>
<b>Total SSE Group</b>	<b>29,951.2</b>	<b>(19,034.9)</b>	<b>10,916.3</b>

## 2. New accounting policies and reporting changes continued

### 2.1 New standards, amendments and interpretations effective or adopted by the Group continued

#### Reported operating profit/(loss) by segment

	Historic revenue policies 2019 £m	IFRS 15 Adjustments 2019 £m	Reported operating profit 2019 £m
<b>Continuing operations</b>			
<b>Networks</b>			
Electricity Distribution (i)	404.7	(3.4)	401.3
Electricity Transmission	252.1	–	252.1
Gas Distribution	85.1	–	85.1
	741.9	(3.4)	738.5
<b>Retail</b>			
Business Energy	51.6	–	51.6
Airtricity	38.6	–	38.6
Enterprise	32.9	(1.1)	31.8
	123.1	(1.1)	122.0
<b>Wholesale</b>			
Electricity Generation	1,192.3	–	1,192.3
EPM (ii)	(613.1)	–	(613.1)
Gas Storage	(5.7)	–	(5.7)
Gas Production	78.6	–	78.6
	652.1	–	652.1
Corporate unallocated	179.6	–	179.6
<b>Total continuing operations</b>	<b>1,696.7</b>	<b>(4.5)</b>	<b>1,692.2</b>
<b>Discontinued operations</b>			
SSE Energy Services – Energy Supply	29.7	–	29.7
SSE Energy Services – Energy Related Services	3.8	1.8	5.6
<b>Total discontinued operations</b>	<b>33.5</b>	<b>1.8</b>	<b>35.3</b>
<b>Total SSE Group</b>	<b>1,730.2</b>	<b>(2.7)</b>	<b>1,727.5</b>

(i) The reduction to Electricity Distribution revenue of £117.2m is offset by a reduction to depreciation of £113.8m. Therefore, the net operating profit impact is £3.4m in the period.

(ii) The reduction in EPM revenue of £18,808.7m is offset by an equal reduction to cost of sales, to present all transactions entered into for the purposes of optimisation on a net basis. There is no impact of this adjustment on operating profit or cashflows of the EPM segment.

### 2.2 New standards, amendments and interpretations issued, but not yet adopted by the Group

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:

#### 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 related interpretations in setting 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.

#### Transition approach

The Group will apply the "Modified Retrospective" approach, whereby comparative figures are not restated. Instead, the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. The Group has elected to apply the following practical expedients, as allowed by the standard, on initial application:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on the assessment of whether leases are onerous through applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately prior to transition;
- exclude initial direct costs from the measurement of the right-of-use asset; and
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Furthermore, the Group will apply the exemptions within the standard whereby both leases with a duration of 12 months or less and leases for assets which are deemed "low value" will continue to be expensed to the income statement on a straight-line basis over the lease term.

In determining whether any break and/or extension clauses should be included within the lease term, the Group has considered that any clauses will not be triggered where the non-cancellable element of the lease term has longer than five years remaining as any decision beyond that date is not reasonably certain. For leases with less than five years remaining, an assessment is made on a lease-by-lease basis on whether the clause is reasonably certain to be triggered.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 2. New accounting policies and reporting changes continued

#### 2.2 New standards, amendments and interpretations issued, but not yet adopted by the Group continued

Where the interest rate implicit in the lease is not readily determined, the Group will apply the intercompany borrowing rate which is based on the Group's external borrowing rates with premia adjustments for any subsidiary specific risk factors.

The changes resulting from adoption of the standard can be summarised in the following two areas as previously referenced:

##### (i) Identification of a lease

The standard introduces a distinction between a lease and a service contract based on whether a customer is able to control an identifiable asset. Certain existing operating and finance leases under IAS 17 – predominantly obligations under Power Purchase Agreements with various power generating companies – fail to meet this definition, and therefore will be treated as service contracts. However, whilst some existing service contracts may now meet this definition and therefore would be treated as leases, limited examples were identified through the review.

##### (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. Operating lease expenses will be replaced by a depreciation expense on right-of-use assets recognised and an interest expense as the interest rate implicit in the lease liabilities unwinds. When the interest rate implicit in the lease cannot be readily determined, the Group's incremental borrowing rate will be used as an alternative.

##### Other considerations

In March 2019, the IFRIC published a tentative pronouncement on the accounting treatment applied to Subsurface Rights following a submission concerning a specific subsurface contract the submitter had entered into. The pronouncement concluded that, in determining which accounting standard should apply, an entity should first consider whether the contract contains a lease as defined in IFRS 16. The pronouncement went on to conclude that, for the specific subsurface contract described by the submitter, a lease was present as defined under IFRS 16.

Whilst the Group has several contractual arrangements concerning subsurface rights – principally in the form of Wayleaves, Easements and Deeds of Servitude – the IFRS 16 adoption project concluded that no leases were present as the Group did not have the right to obtain substantially all the economic benefits from use. The Group considers that this conclusion is unaffected by the IFRIC's pronouncement, as the facts and circumstances between the submitted subsurface contract and the Group's subsurface contracts considered are different, however will continue to monitor the IFRIC's position as this tentative pronouncement is finalised.

##### Adoption impact

As at the reporting date, the Group has non-cancellable operating lease commitments of £430.9m (see note 25.2).

On adoption of IFRS 16, the Group anticipates recognising an additional right-of-use asset of approximately £230m and a lease liability of approximately £285m, with a corresponding approximate £55m decrease in equity. This value is lower than the value of non-cancellable operating lease commitments due to the exclusion of short term and low value leases (which will continue to be expensed to the income statement), operating leases under IAS 17 which do not meet the lease criteria under IFRS 16 and the effect of discounting.

Furthermore, the Group anticipates that £4.8m of finance lease assets and £2.9m of finance lease liabilities recognised under IAS 17 will be derecognised on adoption of IFRS 16, as they no longer meet the lease criteria.

The anticipated Income Statement impact (based on lease contracts in existence at 31 March 2019) is a reduction in Operating Costs of approximately £45m, offset by increases in depreciation of approximately £35m and finance costs of approximately £15m. These figures do not include the taxation impact and are subject to finalisation.

##### 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.

##### 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.

### 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" that 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), depreciation on fair value uplifts 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), depreciation on fair value uplifts, 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 to its equity-accounted joint ventures and associates. This measure excludes exceptional items and certain re-measurements (see below), depreciation charged on fair value uplifts, 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 has restated comparative adjusted EBITDA figures following the adoption of IFRS 15 on 1 April 2018. The adoption of the new standard changed the way the Group accounts for electricity distribution connections (see note 2.1), therefore the adjusted measure has been restated to provide consistently prepared comparatives.

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), depreciation on fair value uplifts, 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, cash presented as held for disposal 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 or which otherwise support Group operations 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 a source of funding to the vehicle through either loans or equity. The Group does not include project funded ventures in this metric nor does it include other capital invested in joint ventures and 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 to 146 .

 Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 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, reversals of historic impairments, 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.

*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 IFRS 9 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

The preparation of these financial statements has specifically considered the following significant financial judgements, some of which are also areas of estimation uncertainty, as noted below.

##### (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 2019 are intangible development assets and specific property, plant and equipment assets related to gas production and thermal power generation (specifically Great Island, Keadby and Marchwood) as they displayed indicators of impairment. 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.

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.

##### Changes from prior year

In the prior year the Group's Glendoe hydro-electric generation plant also displayed indicators of impairment and was subject to a detailed impairment test. In the year ended 31 March 2019, the Group reached an out of court settlement with Hochtief in respect of its claim for damages which was subsequently allocated against the asset's carrying value. Following the settlement, the Group assessed the impairment risk over that asset no longer represented a significant financial judgement.

##### (ii) Presentation of SSE Energy Services as held for disposal – 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 ("SSE Energy Services") and combination with innogy's subsidiary, npower Group plc, to form a new independent UK incorporated company. At 31 March 2018, the Group did not consider that the IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" criteria were met, given shareholder and regulatory approval was required for that transaction, and significant separation work was required.

## 4. Accounting judgements and estimation uncertainty continued

### 4.1 Significant financial judgements continued

At 30 September 2018, the Group assessed that the IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" criteria to present the business as held for disposal were met given it was highly probable that a disposal transaction would be completed following shareholder approval, provisional regulatory approval and significant separation work undertaken in the period. This assessment was revisited and reconfirmed after the delay to the Innogy proposed transaction announced on 8 November 2018.

On 17 December 2018, the Group announced that the proposed transaction with innogy would not be proceeding, as the Group determined it would not be in the best interests of customers, employees or shareholders. The Group continues to believe that the best long-term future for the business lies outside of the SSE group and has been actively progressing a range of options including a possible sale, alternative transaction or standalone listing. The Group is therefore also continuing with steps to increase SSE Energy Services' autonomy and independence. To that end, the Group has appointed Katie Bickerstaffe as Executive Chair of SSE Energy Services effective from 23 June 2019, alongside Gordon Boyd, who joins as Interim Chief Financial Officer. She will form a new, dedicated SSE Energy Services Board, which is expected to have both executive and non-executive representation from the SSE Group, as well as an independent non-executive director. The business will therefore be able to operate with greater day-to-day autonomy and independence, while still being subject to oversight by the SSE plc Board whilst it remains within the Group. This new structure will have a mandate to deliver a new future for SSE Energy Services outside the SSE Group and continue progress towards new, alternative ownership or a listing by the second half of 2020.

At 31 March 2019, the Group has reassessed the IFRS 5 criteria for presentation of the business as held for disposal. Given the Group's stated commitment to dispose of SSE Energy Services; the significant work performed to separate the business as an independent, self-sufficient entity within the Group; and significant progress made on delivery of a listing or new, alternative ownership by the second half of 2020, the Group has reconfirmed that the IFRS 5 criteria have been met and therefore it remains highly probable that a disposal transaction will be completed. The Group has therefore presented the SSE Energy Services business as a discontinued operation.

"Held for disposal", as presented throughout these Financial Statements may be either "held for sale" or "held for distribution" as defined by IFRS 5.

#### (iii) Revenue recognition – SSE Energy Services unbilled supply of energy – estimation uncertainty

The Group's household energy and services business in Great Britain ("SSE Energy Services") is presented as held for disposal at 31 March 2019 (see note 4.2 (iii)). Despite the presentation as held for disposal, the estimation of revenue arising from its household energy supply business remains a significant financial judgement in the preparation of the Group's consolidated financial statements.

Revenue from SSE Energy Services' household energy supply activities includes an estimate of the value of electricity or gas supplied to domestic 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 estimation involved, the number of differing inputs and application of management judgement, the unbilled revenue estimate for the household energy supply business is considered a significant judgement 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. 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 SSE Energy Services' customers that is measured by industry system operators, is a key element in assessing the reasonableness of this estimate. 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 continuing Business Energy segment is also affected by similar factors but, with a materially higher proportion of half-hourly metered customers, the estimation of unbilled revenue for that business is not considered to be a significant financial judgement for the Group.

The Group's policy is to recognise unbilled revenue only where the economic benefits are expected to flow to the Group. A change in the assumptions underpinning the judgements would have an impact on the amount of revenue recognised in any given period. In the previous year, as a result of a number of improvements in data quality and process certainty, the Group's increased confidence in the quality of grid supply point metering and national settlements data it uses as part of its estimation process resulted in an additional revenue amount being recognised in the year (2018: £24m). The unbilled gas revenue estimation process has required the Group to take account of industry estimated supplied quantities of gas consumed which 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. It is expected that this judgement will become less critical as the industry transitions to smart meter technology although there remain some issues with new industry gas allocation processes necessitating the continuation for the application of judgement in revenue recognition for the household gas supply business. The sensitivity associated with this judgement factor is disclosed at note 12.3.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 4. Accounting judgements and estimation uncertainty continued

#### 4.1 Significant financial judgements continued

##### (iv) 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.

#### 4.2 Other key accounting judgements

Other key accounting judgements applied in the preparation of these Financial Statements include the following:

##### (i) 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 certain 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 2019, the net book value of costs capitalised less depreciation charged totalled £103.3m (2018: £86.6m). 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.

##### (ii) Accounting for the UK Capacity Market revenue and charges – accounting judgement

In November 2018, the General Court of the Court of Justice of the European Union ("ECJ") annulled the state aid approval granted by the European Commission in July 2014 for the UK Capacity Market scheme. This judgement was decided on procedural grounds – concluding that the European Commission should have consulted more fully before granting state aid approval. The judgement effectively removes state aid approval for the UK Capacity Market from the 2018/19 delivery year onwards, preventing the UK Government from holding any capacity auctions or making any capacity payments under existing agreements until re-approval of the scheme. In February 2019, the European Commission opened an in-depth investigation under state aid rules into the scheme.

Following the ECJ judgement in November 2018, the UK Government confirmed that payments under existing capacity agreements will be suspended. It was also confirmed that payments made for the Transitional Arrangements Auctions in January 2016 and March 2017, and the Supplementary Capacity Auction in January 2017 would not be affected as state aid for these auctions was granted separately (although the Transitional Arrangements Auctions have been subsequently challenged). In February 2019, the UK Government confirmed that they would not restart mandatory collection of supplier charges until the scheme was re-approved. As an interim measure, to ensure suppliers have clarity regarding the size of their payment liability during the "standstill" period, schedules of payments would be issued and updated on a periodic basis. This is consistent with Ofgem's announcement, also in February 2019, that the second price cap period would include a full Capacity Market allowance.

As a result of the ECJ ruling, and the suspension of payments, approximately £58m of expected Capacity Market revenue has not been recognised by the Group's Electricity Generation business this financial year. Prior to this financial year, the Group had only received income from Supplementary Capacity Auction Agreements and is therefore unaffected by the recent Transitional Arrangements Auctions challenge.

Prior to the ECJ ruling, and in accordance with IFRIC 21 "Leases", a liability for the full year charge was recognised progressively between November and February. The Group assessed that this represented a regulatory operating cost to the business for its operations throughout the settlement year and therefore recognised the cost over the course of that year. Any difference between the liability and charge was recognised as a settlement prepaid asset. Following the ECJ ruling, we continue to consider that the Group has liability for payment of the Capacity Market charges despite IFRIC 21 no longer applying given schedules of payment covering the "standstill" period continue to be issued. The Group has therefore continued to recognise the Capacity Market charge in the year, in line with the schedule of payments issued, with a corresponding accrual reflecting the suspension of payments.

Given the UK Government continues to believe that the Capacity Market is the right mechanism for delivering security of supply at the lowest cost to consumers, and stated in February 2019 that it intends to "ensure that suspended payments are made to holders of capacity market agreements for 2018/19", we have continued to assume receipt of UK Capacity Market revenue within our impairment reviews, as detailed in note 15.

##### (iii) Lease classification for Smart Meter contracts – accounting judgement

The Group has agreements with Meter Fit 10 Limited and Maple Topco Limited, a joint venture company, for the provision of meter asset provider (MAP) services. 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 2.2).



#### **4. Accounting judgements and estimation uncertainty** continued

##### **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 £47.6m at 31 March 2019 (2018: £66.1m). 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.

The Group will adopt IFRIC 23 Uncertainty over income tax treatments from 1 April 2019 which will formalise and restrict policy adopted in relation to tax provisioning. In particular, this will mandate earlier "true-up" to submitted computations and increased transparency over the basis for tax provisions.

For the year ended 31 March 2019, the tax computation position has been "trued up" in line with IFRIC 23 requirements, resulting in prior year adjustments of £68m, as the 31 March 2017 and 31 March 2018 provisions were trued up to submitted computations. Therefore, we consider that the uncertain tax provisions at 31 March 2019 are materially in line with IFRIC 23 requirements and do not consider that adoption will have a material impact on the Group's financial statements.

###### **(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, with a full reassessment by an independent decommissioning consultant performed in the year to 31 March 2019. 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, and excludes any salvage value related to those assets. 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 being incurred, increasing into the subsequent decade and then out to 2040.

Further detail on the assumptions made and movement in decommissioning costs during the year are disclosed at note 20.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information

The segments of the Group remain unchanged from those reported at 31 March 2018. The businesses included within SSE Energy Services, which are discontinued, have been presented separately throughout this note. During 2018/19, SSE conducted a detailed review of how it is organised and operated in order to maximise individual business contributions to the Group's overall strategic objectives. This review has resulted in the establishment, in 2019/20, of a new operating structure which will lead to changes to its reportable operating segments in the financial year to 31 March 2020.

The following describes the types of products and services from which each reportable segment generates its revenue:

Business Area	Reported Segments	Description
<b>Continuing operations</b>		
<b>Networks</b>	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England. Revenue earned from delivery of electricity supply to customers is recognised based on the volume of electricity distributed to those customers and the set customer tariff. The revenue earned from other distribution services such as domestic customer connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland. Revenue earned from constructing, maintaining and renovating our transmission network is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised as charged to National Grid. The revenue earned from other transmission services such as generator plant connections is recognised in line with delivery of that service over the expected contractual period and at the contracted rate.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England. The revenue earned from transportation of natural gas to customers is recognised based on the volume of gas distributed to those customers and the set customer tariff.
<b>Retail</b>	Business Energy	The supply of electricity and gas to business customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts.
	Airtricity	The supply of electricity, gas and energy related services to domestic and business customers in the Republic of Ireland and Northern Ireland. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.
	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. Revenue is recognised by reference to the progress towards completion of the contractual performance obligation, based on the proportion of costs incurred to date relative to total expected costs, provided the contract outcome can be assessed with reasonable certainty.

## 5. Segmental information continued

Business Area	Reported Segments	Description
Wholesale	Electricity Generation	The generation of electricity from renewable and thermal plant in the UK and Ireland. Revenue from physical generation of electricity to SSE EPM is recognised as generated, based on the spot price at the time of delivery. Revenue from national support schemes (such as Renewable Obligation Certificates or the Capacity Market) and ancillary generation services may either be recognised in line with electricity being physically generated or over the contractual period, depending on the underlying performance obligation.
	Energy Portfolio Management (EPM)	The optimisation of SSE's electricity, gas and other commodity requirements. Revenue from physical sales of electricity, gas and other commodities produced by SSE's Wholesale Business is recognised as supplied to either the national settlements body or the customer, based on either the spot price at the time of delivery or trade price where that trade is eligible for "own use" designation. The sale of commodity optimisation trades are presented net in cost of sales alongside purchase commodity optimisation trades.
	Gas Storage	The operation of gas storage facilities in the UK. Revenue from the injection and withdrawal of gas is recognised when provided, with revenue from the provision of storage services is recognised based on the number of days utilised at the contractual rate.
	Gas Production	The production and processing of gas and oil from North Sea fields. Revenue is recognised based on the production that has been delivered to the customer at the specified delivery point, at the applicable contractual market price.
<b>Discontinued operations</b>		
SSE Energy Services – Supply		The supply of electricity and gas to domestic customers in GB. Revenue earned from the supply of energy is recognised in line with the volume delivered to the customer, based on actual and estimated volumes, and reflecting the applicable customer tariff after deductions or discounts.
SSE Energy Services – Energy Related Services		The provision of energy related goods and services to domestic customers in GB including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services. Revenue earned from energy related services may either be recognised over the expected contractual period or following performance of the service, depending on the underlying performance obligation.

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 IFRS 9, 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 on the following pages. All revenue and profit before taxation arise from operations within the UK and Ireland.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure

##### (i) Revenue by segment

	Revenue from contracts with customers 2019 £m	Other contract revenue 2019 £m	Reported revenue 2019 £m	Intra-segment revenue (ii) 2019 £m	Segment revenue 2019 £m	Reported revenue 2018 £m	Intra-segment revenue (ii) 2018 £m	Segment revenue 2018 £m
<b>Continuing operations</b>								
<b>Networks</b>								
Electricity Distribution	676.4	–	676.4	229.5	905.9	777.0	252.4	1,029.4
Electricity Transmission	395.7	–	395.7	0.2	395.9	325.7	0.2	325.9
	1,072.1	–	1,072.1	229.7	1,301.8	1,102.7	252.6	1,355.3
<b>Retail</b>								
Business Energy	2,592.9	–	2,592.9	26.2	2,619.1	2,517.3	22.1	2,539.4
Airtricity	1,087.3	–	1,087.3	144.7	1,232.0	917.6	119.1	1,036.7
Enterprise	476.6	7.2	483.8	110.1	593.9	431.1	104.0	535.1
	4,156.8	7.2	4,164.0	281.0	4,445.0	3,866.0	245.2	4,111.2
<b>Wholesale</b>								
Electricity Generation	549.0	–	549.0	1,536.3	2,085.3	498.6	1,919.1	2,417.7
<b>EPM:</b>								
Gross trading	20,240.8	–	20,240.8	4,464.6	24,705.4			
Optimisation trades	(18,808.7)	–	(18,808.7)	475.7	18,333.0			
<b>EPM (iii)</b>	1,432.1	–	1,432.1	4,940.3	6,372.4	21,710.1	3,670.0	25,380.1
Gas Storage	24.2	–	24.2	488.3	512.5	11.1	306.5	317.6
Gas Production	30.1	–	30.1	210.9	241.0	30.3	221.7	252.0
	2,035.4	–	2,035.4	7,175.8	9,211.2	22,250.1	6,117.3	28,367.4
Corporate unallocated	60.1	–	60.1	242.7	302.8	31.6	316.9	348.5
<b>Total continuing operations</b>	7,324.4	7.2	7,331.6	7,929.2	15,260.8	27,250.4	6,932.0	34,182.4
<b>Discontinued operations</b>								
SSE Energy Services – Energy Supply	3,465.8	–	3,465.8	4.9	3,470.7	3,840.5	10.1	3,850.6
SSE Energy Services – Energy Related Services	113.5	5.4	118.9	180.0	298.9	135.5	168.5	304.0
<b>Total discontinued operations</b>	3,579.3	5.4	3,584.7	184.9	3,769.6	3,976.0	178.6	4,154.6
<b>Total SSE Group</b>	10,903.7	12.6	10,916.3	8,114.1	19,030.4	31,226.4	7,110.6	38,337.0

(i) Significant intra-segment revenue is derived from use of system income received by the Electricity Distribution business from SSE Energy Services – Energy Supply and Business Energy; 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; 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. SSE Energy Services – Energy-Related Services provides metering and other services to other Group companies. All are provided at arm's length.

(ii) Following the disposal of SSE Energy Services, internal revenue of £2,153.9m included above within EPM will be recognised as external revenue. These revenue transactions are for the purchase of power, gas and other commodities by EPM for SSE Energy Services. It is not currently known whether these transactions will continue for a period following disposal.

Revenue from the Group's Joint Venture investment in Scotia Gas Networks Limited, SSE's share being £411.8m (2018: £391.5m), is not recorded in the revenue line in the income statement.

Revenue recognised within the EPM segment from sales of commodity optimisation trades have been presented net in cost of sales in the current year, and gross within revenue in the prior year. This presentation change is a direct consequence of adoption of IFRS 15, as described in note 2.1.

## 5. Segmental information continued

### 5.1 Segmental information disclosure continued

#### Disaggregation of revenue

Revenue from contracts with customers can be disaggregated by reported segment, by major service lines and by timing of revenue recognition as follows:

	Revenue from contracts with customers								Total
	Goods or services transferred over time				Goods or services transferred at a point in time				
	Use of electricity networks	Supply of energy	Construction related services	Other contracted services	Physical energy	Gas storage	Other revenue	Other contract revenue	
<b>Continuing operations</b>									
<b>Networks</b>									
Electricity Distribution	641.4	–	–	2.2	–	–	32.8	–	676.4
Electricity Transmission	369.8	–	–	23.5	–	–	2.4	–	395.7
	1,011.2	–	–	25.7	–	–	35.2	–	1,072.1
<b>Retail</b>									
Business Energy	–	2,592.9	–	–	–	–	–	–	2,592.9
Airtricity	–	1,070.9	–	16.4	–	–	–	–	1,087.3
Enterprise	13.2	23.0	312.3	88.8	1.2	–	38.1	7.2	483.8
	13.2	3,686.8	312.3	105.2	1.2	–	38.1	7.2	4,164.0
<b>Wholesale</b>									
Electricity Generation	–	–	–	80.2	468.8	–	–	–	549.0
EPM	–	–	–	2.3	1,429.8	–	–	–	1,432.1
Gas Storage	–	–	–	–	–	24.2	–	–	24.2
Gas Production	–	–	–	–	30.1	–	–	–	30.1
	–	–	–	82.5	1,928.7	24.2	–	–	2,035.4
Corporate unallocated	–	–	–	–	–	–	60.1	–	60.1
<b>Total continuing operations</b>	1,024.4	3,686.8	312.3	213.4	1,929.9	24.2	133.4	7.2	7,331.6
<b>Discontinued operations</b>									
SSE Energy Services – Energy Supply	–	3,465.8	–	–	–	–	–	–	3,465.8
SSE Energy Services – Energy Related Services	–	–	–	113.5	–	–	–	5.4	118.9
<b>Total discontinued operations</b>	–	3,465.8	–	113.5	–	–	–	5.4	3,584.7
<b>Total SSE Group</b>	1,024.4	7,152.6	312.3	326.9	1,929.9	24.2	133.4	12.6	10,916.3

Included within Trade and other receivables (note 18) is £395.9m (2018: £1,128.6m) of unbilled energy income and £40.6m of contract related assets and included within Trade and other payables (note 19) is £53.0m of contract related liabilities. Contract related assets reflect the Group's right to consideration in exchange for goods or services that have transferred to the customer, and contract related liabilities reflect the Group's obligation to transfer future goods or services for which the Group has already received consideration. Contract related assets and liabilities principally arise in the Enterprise reporting segment with changes during the periods reflecting ongoing contract progress, offset by cash receipts or customer invoicing.

The Group has applied the practical expedient available in IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations on the basis that the Group's contracts either have an original expected duration of less than one year, or permit the Group to recognise revenue as invoiced.

Revenue by geographical location on continuing operations is as follows:

	2019 £m	2018 £m
UK	6,430.0	26,431.6
Ireland	901.6	818.8
	7,331.6	27,250.4

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure continued

##### (ii) Operating profit/(loss) by segment

	2019					
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £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
<b>Continuing operations</b>						
<b>Networks</b>						
Electricity Distribution	401.3	–	–	401.3	–	401.3
Electricity Transmission	252.1	–	–	252.1	–	252.1
Gas Distribution	176.8	–	(94.3)	82.5	2.6	85.1
	830.2	–	(94.3)	735.9	2.6	738.5
<b>Retail</b>						
Business Energy	51.6	–	–	51.6	–	51.6
Airtricity	38.6	–	–	38.6	–	38.6
Enterprise	31.8	–	–	31.8	–	31.8
	122.0	–	–	122.0	–	122.0
<b>Wholesale</b>						
Electricity Generation	433.6	(2.9)	(57.1)	373.6	818.7	1,192.3
EPM	(284.9)	–	–	(284.9)	(328.2)	(613.1)
Gas Storage	(5.7)	–	–	(5.7)	–	(5.7)
Gas Production	48.9	–	–	48.9	29.7	78.6
	191.9	(2.9)	(57.1)	131.9	520.2	652.1
Corporate unallocated	(6.5)	–	(3.8)	(10.3)	189.9	179.6
<b>Total continuing operations</b>	<b>1,137.6</b>	<b>(2.9)</b>	<b>(155.2)</b>	<b>979.5</b>	<b>712.7</b>	<b>1,692.2</b>
<b>Discontinued operations</b>						
SSE Energy Services – Energy Supply	84.0	–	–	84.0	(54.3)	29.7
SSE Energy Services – Energy-related Services	5.6	–	–	5.6	–	5.6
<b>Total discontinued operations</b>	<b>89.6</b>	<b>–</b>	<b>–</b>	<b>89.6</b>	<b>(54.3)</b>	<b>35.3</b>
<b>Total SSE Group</b>	<b>1,227.2</b>	<b>(2.9)</b>	<b>(155.2)</b>	<b>1,069.1</b>	<b>658.4</b>	<b>1,727.5</b>

The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives, the depreciation charged on fair value uplifts 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, £9.4m (2018: £15.2m), as finance income (note 9).

The Electricity Generation adjusted operating profit measure of £433.6m (2018: £583.7m) can be attributed to Renewable (£455.9m, 2018: £475.9m) and Thermal/Other sources (loss of £22.3m, 2018: profit of £107.8m).

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.

## 2018

Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £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
402.2	–	–	402.2	–	402.2
195.6	–	–	195.6	–	195.6
165.3	–	(96.2)	69.1	2.7	71.8
763.1	–	(96.2)	666.9	2.7	669.6
64.2	–	–	64.2	–	64.2
33.0	–	–	33.0	(6.1)	26.9
26.9	–	–	26.9	(11.8)	15.1
124.1	–	–	124.1	(17.9)	106.2
583.7	(4.8)	(52.3)	526.6	(3.2)	523.4
46.0	–	–	46.0	(89.1)	(43.1)
(6.5)	–	–	(6.5)	–	(6.5)
34.0	–	–	34.0	(104.7)	(70.7)
657.2	(4.8)	(52.3)	600.1	(197.0)	403.1
10.4	–	(1.3)	9.1	(30.6)	(21.5)
1,554.8	(4.8)	(149.8)	1,400.2	(242.8)	1,157.4
260.4	–	–	260.4	(56.9)	203.5
18.3	–	–	18.3	–	18.3
278.7	–	–	278.7	(56.9)	221.8
1,833.5	(4.8)	(149.8)	1,678.9	(299.7)	1,379.2

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure continued

##### (iii) Capital expenditure by segment

	Capital additions to Intangible Assets 2019 £m	Capital additions to Property, Plant and Equipment 2019 £m	Capital additions to Intangible Assets 2018 Restated £m	Capital additions to Property, Plant and Equipment 2018 Restated £m
<b>Continuing operations</b>				
<b>Networks</b>				
Electricity Distribution	20.5	541.5	19.5	388.6
Electricity Transmission	2.7	341.3	4.8	429.4
	23.2	882.8	24.3	818.0
<b>Retail</b>				
Business Energy	–	–	–	0.9
Airtricity	1.8	0.1	0.6	–
Enterprise	0.7	80.0	0.4	61.5
	2.5	80.1	1.0	62.4
<b>Wholesale</b>				
Electricity Generation	186.1	316.8	19.7	323.9
EPM	954.0	–	712.9	–
Gas Storage	–	0.7	–	1.8
Gas Production	11.9	16.0	9.4	56.1
	1,152.0	333.5	742.0	381.8
Corporate unallocated	55.6	15.5	88.9	19.0
<b>Total continuing operations</b>	<b>1,233.3</b>	<b>1,311.9</b>	<b>856.2</b>	<b>1,281.2</b>
<b>Discontinued operations</b>				
SSE Energy Services – Energy Supply	98.2	–	100.9	–
SSE Energy Services – Energy-related Services	1.8	2.6	9.9	–
<b>Total discontinued operations</b>	<b>100.0</b>	<b>2.6</b>	<b>110.8</b>	<b>–</b>
<b>Total SSE Group</b>	<b>1,333.3</b>	<b>1,314.5</b>	<b>967.0</b>	<b>1,281.2</b>
Decrease/increase in prepayments related to capital expenditure	–	(0.9)	–	4.2
Decrease/(increase) in trade payables related to capital expenditure	–	(25.4)	–	28.2
Fair value uplift	(96.9)	–	–	–
Settlement through assets	–	43.4	–	–
IFRS 15 adjustment	–	(105.2)	–	–
Less: Other non-cash additions	(265.2)	–	(435.2)	–
<b>Net cash outflow</b>	<b>971.2</b>	<b>1,226.4</b>	<b>531.8</b>	<b>1,313.6</b>

The 2018 information has been re-presented following a reclassification of certain software assets. See note 1.2.

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 (2019: £688.8m; 2018: £287.1m). Other non-cash additions comprise self-generated renewable obligation certificates.

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.

#### (iii) Capital expenditure by segment continued

At 31 March 2019	Capital additions to Intangible Assets 2019 £m	Capital additions to Property, Plant and Equipment 2019 £m	Capital Investment relating to Joint Ventures and Associates (i)	Disposed Additions (ii)	Allowances and certificates (iii)	Customer funded additions (iv)	Acquired through business combinations (v)	Adjusted Capital Expenditure and Investment 2019 <small>[APM]</small> £m
<b>Continuing operations</b>								
<b>Networks</b>								
Electricity Distribution	20.5	541.5	–	–	–	(221.3)	–	340.7
Electricity Transmission	2.7	341.3	–	–	–	–	–	344.0
	23.2	882.8	–	–	–	(221.3)	–	684.7
<b>Retail</b>								
Business Energy	–	–	–	–	–	–	–	–
Airtricity	1.8	0.1	–	–	–	–	(0.7)	1.2
<b>Enterprise</b>	0.7	80.0	–	(57.5)	–	(3.4)	–	19.8
	2.5	80.1	–	(57.5)	–	(3.4)	(0.7)	21.0
<b>Wholesale</b>								
Electricity Generation	186.1	316.8	291.4	(137.8)	–	–	(142.7)	513.8
EPM	954.0	–	–	–	(954.0)	–	–	–
Gas Storage	–	0.7	–	–	–	–	–	0.7
Gas Production	11.9	16.0	–	–	–	–	–	27.9
	1,152.0	333.5	291.4	(137.8)	(954.0)	–	(142.7)	542.4
Corporate unallocated	55.6	15.5	1.1	–	–	–	–	72.2
<b>Total continuing operations</b>	<b>1,233.3</b>	<b>1,311.9</b>	<b>292.5</b>	<b>(195.3)</b>	<b>(954.0)</b>	<b>(224.7)</b>	<b>(143.4)</b>	<b>1,320.3</b>
<b>Discontinued operations</b>								
SSE Energy Services – Energy Supply	98.2	–	–	–	–	–	–	98.2
SSE Energy Services – Energy-related Services	1.8	2.6	–	–	–	–	–	4.4
<b>Total discontinued operations</b>	<b>100.0</b>	<b>2.6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>102.6</b>
<b>Total SSE Group</b>	<b>1,333.3</b>	<b>1,314.5</b>	<b>292.5</b>	<b>(195.3)</b>	<b>(954.0)</b>	<b>(224.7)</b>	<b>(143.4)</b>	<b>1,422.9</b>

(i) Represents funding provided to joint venture arrangements and associates in relation to capital expenditure projects.

(ii) Represents capital additions related to Stronelaig windfarm and SSE Telecommunications (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 Adjusted Capital Expenditure and Investment alternative performance measure.

(iv) Represents additions to electricity and other networks funded by customer contributions.

(v) Additions through business combinations primarily represents the Group's capital additions through the acquisition and consolidation of Seagreen Wind Energy Limited. See note 12.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure continued

At 31 March 2018	Capital additions to Intangible Assets 2018 Restated £m	Capital additions to Property, Plant and Equipment 2018 Restated £m	Capital Investment relating to Joint Ventures and Associates Restated (i)	Disposed additions Restated (iii)	Allowances and certificates Restated (iii)	Customer funded additions (iv)	Adjusted Capital Expenditure and Investment 2018 Restated [APM] £m
<b>Continuing operations</b>							
<b>Networks</b>							
Electricity Distribution	19.5	388.6	–	–	–	(82.0)	326.1
Electricity Transmission	4.8	429.4	–	–	–	–	434.2
	24.3	818.0	–	–	–	(82.0)	760.3
<b>Retail</b>							
Business Energy	–	0.9	–	–	–	–	0.9
Airtricity	0.6	–	–	–	–	–	0.6
Enterprise	0.4	61.5	–	–	–	–	61.9
	1.0	62.4	–	–	–	–	63.4
<b>Wholesale</b>							
Electricity Generation	19.7	323.9	107.7	(60.6)	–	–	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	107.7	(60.6)	(712.9)	–	458.0
Corporate unallocated	88.9	19.0	2.6	–	–	–	110.5
<b>Total continuing operations</b>	<b>856.2</b>	<b>1,281.2</b>	<b>110.3</b>	<b>(60.6)</b>	<b>(712.9)</b>	<b>(82.0)</b>	<b>1,392.2</b>
<b>Discontinued operations</b>							
SSE Energy Services – Energy Supply	100.9	–	–	–	–	–	100.9
SSE Energy Services – Energy-related Services	9.9	–	–	–	–	–	9.9
<b>Total discontinued operations</b>	<b>110.8</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>110.8</b>
<b>Total SSE Group</b>	<b>967.0</b>	<b>1,281.2</b>	<b>110.3</b>	<b>(60.6)</b>	<b>(712.9)</b>	<b>(82.0)</b>	<b>1,503.0</b>

The 2018 information has been re-presented following a reclassification of certain software assets. See note 1.2.

(i) Represents share of capital expenditure undertaken by joint venture arrangements and associates.

(ii) Represents capital additions related to Ferrybridge Multifuel 2 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 Adjusted Capital Expenditure and Investment alternative performance measure.

(iv) Represents additions to electricity and other networks funded by customer contributions.

## 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 2019 £m	Impairment charges 2019 £m	Total 2019 £m	Before exceptional charges 2019 £m	Impairment charges 2019 £m	Total 2019 £m
<b>Continuing operations</b>						
<b>Networks</b>						
Electricity Distribution	126.2	–	126.2	5.9	–	5.9
Electricity Transmission	68.2	–	68.2	1.1	–	1.1
	194.4	–	194.4	7.0	–	7.0
<b>Retail</b>						
Business Energy	–	–	–	0.3	–	0.3
Airtricity	6.0	–	6.0	1.6	–	1.6
Enterprise	32.3	0.3	32.6	–	–	–
	38.3	0.3	38.6	1.9	–	1.9
<b>Wholesale</b>						
Electricity Generation	233.0	2.7	235.7	–	5.2	5.2
EPM	–	–	–	–	–	–
Gas Storage	1.0	–	1.0	–	–	–
Gas Production	101.6	(29.7)	71.9	–	–	–
	335.6	(27.0)	308.6	–	5.2	5.2
Corporate unallocated	43.4	41.0	84.4	–	–	–
<b>Total continuing operations</b>	<b>611.7</b>	<b>14.3</b>	<b>626.0</b>	<b>8.9</b>	<b>5.2</b>	<b>14.1</b>
<b>Discontinued operations</b>						
SSE Energy Services – Energy Supply	1.4	–	1.4	34.2	58.0	92.2
SSE Energy Services – Energy-related Services	9.3	–	9.3	5.5	–	5.5
<b>Total discontinued operations</b>	<b>10.7</b>	<b>–</b>	<b>10.7</b>	<b>39.7</b>	<b>58.0</b>	<b>97.7</b>
<b>Total SSE Group</b>	<b>622.4</b>	<b>14.3</b>	<b>636.7</b>	<b>48.6</b>	<b>63.2</b>	<b>111.8</b>

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure continued

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2018 Restated £m	Impairment charges 2018 Restated £m	Total 2018 Restated £m	Before exceptional charges 2018 Restated £m	Impairment charges 2018 Restated £m	Total 2018 Restated £m
<b>Continuing operations</b>						
<b>Networks</b>						
Electricity Distribution	239.4	–	239.4	9.3	–	9.3
Electricity Transmission	61.6	–	61.6	1.5	–	1.5
	301.0	–	301.0	10.8	–	10.8
<b>Retail</b>						
Business Energy	0.3	–	0.3	–	–	–
Airtricity	6.2	5.5	11.7	1.6	–	1.6
Enterprise	31.4	14.3	45.7	–	–	–
	37.9	19.8	57.7	1.6	–	1.6
<b>Wholesale</b>						
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	17.4	–	17.4	36.6	30.9	67.5
<b>Total continuing operations</b>	<b>695.9</b>	<b>146.7</b>	<b>842.6</b>	<b>49.0</b>	<b>35.6</b>	<b>84.6</b>
<b>Discontinued operations</b>						
SSE Energy Services – Energy Supply	–	–	–	37.8	16.3	54.1
SSE Energy Services – Energy-related Services	8.7	–	8.7	5.5	12.4	17.9
<b>Total discontinued operations</b>	<b>8.7</b>	<b>–</b>	<b>8.7</b>	<b>43.3</b>	<b>28.7</b>	<b>72.0</b>
<b>Total SSE Group</b>	<b>704.6</b>	<b>146.7</b>	<b>851.3</b>	<b>92.3</b>	<b>64.3</b>	<b>156.6</b>

The 2018 information has been re-presented following a reclassification of certain software assets. See note 1.2.

The Group's share of Scotia Gas Networks Limited depreciation (2019: £57.5m; 2018: £54.8m) and amortisation (2019: £nil; 2018: £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")

	Adjusted operating profit reported to the Board (note 5.1 (iii)) [APM] 2019 £m	Depreciation on fair value uplifts 2019 £m	Depreciation/ Impairment/ amortisation before exceptional charges (note 5.1 (iv)) 2019 £m	JV/Associate share of depreciation and amortisation (note 16.5) 2019 £m	Release of Deferred income (note 6) 2019 £m	Adjusted EBITDA [APM] 2019 £m
<b>Continuing operations</b>						
<b>Networks</b>						
Electricity Distribution	401.3	–	132.1	–	(1.1)	532.3
Electricity Transmission	252.1	–	69.3	–	(2.8)	318.6
Gas Distribution	176.8	–	–	57.5	–	234.3
	830.2	–	201.4	57.5	(3.9)	1,085.2
<b>Retail</b>						
Business Energy	51.6	–	0.3	–	–	51.9
Airtricity	38.6	–	7.6	–	–	46.2
Enterprise	31.8	–	32.3	–	(4.5)	59.6
	122.0	–	40.2	–	(4.5)	157.7
<b>Wholesale</b>						
Electricity Generation	433.6	(2.9)	233.0	63.5	(0.9)	726.3
EPM	(284.9)	–	–	–	–	(284.9)
Gas Storage	(5.7)	–	1.0	–	–	(4.7)
Gas Production	48.9	–	101.6	–	–	150.5
	191.9	(2.9)	335.6	63.5	(0.9)	587.2
Corporate unallocated	(6.5)	–	43.4	2.5	(0.9)	38.5
<b>Total continuing operations</b>	<b>1,137.6</b>	<b>(2.9)</b>	<b>620.6</b>	<b>123.5</b>	<b>(10.2)</b>	<b>1,868.6</b>
<b>Discontinued operations</b>						
SSE Energy Services – Energy Supply	84.0	–	35.6	–	–	119.6
SSE Energy Services – Energy-related Services	5.6	–	14.8	–	–	20.4
<b>Total discontinued operations</b>	<b>89.6</b>	<b>–</b>	<b>50.4</b>	<b>–</b>	<b>–</b>	<b>140.0</b>
<b>Total SSE Group</b>	<b>1,227.2</b>	<b>(2.9)</b>	<b>671.0</b>	<b>123.5</b>	<b>(10.2)</b>	<b>2,008.6</b>

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 5. Segmental information continued

#### 5.1 Segmental information disclosure continued

	Adjusted operating profit reported to the Board (note 5.1 (iii)) [APM] 2018 £m	Depreciation on fair value uplifts 2018 £m	Depreciation/ impairment/ amortisation before exceptional charges (note 5.1 (iv)) 2018 £m	Reversal of IFRIC 18 adjustment on adoption of IFRS 15 2018 £m	JV/Associate share of depreciation and amortisation (note 16.5) 2018 £m	Release of Deferred income (note 6) 2018 £m	Adjusted EBITDA [APM] 2018 £m
<b>Continuing operations</b>							
<b>Networks</b>							
Electricity Distribution	402.2	–	248.7	(95.4)	–	(13.4)	542.1
Electricity Transmission	195.6	–	63.1	–	–	(2.6)	256.1
Gas Distribution	165.3	–	–	–	55.8	–	221.1
	763.1	–	311.8	(95.4)	55.8	(16.0)	1,019.3
<b>Retail</b>							
Business Energy	64.2	–	0.3	–	–	–	64.5
Airtricity	33.0	–	7.8	–	–	–	40.8
Enterprise	26.9	–	31.4	(3.2)	–	(1.5)	53.6
	124.1	–	39.5	(3.2)	–	(1.5)	158.9
<b>Wholesale</b>							
Electricity Generation	583.7	(4.8)	219.7	–	59.6	(2.5)	855.7
EPM	46.0	–	–	–	–	–	46.0
Gas Storage	(6.5)	–	0.9	–	–	–	(5.6)
Gas Production	34.0	–	119.0	–	–	–	153.0
	657.2	(4.8)	339.6	–	59.6	(2.5)	1,049.1
Corporate unallocated	10.4	–	54.0	–	0.7	(0.6)	64.5
<b>Total continuing operations</b>	<b>1,554.8</b>	<b>(4.8)</b>	<b>744.9</b>	<b>(98.6)</b>	<b>116.1</b>	<b>(20.6)</b>	<b>2,291.8</b>
<b>Discontinued operations</b>							
SSE Energy Services – Energy Supply	260.4	–	37.8	–	–	–	298.2
SSE Energy Services – Energy-related Services	18.3	–	14.2	–	–	–	32.5
<b>Total discontinued operations</b>	<b>278.7</b>	<b>–</b>	<b>52.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>330.7</b>
<b>Total SSE Group</b>	<b>1,833.5</b>	<b>(4.8)</b>	<b>796.9</b>	<b>(98.6)</b>	<b>116.1</b>	<b>(20.6)</b>	<b>2,721.1</b>

The Electricity Generation adjusted EBITDA measure of £726.3m (2018: £855.7m) can be attributed to Renewable (£694.0m, 2018: £692.2m) and Thermal/Other sources (£32.3m, 2018: £163.5m).

## 6. Other operating income and cost

Total group costs before exceptional items and certain re-measurements can be analysed thus:

	2019 £m	2018 £m
Cost of sales (i)	5,458.4	24,884.5
Distribution costs	573.3	684.8
Administration costs	489.9	462.4
Operating costs	1,063.2	1,147.2
Total costs	6,521.6	26,031.7

(i) On 1 April 2018 the Group adopted IFRS 15, which had the effect of reducing the Group's revenue by £18,989.7m and reducing cost of sales by £18,985.2m. See note 2.1.

Group operating profit is stated after charging (or crediting) the following items:

	2019 £m	2018 £m
Depreciation of property, plant and equipment on continuing operations	611.7	742.5
Net exceptional charges and (gains) on disposal (note 7)	(1,039.9)	156.4
Research costs	3.7	3.3
Operating lease rentals (note 25)	114.2	174.6
Release of deferred income in relation to capital grants and historic customer contributions	(10.2)	(20.6)
Gain on disposals (non-exceptional) (note 12)	(25.3)	(34.9)
Amortisation of other intangible assets	1.5	2.4

(i) Does not include exceptional impairment charges.

## Auditor's remuneration

	2019 £m	2018 £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	0.9	0.8
Audit-related assurance services	0.2	0.2
Other services fees	1.1	0.8
	2.2	1.8
Total remuneration paid to Auditor	2.5	2.1

Assurance and Tax service fees incurred in the year were £0.2m (2018: £0.2m). Audit – related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. Other service fees include fees for KPMG's role as Reporting Accountant for the preparation of the circular and listing prospectus for the demerger of SSE Energy Services during the year (£0.8m; 2018: £0.4m) and fees for accounting advisory services. A description of the work of the Audit Committee is set out on pages 104 to 111 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 7. Exceptional items and certain re-measurements

	2019 £m	2018 £m
<b>Continuing operations</b>		
<b>Exceptional items (note 7.1)</b>		
Asset impairments and related (charges) and credits	(20.2)	(148.4)
Provisions for restructuring and other liabilities	(27.5)	(8.0)
GMP equalisation charge	(9.3)	–
	(57.0)	(156.4)
Net gains on disposals of businesses and other assets (note 12)	1,096.9	–
<b>Total exceptional items</b>	<b>1,039.9</b>	<b>(156.4)</b>
<b>Certain re-measurements</b>		
Movement on operating derivatives (note 24)	(328.2)	(89.1)
Movement on financing derivatives (note 24)	(44.8)	(33.0)
Share of movement on derivatives in jointly controlled entities (net of tax)	1.0	2.7
<b>Total certain re-measurements</b>	<b>(372.0)</b>	<b>(119.4)</b>
<b>Exceptional items after certain re-measurements and before taxation</b>	<b>667.9</b>	<b>(275.8)</b>
<b>Taxation</b>		
Taxation on other exceptional items	23.7	107.2
Taxation on certain re-measurements	67.3	7.9
<b>Taxation</b>	<b>91.0</b>	<b>115.1</b>
<b>Exceptional items on continuing operations after certain re-measurements and after taxation</b>	<b>758.9</b>	<b>(160.7)</b>
<b>Discontinued operations</b>		
<b>Exceptional items (note 7.1)</b>		
Asset impairments and related (charges) and credits	(54.3)	(56.9)
Taxation	10.3	(1.6)
<b>Exceptional items on discontinued operations after taxation</b>	<b>(44.0)</b>	<b>(58.5)</b>



## 7. Exceptional items and certain re-measurements continued

Exceptional items are disclosed across the following categories within the income statement:

	2019 £m	2018 £m
<b>Continuing operations</b>		
<b>Cost of sales:</b>		
Movement on operating derivatives (note 24)	(328.2)	(89.1)
	(328.2)	(89.1)
<b>Operating costs:</b>		
Gas Production (E&P) related credit/(charges)	29.7	(104.7)
Electricity Generation asset impairments and reversals	11.5	(7.7)
Retail related restructuring costs and IT impairments	(88.9)	(17.8)
Other exceptional provisions and charges	(9.3)	(26.2)
	(57.0)	(156.4)
<b>Operating income:</b>		
Net gains on disposals of businesses and other assets	1,096.9	–
	1,096.9	–
<b>Joint ventures and associates:</b>		
Share of movement on derivatives in jointly controlled entities (net of tax)	1.0	2.7
	1.0	2.7
<b>Operating profit/(loss)</b>	<b>712.7</b>	<b>(242.8)</b>
<b>Finance costs/(income)</b>		
Movement on financing derivatives (note 24)	(44.8)	(33.0)
<b>Profit/(loss) before tax on continuing operations</b>	<b>667.9</b>	<b>(275.8)</b>
<b>Discontinued operations</b>		
<b>Operating costs:</b>		
Retail related restructuring costs and IT impairments	(54.3)	(56.9)
<b>(Loss) before tax on discontinued operations</b>	<b>(54.3)</b>	<b>(56.9)</b>

### 7.1 Exceptional items

In the year to 31 March 2019, the Group recognised a net exceptional credit of £1,039.9m in its continuing operations and a charge of £54.3m in its discontinued operation. The gain in the continuing operations is primarily due to gains on disposal of businesses and assets totalling £1,096.9m (see note 12). These gains on disposal are offset by net asset impairments of £20.2m, reorganisation costs of £27.5m and an exceptional charge for GMP equalisation of £9.3m.

The net exceptional charges recognised on continuing operations, excluding gains on disposal (see note 12), can be summarised as follows:

	Property, Plant & Equipment (note 14) £m	Investments (note 16) £m	Provisions & other charges £m	Total charges £m
<b>Gas Production (i)</b>	<b>(29.7)</b>	<b>–</b>	<b>–</b>	<b>(29.7)</b>
<b>Electricity Generation (ii)</b>	<b>2.7</b>	<b>(13.3)</b>	<b>(0.9)</b>	<b>(11.5)</b>
<b>Disposal costs – SSE Energy Services (iii)</b>	<b>41.0</b>	<b>–</b>	<b>47.9</b>	<b>88.9</b>
<b>Pensions GMP equalisation (iv)</b>	<b>–</b>	<b>–</b>	<b>9.3</b>	<b>9.3</b>
<b>Total exceptional items on continuing operations</b>	<b>14.0</b>	<b>(13.3)</b>	<b>56.3</b>	<b>57.0</b>

#### (i) Gas Production

In the year, the Group recognised a net impairment reversal of £29.7m related to its North Sea Gas Production assets following an increase in independently assessed hydrocarbon reserves and an increase to long term gas price forecasts. The impairment reversals were recognised on the Bacton (£15.8m) and Sean (£13.9m) fields due to the revision of reserves and the expected return from these assets based on long term gas price forecasts. While there has been an increase in independently assessed hydrocarbon reserves at the Group's Greater Laggan Area asset, no reversal of previous impairments was recognised due to the level of sensitivity in the valuation models. Following these impairment reversals, the residual value in the Group's gas production assets is £488.6m.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 7. Exceptional items and certain re-measurements continued

#### 7.1 Exceptional items continued

##### (ii) Electricity Generation

On 24 September 2018, the Group purchased the remaining 50% stake in Seagreen Wind Energy Limited ("Seagreen") taking its ownership to 100% and bringing Seagreen under full control of the Group. As part of the acquisition, the Group reversed a previous impairment charge of £14.2m based on its renewed commitment to developing the prospect. The reversal of the impairment, while not exceptional by size, is included as an exceptional credit due to the original impairment of the Group's offshore wind portfolio being treated as exceptional in 2013/14.

In the year the Group recognised an exceptional impairment of £30.5m on the Keadby gas fired power station due to a market shift in energy prices achievable from its thermal fleet. The movement in clean spark spreads was adverse for Keadby, however the same shift is considered favourable to the Group's newer and more efficient plant at Marchwood. As a result the Group reversed prior impairments of £27.8m against Marchwood power station, which is classified as a finance lease asset.

##### (iii) Disposal costs – SSE Energy Services

At 31 March 2019 the Group's UK domestic supply business is presented as held for disposal (see note 4.1 (iii)) and as a result the Group has incurred restructuring costs and recognised provisions for costs that will be incurred on completion of the disposal. In the year the Group has incurred non-cash impairment charges of £41.0m on certain properties that will be sub-let to SSE Energy Services at a rate of rent that will not support the current carrying value of the assets. The assessment was based on a value in use calculation, which the Group has assessed is higher than fair value less costs to sell. These charges have only been recognised on the basis that Management considers the disposal of the business to be highly probable, and would not have been incurred if SSE Energy Services had remained within the continuing operations of the Group.

In addition, the Group incurred a further £47.9m of professional advisor fees and IT and physical separation costs as the Group separates its IT systems and introduces physical separation in the properties that will be occupied by both SSE and SSE Energy Services following the disposal.

##### (iv) Pensions GMP equalisation

On 26 October 2018, the High Court finalised a judgement in the case of Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc. As a result the Group has recognised an exceptional past service cost of £9.0m in the 31 March 2019 income statement for guaranteed minimum pension (GMP) equalisation across the schemes. The exceptional charge is 0.22% of the Group's pension liabilities as at 31 March 2019. In addition, the Group's joint venture SGN recognised an exceptional past service charge of £0.8m, of which the Group recognised its share of £0.3m as exceptional.

#### Charges within discontinued operations

Within its discontinued SSE Energy Services segment, the Group recorded an exceptional impairment charge of £54.3m related to discontinued marketing and customer data management software assets.

#### 31 March 2018

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)	6.1	56.9	–	–	63.0
Other (iii)	20.9	(4.4)	5.4	23.7	45.6
	131.7	52.5	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.

## 7. Exceptional items and certain re-measurements continued

### 7.1 Exceptional items continued

#### (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. Of these charges, £56.9m have been incurred in the discontinued operation and £6.1m incurred in the Group's continuing operations.

#### (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 year ended 31 March 2017, 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 £m	Goodwill & Other Intangibles £m	Inventories £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.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 7. Exceptional items and certain re-measurements continued

#### 7.1 Exceptional items continued

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.

#### 7.2 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 IFRS 9 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IFRS 9 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 IFRS 9 are accounted for as "own use" contracts. The re-measurements arising from IFRS 9 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 impacted 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

	2019 £m	2018 £m
<b>Continuing operations</b>		
Staff costs:		
Wages and salaries	500.0	498.9
Social security costs	54.4	59.3
Share-based remuneration	15.3	13.5
Pension costs (note 23)	83.8	94.0
	653.5	665.7
Less: capitalised as property, plant and equipment	(128.5)	(133.3)
	525.0	532.4

#### 8.2 Employee numbers

	2019 Number	2018 Number
Numbers employed at 31 March in continuing operations	12,111	12,444
Numbers employed at 31 March in discontinued operations	8,259	8,342
	20,370	20,786

## 8. Directors and employees continued

### 8.2 Employee numbers continued

The average number of people employed by the Group (including Executive Directors) during the year was:

	2019 Number	2018 Number
<b>Continuing operations</b>		
<b>Networks</b>		
Electricity Distribution	3,764	3,760
Electricity Transmission	464	456
	<b>4,228</b>	<b>4,216</b>
<b>Retail</b>		
Business Energy	754	988
Airtricity	555	483
Enterprise	3,147	2,990
	<b>4,456</b>	<b>4,461</b>
<b>Wholesale</b>		
Electricity Generation	1,435	1,420
Energy Portfolio Management	151	148
Gas Storage	80	83
Gas Production	9	10
	<b>1,675</b>	<b>1,661</b>
Corporate	<b>1,680</b>	<b>2,153</b>
<b>Total from continuing operations</b>	<b>12,039</b>	<b>12,491</b>
<b>Discontinued operations</b>		
SSE Energy Services – Energy Supply	5,107	5,124
SSE Energy Services – Energy-related Services	3,424	3,430
<b>Total from discontinued operations</b>	<b>8,531</b>	<b>8,554</b>
<b>Total SSE Group</b>	<b>20,570</b>	<b>21,045</b>

### 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.

	2019			2018		
	Executive committee members £m	Executive directors £m	Total £m	Executive committee members £m	Executive directors £m	Total £m
Salaries and short term employee benefits	2.7	2.3	5.0	2.9	2.8	5.7
Social security costs	0.4	0.5	0.9	0.5	0.4	0.9
Post employment benefits	–	0.8	0.8	–	0.9	0.9
Share based benefits	0.3	0.6	0.9	0.1	1.3	1.4
	<b>3.4</b>	<b>4.2</b>	<b>7.6</b>	<b>3.5</b>	<b>5.4</b>	<b>8.9</b>

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 (2018: £0.9m).

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 9. Finance income and costs Recognised in income statement

	2019			2018		
	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
<b>Finance income:</b>						
Interest income from short term deposits	1.1	–	1.1	5.2	–	5.2
Interest on pension scheme assets (i)	9.5	–	9.5	2.7	–	2.7
Other interest receivable:						
Scotia Gas Networks loan stock	9.4	–	9.4	15.2	–	15.2
Other joint ventures and associates	51.5	–	51.5	38.2	–	38.2
Other receivable	15.5	–	15.5	40.8	–	40.8
	76.4	–	76.4	94.2	–	94.2
<b>Total finance income</b>	<b>87.0</b>	<b>–</b>	<b>87.0</b>	<b>102.1</b>	<b>–</b>	<b>102.1</b>
<b>Finance costs:</b>						
Bank loans and overdrafts	(35.3)	–	(35.3)	(26.5)	–	(26.5)
Other loans and charges	(310.2)	–	(310.2)	(324.2)	–	(324.2)
Notional interest arising on discounted provisions	(17.4)	–	(17.4)	(16.3)	–	(16.3)
Foreign exchange translation of monetary assets and liabilities	–	–	–	(6.5)	–	(6.5)
Finance lease charges	(28.6)	–	(28.6)	(30.8)	–	(30.8)
Less: interest capitalised (ii)	27.7	–	27.7	42.2	–	42.2
<b>Total finance costs</b>	<b>(363.8)</b>	<b>–</b>	<b>(363.8)</b>	<b>(362.1)</b>	<b>–</b>	<b>(362.1)</b>
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	–	(44.8)	(44.8)	–	(33.0)	(33.0)
<b>Net finance costs</b>	<b>(276.8)</b>	<b>(44.8)</b>	<b>(321.6)</b>	<b>(260.0)</b>	<b>(33.0)</b>	<b>(293.0)</b>
Presented as:						
Finance income	87.0	–	87.0	102.1	–	102.1
Finance costs	(363.8)	(44.8)	(408.6)	(362.1)	(33.0)	(395.1)
<b>Net finance costs</b>	<b>(276.8)</b>	<b>(44.8)</b>	<b>(321.6)</b>	<b>(260.0)</b>	<b>(33.0)</b>	<b>(293.0)</b>

(i) The interest income on net pension assets for the year ended 31 March 2019 of £9.5m (2018: £2.7m) represents the interest earned under IAS 19R.

(ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 3.71% (2018: 4.01%).

## 9. Finance income and costs continued

### Recognised in income statement continued

Adjusted net finance costs are arrived at after the following adjustments:

	2019 £m	2018 £m
Net finance costs	(321.6)	(293.0)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	(9.4)	(15.2)
Other joint ventures and associates	(114.3)	(97.4)
	(123.7)	(112.6)
Interest on pension scheme (assets)	(9.5)	(2.7)
Share of interest on net pension liabilities in joint ventures	(1.9)	(0.2)
Movement on financing derivatives (note 24).	44.8	33.0
<b>Adjusted net finance costs</b> <sup>(APM)</sup>	<b>(411.9)</b>	<b>(375.5)</b>
Notional interest arising on discounted provisions	17.4	16.3
Finance lease charges	28.6	30.8
Hybrid coupon payment (note 22.5 (iii))	(46.6)	(98.5)
<b>Adjusted net finance costs for interest cover calculations</b> <sup>(APM)</sup>	<b>(412.5)</b>	<b>(426.9)</b>

### Recognised in other comprehensive income

	2019 £m	2018 £m
Loss on effective portion of cash flow hedges (before tax)	(12.0)	(29.5)
Share of joint venture/associate loss on effective portion of cash flow hedges (before tax)	(40.5)	(8.4)
<b>Total recognised in other comprehensive income</b>	<b>(52.5)</b>	<b>(37.9)</b>

## 10. Taxation

### 10.1 Analysis of charge recognised in the income statement

	2019			2018		
	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
<b>Current tax</b>						
UK corporation tax	30.4	0.4	30.8	108.9	(9.2)	99.7
Adjustments in respect of previous years	(68.0)	(30.0)	(98.0)	(37.6)	(29.1)	(66.7)
Reassessment of capital allowances for previous years (i)	—	—	—	(101.3)	—	(101.3)
Loss carry back	—	—	—	(24.0)	—	(24.0)
<b>Total current tax</b>	<b>(37.6)</b>	<b>(29.6)</b>	<b>(67.2)</b>	<b>(54.0)</b>	<b>(38.3)</b>	<b>(92.3)</b>
<b>Deferred tax</b>						
Current year	43.3	(64.9)	(21.6)	104.1	(76.8)	27.3
Effect of change in tax rate	(5.0)	3.5	(1.5)	12.7	—	12.7
Reassessment of capital allowances for previous years (i)	—	—	—	101.3	—	101.3
Adjustments in respect of previous years	32.7	—	32.7	67.4	—	67.4
<b>Total deferred tax</b>	<b>71.0</b>	<b>(61.4)</b>	<b>9.6</b>	<b>285.5</b>	<b>(76.8)</b>	<b>208.7</b>
<b>Total taxation charge/(credit)</b>	<b>33.4</b>	<b>(91.0)</b>	<b>(57.6)</b>	<b>231.5</b>	<b>(115.1)</b>	<b>116.4</b>

(i) Reclassification of historic tax liabilities in prior year from current to deferred tax following a review of the Group's tax accrual positions for earlier open years.

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above. Included within the tax impact of exceptional items is a non-recurring £30m tax credit in respect of Ring Fenced corporation tax losses in prior years, which have been surrendered to non-Ring Fence companies. The tax losses surrendered arose through tax allowances on assets on which exceptional impairments were booked in 2017 and 2018, and therefore the Group considers the tax credit arising to also be exceptional.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 10. Taxation continued

#### 10.1 Analysis of charge recognised in the income statement continued

In October 2014, 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 [A2](#).

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 2019 (2018: 19%). 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.

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:

	2019 £m	2019 %	2018 £m	2018 %
<b>Continuing operations</b>				
Group tax (credit)/charge and effective rate	(57.6)	(4.6)	116.4	16.2
Add: reported deferred tax charge and effective rate	(9.6)	(0.8)	(208.7)	(29.1)
Reported current tax charge and effective rate	(67.2)	(5.4)	(92.3)	(12.9)
Effect of adjusting items	–	(0.4)	–	(4.4)
Reported current tax charge on adjusted basis	(67.2)	(5.8)	(92.3)	(17.3)
add:				
Share of current tax from joint ventures and associates	30.8	2.5	32.9	4.6
Effect of reassessment of capital allowances for previous years	–	–	101.3	14.1
less:				
Current tax credit on exceptional items	29.6	2.4	40.6	5.6
<b>Adjusted current tax charge and effective rate <a href="#">APM</a></b>	<b>(6.8)</b>	<b>(0.9)</b>	<b>82.5</b>	<b>7.0</b>

#### Tax charge/(credit) recognised in other comprehensive income/(loss):

	2019 £m	2018 £m
Relating to:		
Pension scheme actuarial movements	13.2	(43.2)
Cash flow and net investment hedge movements	(1.5)	9.5
	<b>11.7</b>	<b>(33.7)</b>

All tax recognised through other comprehensive income is deferred tax.

See further Taxation disclosures at A2 [A2](#).

### 10.2 Current tax liabilities

	2019 £m	2018 £m
Corporation tax	19.3	117.9
Less: amounts presented as held for sale	(6.8)	–
Closing corporation tax creditor on continuing operations	<b>12.5</b>	<b>117.9</b>

#### 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.



## 10. Taxation continued

### 10.2 Current tax liabilities continued

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 2019, the Group has recognised provisions totalling £47.6m in respect of uncertain tax positions, primarily in relation to the availability of capital allowances (2018: £66.0m). 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.

The reduction in recognised provisions in the year to 31 March 2019 was driven by the tax authorities accepting the Group's treatment of items for tax purposes and the reassessment of estimates for uncertain tax positions.

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. A decision was released in July 2018, which was largely in the Group's favour. HMRC have appealed the decision of the First Tier Tribunal to the Upper Tier Tribunal. The Group does not currently anticipate any material changes to the amounts carried for other uncertain tax positions during the next twelve months.

### 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 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
(Credit)/charge to Income Statement on continuing operations	47.1	(67.1)	6.8	22.8	9.6
(Credit) to Income Statement on discontinued operations	(4.7)	–	–	(1.0)	(5.7)
(Credit)/Charge to equity	–	(2.0)	(21.0)	8.5	(14.5)
(Credit)/charge recognised on disposal	(42.6)	–	–	(4.2)	(46.8)
Transferred to held for disposal	(11.4)	–	–	4.9	(6.5)
At 31 March 2019	771.9	(152.5)	145.7	(120.9)	644.2

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:

	2019 £m	2018 £m
Deferred tax liabilities	947.0	1,002.8
Deferred tax assets	(302.8)	(294.7)
Net deferred tax liabilities/(assets)	644.2	708.1

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 £0.7m (2018: £3.1m).

In total there are £47.8m (2018: £103.5m) of unrecognised deferred tax assets. The Group has not recognised an asset of £31.0m (2018: £32.7m) on activated investment allowances of £309.8m (2018: £327.1m) primarily in respect of the Greater Laggan Area fields and an asset of £16.8m (2018: £20.6m) on trading losses of £134.3m (2018: £165.1m) 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.

In the prior year there were also unrecognised assets of £41.2m on losses of £137.4m in respect of ring fence corporation tax and an asset of £8.9m on losses of £89.2m in respect of ring fence supplementary profits. In the current year these losses have been recognised and surrendered to non-ring fence companies (see note 10.1).

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 11. Dividends and Earnings per Share

#### 11.1 Ordinary dividends

	2019			2018		
	Total £m	Settled via scrip £m	Pence per ordinary share	Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2019	300.5	141.3	29.3	–	–	–
Final – year ended 31 March 2018	672.5	141.8	66.3	–	–	–
Interim – year ended 31 March 2018	–	–	–	287.8	7.1	28.4
Final – year ended 31 March 2017	–	–	–	638.3	324.5	63.9
	973.0	283.1		926.1	331.6	

The final dividend of 66.3p per ordinary share declared in respect of the financial year ended 31 March 2018 (2017: 63.9p) was approved at the Annual General Meeting on 19 July 2018 and was paid to shareholders on 21 September 2018. 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 29.3p per ordinary share (2018: 28.4p) was declared and paid on 15 March 2019 to those shareholders on the SSE plc share register on 18 January 2019. 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 68.2p per ordinary share based on the number of issued ordinary shares at 31 March 2019 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 2019, this would equate to a final dividend of £708.7m.

#### 11.2 Basic and adjusted earnings per share

The calculation of basic earnings per ordinary share at 31 March 2019 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 2019.

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19R, the depreciation charged on fair value uplifts and the impact of exceptional items and certain re-measurements (note 7).

#### Adjusted earnings per share

	2019 Earnings £m	2019 Earnings per share pence	2018 Earnings £m	2018 Earnings per share pence
<b>Continuing operations</b>				
Earnings attributable to ordinary shareholders	1,409.1	137.9	821.6	81.3
Less: earnings attributable to discontinued operations	(27.5)	(2.7)	(172.1)	(17.0)
<b>Basic earnings on continuing operations used to calculate adjusted EPS</b>	<b>1,381.6</b>	<b>135.2</b>	<b>649.5</b>	<b>64.3</b>
Exceptional items and certain re-measurements (note 7)	(758.9)	(74.3)	160.7	15.8
Reassessment of capital allowances from prior year	–	–	(101.3)	(10.0)
Basic excluding exceptional items and certain re-measurements	622.7	60.9	708.9	70.1
Adjusted for:				
Depreciation charge on fair value uplifts	2.9	0.3	4.8	0.5
Interest on net pension scheme assets (note 9)	(9.5)	(0.9)	(2.7)	(0.3)
Share of interest on net pension scheme liabilities in joint venture (note 9)	(1.9)	(0.2)	(0.2)	–
Deferred tax	71.0	6.9	285.5	28.3
Deferred tax from share of joint ventures and associates	0.7	0.1	2.0	0.2
<b>Adjusted <sup>(APM)</sup></b>	<b>685.9</b>	<b>67.1</b>	<b>998.3</b>	<b>98.8</b>
<b>Basic</b>	<b>1,381.6</b>	<b>135.2</b>	<b>649.5</b>	<b>64.3</b>
Dilutive effect of outstanding share options	–	–	–	(0.1)
<b>Diluted</b>	<b>1,381.6</b>	<b>135.2</b>	<b>649.5</b>	<b>64.2</b>

## 11. Dividends and Earnings per Share continued

### 11.2 Basic and adjusted earnings per share continued

#### Reported earnings per share

	2019 Earnings £m	2019 Earnings per share pence	2018 Earnings £m	2018 Earnings per share pence
<b>Basic</b>				
Earnings per share on continuing operations	1,381.6	135.2	649.5	64.3
Earnings per share on discontinued operations	27.5	2.7	172.1	17.0
<b>Earnings per share attributable to ordinary shareholders</b>	<b>1,409.1</b>	<b>137.9</b>	<b>821.6</b>	<b>81.3</b>

The weighted average number of shares used in each calculation is as follows:

	31 March 2019 Number of shares (millions)	31 March 2018 Number of shares (millions)
For basic and adjusted earnings per share	1,021.7	1,010.9
Effect of exercise of share options	–	0.8
For diluted earnings per share	1,021.7	1,011.7

### 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.

	2019 Earnings per share (pence)	2019 Dividend per share (pence)	2019 Dividend Cover (times)	2018 Earnings per share (pence)	2018 Dividend per share (pence)	2018 Dividend Cover (times)
Reported	137.9	97.5	1.41	81.3	94.7	0.86
Adjusted <b>APM</b>	67.1	97.5	0.69	98.8	94.7	1.04

## 12. Acquisitions, disposals and held-for-sale assets

### 12.1 Acquisitions

**Seagreen:** On 24 September 2018, the Group acquired the remaining 50% of Seagreen Wind Energy Limited ("Seagreen") through its wholly owned subsidiary SSE Renewables Developments (UK) Limited for consideration of £118.0m. The Group previously held 50% of Seagreen as an equity accounted joint venture. The Group has assessed that the assets acquired do not meet the IFRS 3 "Business Combinations" criteria to be classified as a business. The 50% stake in Seagreen that the Group held prior to this transaction continues to be carried at historical cost.

### 12.2 Disposals

#### (i) Significant disposals

**Clyde windfarm:** On 8 May 2018 the Group's current joint venture partners in the Clyde windfarm, Greencoat UK Wind Plc ("UKW") and GLIL Infrastructure LLP ("GLIL"), exercised their option to purchase a further 14.9% of Clyde Windfarm (Scotland) Limited ("Clyde") for consideration of £202.0m. The Group recognised an exceptional gain on sale of £74.2m on the disposal. Following this transaction the Group retains a 50.1% interest in Clyde, with UKW and GLIL holding the remaining 49.9%. The assets and liabilities disposed were classified as held for disposal at 31 March 2018.

**Stronelaig & Dunmaglass windfarms:** On 31 March 2019, the Group disposed of a 49.9% equity stake in its wholly owned subsidiaries, Stronelaig Windfarm Limited ("Stronelaig") and Dunmaglass Windfarm Limited ("Dunmaglass"), to Greencoat UK Wind Plc ("UKW") for total consideration of £635.0m. The Group has assessed that it lost control of Stronelaig and Dunmaglass on that date, and the 50.1% interest retained in the entities will be accounted for as equity accounted investments in joint ventures under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investments at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £733.0m, including fair value gain on acquisition of the joint venture investments of £369.2m.

**SSE Telecommunications:** On 29 March 2019, the Group disposed of a 50.0% equity stake in its wholly owned subsidiary, SSE Telecommunications Limited ("SSE Telecoms"), to Infracapital Partners III ("Infracapital") for initial consideration of £215.0m. Under the terms of the sale agreement, SSE has the ability to earn a further £85m in deferred consideration based on SSE Telecoms achieving certain business objectives and a further £80m in contingent consideration to be paid in a series of instalments in the five-year period to 2024, based on financial targets for out-performance. Total consideration has been initially assessed at £230.5m, reflecting the span of contingent payments. The Group has assessed that it lost control of SSE Telecoms as a result of the transaction and the 50.0% equity stake retained will be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group has acquired the joint venture investment at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £235.4m, including fair value gain on acquisition of the joint venture investment of £119.3m.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 12. Acquisitions, disposals and held-for-sale assets continued

#### 12.2 Disposals continued

**Indigo pipelines:** The Group holds an investment in the Scottish Equity Partners ("SEP") Fund, which disposed of its investment in Indigo Pipelines in the year. On 5 March 2019, the SEP Fund paid a special dividend of £69.2m to SSE, resulting a £54.3m exceptional profit.

**Cloosh windfarm:** On 28 March 2019, the Group disposed of a 25.0% equity stake in its joint venture investment in Cloosh Valley Wind Farm Holdings DAC ("Cloosh") to GR Wind Farms 1 Limited ("GRWF1") for consideration of €34.5m (£29.8m), recognising a gain on sale of £23.6m in the year. Following the disposal SSE continues to hold a 25% investment in Cloosh, with GRWF1 holding the remaining 75% investment. The Group has assessed that, despite the sale of equity, it still retains joint control over Cloosh alongside GRWF1 due to the Group retaining equal influence over the material relevant activities of the company.

#### (ii) Disposal reconciliation

The following table summarises all businesses and assets disposed of during the financial year, including other assets and investments disposed of as part of the normal course of business, which are noted in the relevant respective notes to the financial statements.

	Total 2019 £m	Total 2018 £m
<b>Net assets disposed:</b>		
Property, plant and equipment	744.3	85.4
Intangible and biological assets	10.9	3.2
Investments and loans – joint ventures	149.1	34.7
Trade and other receivables	227.1	–
Cash and cash equivalents	1.2	–
Trade and other payables	(207.7)	–
Deferred tax liability	(30.9)	–
Provisions	(24.4)	–
Loans and borrowings	(270.1)	–
<b>Net assets</b>	<b>599.5</b>	<b>123.3</b>
<b>Proceeds of disposal:</b>		
Consideration	1,161.4	151.5
Fair value uplift	488.5	6.7
Transfer to joint ventures on loss of control	225.5	–
Debt reduction	(146.6)	–
Costs of disposal	(7.1)	–
<b>Net proceeds</b>	<b>1,721.7</b>	<b>158.2</b>
<b>Gain on disposal</b>	<b>1,122.2</b>	<b>34.9</b>
<b>Presentation:</b>		
Income statement exceptional credit	1,096.9	–
Income statement non-exceptional credit	25.3	34.9
	2019 £m	2018 £m
<b>Net proceeds of disposal</b>	<b>1,721.7</b>	<b>158.2</b>
Fair value uplift	(488.5)	(6.7)
Equity investment – joint ventures	(225.5)	–
Debt reduction	146.6	–
Other payables	7.1	–
Other receivables	(15.5)	–
<b>Total cash proceeds</b>	<b>1,145.9</b>	<b>151.5</b>

## 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 disposal and have been separately presented on the face of the balance sheet at 31 March 2019. The assets have been stated at their fair value less costs to sell.

The assets and liabilities classified as held for disposal, and the comparative balances at 31 March 2018, are as follows:

	SSE Energy Services £m	SSE Water £m	Total 2019 £m	2018 £m
Property, plant and equipment	31.5	7.6	39.1	-
Goodwill and other intangible assets	736.1	-	736.1	-
Equity investments in joint ventures and associates	-	-	-	35.3
Loans to joint ventures and associates	-	-	-	81.9
Deferred tax asset	4.9	-	4.9	-
<b>Non-current assets</b>	<b>772.5</b>	<b>7.6</b>	<b>780.1</b>	<b>117.2</b>
Inventories	0.9	-	0.9	-
Trade and other receivables	984.7	3.4	988.1	-
Cash and cash equivalents	93.6	1.6	95.2	-
<b>Current assets</b>	<b>1,079.2</b>	<b>5.0</b>	<b>1,084.2</b>	<b>-</b>
<b>Total assets</b>	<b>1,851.7</b>	<b>12.6</b>	<b>1,864.3</b>	<b>117.2</b>
Trade and other payables	1,064.8	4.2	1,069.0	-
Current tax liabilities	6.9	(0.1)	6.8	-
Deferred tax liabilities	11.1	0.3	11.4	-
Provisions	4.7	-	4.7	-
<b>Total liabilities</b>	<b>1,087.5</b>	<b>4.4</b>	<b>1,091.9</b>	<b>-</b>
<b>Net assets</b>	<b>764.2</b>	<b>8.2</b>	<b>772.4</b>	<b>117.2</b>

Included within trade and other receivables above is unbilled energy income of £610.6m, 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(iii). The Group estimates the value of residual electricity consumption uncertainty at the year end is plus or minus £21m (2018: plus or minus £18m). 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 £5.2m in the current year (2018: £6.5m).

#### Prior year assets and liabilities held for sale

The assets and liabilities classified as held for sale at 31 March 2018 were the Group's 14.9% equity interest in Clyde Windfarm (Scotland) Limited which were sold to the joint venture partners Greencoat UK Wind Holdco Limited and GLIL Corporate Holdings Limited for consideration of £202.2m on 8 May 2018.

The aggregated pre-tax profit contribution of the held for sale disposal assets and businesses in the year to 31 March 2019 was £34.4m (2018: £6.6m). There are no accumulated gains or losses recognised in other comprehensive income related to assets and liabilities held for disposal.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 12. Acquisitions, disposals and held-for-sale assets continued

#### 12.4 Discontinued operations

The discontinued operation represents the Group's GB domestic energy supply and related services businesses (SSE Energy Services). As disclosed in note 4.1 (iii), a transaction to dispose of SSE Energy Services is considered to be highly probable at the balance sheet date. The assets and liabilities of SSE Energy Services have been presented as held for disposal, and the business activity has been presented as discontinued. The profit/(loss) of the discontinued operation, after elimination of intercompany transactions, is as follows:

	2019			2018		
	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
Revenue (i)	3,584.7	–	3,584.7	3,976.0	–	3,976.0
Cost of sales (i)	(2,850.9)	–	(2,850.9)	(3,069.8)	–	(3,069.8)
Gross profit	733.8	–	733.8	906.2	–	906.2
Operating costs	(644.2)	(54.3)	(698.5)	(627.5)	(56.9)	(684.4)
Operating profit	89.6	(54.3)	35.3	278.7	(56.9)	221.8
Taxation	(18.1)	10.3	(7.8)	(48.1)	(1.6)	(49.7)
Profit from discontinued operations, net of tax	71.5	(44.0)	27.5	230.6	(58.5)	172.1

#### Cashflows from discontinued operations

	2019 £m	2018 £m
Cashflows from operating activities	115.6	152.8
Cashflows from investing activities	(102.6)	(141.3)
Net increase in cash and cash equivalents in discontinued operations	13.0	11.5

### 12.5 Acquisitions and disposals in the previous year

#### (i) Acquisitions in the previous year

There were no significant acquisitions in the previous year.

#### (ii) Disposals in the previous year

**Clyde windfarm** – On 4 September 2017, the Group completed the disposal of a 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 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.

As part of that disposal agreement, UKW and GLIL also had the option to buy a further 14.9% of Clyde, equating to 77.8MW, for a cash consideration of £202.2m, before costs. On 8 May 2018, subsequent to the financial year end, UKW and GLIL announced that they would exercise their option to purchase 14.9% of on the 30 May 2018 for consideration of £202.0m.

**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.

### 13. Intangible assets

	Goodwill £m	Allowances & Certificates £m	Development Assets £m	Other intangibles £m	Software Assets £m	Total £m
<b>Cost:</b>						
At 31 March 2017 (Restated)	799.1	808.2	364.4	115.4	957.3	3,044.4
Additions	–	712.9	29.2	–	224.9	967.0
Transfer to Property Plant and Equipment (note 14)	–	–	(28.2)	–	(5.6)	(33.8)
Disposals/utilised	–	(580.9)	(42.5)	–	(0.4)	(623.8)
Exchange adjustments	3.9	(0.2)	0.3	–	–	4.0
At 31 March 2018 (Restated)	803.0	940.0	323.2	115.4	1,176.2	3,357.8
<b>Additions</b>	<b>0.7</b>	<b>954.0</b>	<b>199.9</b>	<b>–</b>	<b>178.7</b>	<b>1,333.3</b>
Transfer to Property Plant and Equipment (note 14)	–	–	(13.9)	–	–	(13.9)
Disposals/utilised	(10.3)	(866.3)	–	(0.6)	–	(877.2)
Transferred to held for disposal (note 12)	(187.3)	–	–	–	(717.4)	(904.7)
Exchange adjustments	(2.3)	0.1	(0.1)	(0.1)	–	(2.4)
At 31 March 2019	603.8	1,027.8	509.1	114.7	637.5	2,892.9
<b>Aggregate amortisation and impairment:</b>						
At 31 March 2017 (Restated)	(231.4)	(227.5)	(199.1)	(105.7)	(238.9)	(1,002.6)
Charge for the year	–	–	–	(2.4)	(89.9)	(92.3)
Exceptional impairment (charges)/credits (note 7)	–	–	7.1	–	(59.6)	(52.5)
Non-exceptional impairment charge (i)	–	–	(11.8)	–	–	(11.8)
At 31 March 2018 (Restated)	(231.4)	(227.5)	(203.8)	(108.1)	(388.4)	(1,159.2)
Charge for the year	–	–	–	(1.5)	(47.1)	(48.6)
Exceptional impairment credits/(charges) (note 7)	–	–	–	–	(54.8)	(54.8)
Non-exceptional impairment charge (i)	(3.9)	–	(1.4)	–	(3.1)	(8.4)
Transferred to held for disposal (note 12)	–	–	–	–	168.6	168.6
At 31 March 2019	(235.3)	(227.5)	(205.2)	(109.6)	(324.8)	(1,102.4)
<b>Carrying amount:</b>						
At 31 March 2019	368.5	800.3	303.9	5.1	312.7	1,790.5
At 1 April 2018 (Restated)	571.6	712.5	119.4	7.3	787.8	2,198.6
At 1 April 2017 (Restated)	567.7	580.7	165.3	9.7	718.4	2,041.8

The comparative information at 31 March 2018 and 2017 has been re-presented following a reclassification of certain software assets. See note 1.2.

- (i) The non-exceptional impairments of goodwill are in relation to windfarm developments that are no longer being pursued. (2018: nil). The £1.4m non-exceptional impairments of development assets relates to the write-off of communications projects in Ireland no longer determined as viable (2018: £9.4m development assets related to an E&P exploration well write-off in the Sean field and £2.4m write-off of windfarm development projects).

There were no non-exceptional write backs of previous impairment charges in the current year (2018: nil). In the year ended 31 March 2018 £7.9m was written back on the Doggerbank project which was considered exceptional, as the previous impairment was also considered exceptional.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 13. Intangible assets continued

Intangible assets have been analysed as current and non-current as follows:

	2019 £m	2018 Restated £m
Current	800.3	712.5
Non-current	990.2	1,486.1
	<b>1,790.5</b>	<b>2,198.6</b>

#### (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	2019 £m	2018 £m
Windfarms	Electricity Generation	322.0	328.5
GB Energy Supply <sup>1</sup>	SSE Energy Services – Energy Supply and SSE Energy Services – Energy Related Services	–	187.0
Energy Solutions <sup>2</sup>	Business Energy & Enterprise	38.3	47.9
Ireland Supply <sup>3</sup>	Airtricity	8.2	8.2
		<b>368.5</b>	<b>571.6</b>

1 At 31 March 2019, the Group's SSE Energy Services operating segment is presented as held for disposal (see note 4.1 (iii)).

2 Enterprise Energy Solutions includes goodwill balances arising from the historic acquisitions of Energy Solutions Group (ESG) of £37.6m and a further £0.7m in relation to the acquisition of Fusion Heating Limited. 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.

3 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.

#### (iv) Other intangible assets

Included within other intangible assets are brands, customer lists and contracts.

No exceptional or non-exceptional impairment charges have been recognised in the year (2018: £nil).

#### (v) Software assets

Software assets include application software license fees, software development work, software upgrades and purchased PC software packages.

Exceptional charges of £54.3m (2018: £59.6m) have been recognised in relation to discontinued operations (note 7).



## 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
<b>Cost:</b>							
At 31 March 2017 (Restated)	7,842.3	1,984.9	314.4	10,842.8	507.3	983.5	22,475.2
Additions	6.4	–	–	55.6	–	1,219.2	1,281.2
Increase in decommissioning asset	31.3	5.2	–	–	–	7.2	43.7
Transfer from Intangible Assets (note 13)	0.3	–	0.4	–	0.4	32.7	33.8
Transfer from Assets Under Construction	619.9	63.7	38.5	773.2	73.1	(1,568.4)	–
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
<b>At 31 March 2018 (Restated)</b>	<b>8,538.9</b>	<b>2,053.8</b>	<b>349.1</b>	<b>11,671.5</b>	<b>574.6</b>	<b>569.0</b>	<b>23,756.9</b>
<b>Additions</b>	<b>1.2</b>	<b>–</b>	<b>4.4</b>	<b>109.8</b>	<b>–</b>	<b>1,199.1</b>	<b>1,314.5</b>
<b>Settlement through assets</b>	<b>(43.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(43.4)</b>
<b>Increase in decommissioning asset (i)</b>	<b>101.3</b>	<b>109.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8.1</b>	<b>218.4</b>
<b>Transfer from Intangible Assets (note 13) (iv)</b>	<b>1.7</b>	<b>0.3</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>11.8</b>	<b>13.9</b>
<b>Transfer from Assets Under Construction</b>	<b>432.1</b>	<b>16.6</b>	<b>12.8</b>	<b>696.4</b>	<b>160.5</b>	<b>(1,318.4)</b>	<b>–</b>
<b>Disposals (iii)</b>	<b>(597.4)</b>	<b>–</b>	<b>(5.1)</b>	<b>(369.7)</b>	<b>(2.6)</b>	<b>(100.9)</b>	<b>(1,075.7)</b>
<b>Transfer to assets held for disposal</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(15.2)</b>	<b>(149.0)</b>	<b>(6.8)</b>	<b>(171.0)</b>
<b>Exchange rate adjustments</b>	<b>(25.7)</b>	<b>–</b>	<b>(0.4)</b>	<b>–</b>	<b>(1.2)</b>	<b>(0.5)</b>	<b>(27.8)</b>
<b>At 31 March 2019</b>	<b>8,408.7</b>	<b>2,179.7</b>	<b>360.8</b>	<b>12,092.8</b>	<b>582.4</b>	<b>361.4</b>	<b>23,985.8</b>
<b>Depreciation:</b>							
At 31 March 2017 (Restated)	(4,263.3)	(1,377.5)	(87.4)	(4,265.3)	(477.3)	(82.9)	(10,553.7)
Charge for the year	(221.3)	(119.8)	(7.9)	(308.9)	(46.7)	–	(704.6)
Impairments charges (note 7) (v)	(22.0)	(104.8)	–	(12.4)	–	(7.5)	(146.7)
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)
<b>At 31 March 2018 (Restated)</b>	<b>(4,569.7)</b>	<b>(1,602.1)</b>	<b>(94.7)</b>	<b>(4,592.7)</b>	<b>(520.8)</b>	<b>(33.6)</b>	<b>(11,413.6)</b>
<b>Charge for the year</b>	<b>(255.1)</b>	<b>(102.6)</b>	<b>(7.6)</b>	<b>(193.5)</b>	<b>(63.6)</b>	<b>–</b>	<b>(622.4)</b>
<b>Impairments charges (note 7) (v)</b>	<b>(3.1)</b>	<b>29.7</b>	<b>(37.9)</b>	<b>–</b>	<b>(3.0)</b>	<b>–</b>	<b>(14.3)</b>
<b>Transfers in the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.0</b>	<b>(1.0)</b>	<b>–</b>
<b>Disposals (iii)</b>	<b>68.7</b>	<b>–</b>	<b>1.0</b>	<b>259.8</b>	<b>1.9</b>	<b>–</b>	<b>331.4</b>
<b>Transfer to assets held for disposal</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>132.2</b>	<b>(0.3)</b>	<b>131.9</b>
<b>Exchange rate adjustments</b>	<b>29.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.8</b>	<b>0.5</b>	<b>30.6</b>
<b>At 31 March 2019</b>	<b>(4,729.9)</b>	<b>(1,675.0)</b>	<b>(139.2)</b>	<b>(4,526.4)</b>	<b>(451.5)</b>	<b>(134.4)</b>	<b>(11,556.4)</b>
<b>Net book value</b>							
<b>At 31 March 2019</b>	<b>3,678.8</b>	<b>504.7</b>	<b>221.6</b>	<b>7,566.4</b>	<b>130.9</b>	<b>327.0</b>	<b>12,429.4</b>
<b>At 31 March 2018 (Restated)</b>	<b>3,969.2</b>	<b>451.7</b>	<b>254.4</b>	<b>7,078.8</b>	<b>53.8</b>	<b>535.4</b>	<b>12,343.3</b>
<b>At 31 March 2017 (Restated)</b>	<b>3,579.0</b>	<b>607.4</b>	<b>227.0</b>	<b>6,577.4</b>	<b>30.0</b>	<b>900.7</b>	<b>11,921.6</b>

The comparative information at 31 March 2018 and 2017 has been re-presented following a reclassification of certain software assets. See note 1.2.

- (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 £217.6m (2018: £145.3m) 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 £187.7m (2018: £104.5m).
- (iii) Assets disposed of includes £744.3m in respect of the Group's assets relating to the Stronelair and Dunmaglass windfarms and SSE Telecommunications. Details of disposals related to assets held for disposal at 31 March 2019 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 £14.0m (see note 7) and non-exceptional impairments of £0.3m. (2018: exceptional impairments of £131.7m, non-exceptional impairments £15.0m (£47.2m previously included as exceptional impairment relating to software which was reclassified as an intangible asset)).

## Notes to the consolidated financial statements continued for the year ended 31 March 2019


### 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
<b>Cost</b>				
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
<b>Additions</b>	–	4.5	–	4.5
<b>At 31 March 2019</b>	<b>401.7</b>	<b>22.1</b>	<b>7.0</b>	<b>430.8</b>
<b>Depreciation</b>				
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
Charge for the year	12.0	2.8	–	14.8
Impairment reversal	(27.8)	–	–	(27.8)
<b>At 31 March 2019</b>	<b>256.8</b>	<b>15.0</b>	<b>7.0</b>	<b>278.8</b>
<b>Net book value</b>				
<b>At 31 March 2019</b>	<b>144.9</b>	<b>7.1</b>	<b>–</b>	<b>152.0</b>
At 31 March 2018	129.1	5.4	–	134.5
At 1 April 2017	140.7	7.6	–	148.3

### 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 applied in both 2019 and 2018 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 2019 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.

#### 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.

## 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
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 £43-£55 per MWh over the next three years and have been discounted applying a pre-tax real discount rate between 5.7% and 6.0% (2018: between 4.6% and 6.0%) based on technology and market risks.</p>	<p><b>Impairment conclusion</b> 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><b>Sensitivity analysis</b> 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 6.7% and 7.0% also indicated significant headroom.</p> <p>This view is supported by the Group's recent significant profit on partial disposal of Clyde, Stronelaig and Dunmaglass wind assets (see note 12) which, as FVLCS, is secondary corroboration of the VIU assessment.</p>
SSE Energy Services	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 SSE Energy Services – Supply CGU. As discussed in note 4.1 (ii), SSE Energy Services has been presented as held for disposal at 31 March 2019.</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 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. In particular, it includes the effect of the Ofgem Price Cap, ongoing GB Capacity Market charges but excludes any potential impact from disposal of the SSE Energy Services business.</p> <p>The projected cash flows derived are discounted by applying a pre-tax real discount rate of 8.4% (2018: 10%).</p>	<p><b>Impairment conclusion</b> The recoverable amount of the SSE Energy Services – Supply CGU continues to exceed the carrying values of goodwill and other assets classified as held for disposal at 31 March 2019.</p> <p><b>Sensitivity analysis</b> 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>A modelled increase in the discount rate to 12.0% does not result in an impairment. Similarly, a modelled decrease in forecast cashflows by 20% also does not result in an impairment.</p>

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 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 has capitalised goodwill of £37.6m in relation to the 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>The VIU of the business CGU has been based on a 6.3% pre-tax real discount rate which is consistent with the prior year.</p>	<p>In the year ended 31 March 2019, the outlook for the business improved. Following the announcement of the Group's domestic Retail energy supply and related services businesses disposal, the activity of the Energy Solutions Group has been realigned to the Business Energy segment of the Group.</p> <p>At 31 March 2019, 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 an impairment (£3.4m).</p>

#### 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. Volumes considered within the impairment model include proven and probable reserves (2P) as well as low and best contingent resources (2C) for fields where further development is pending. This estimation of volumes is a significant input estimate that is subject to change between reporting periods.</p>	<p>The result of the review is a combined exceptional impairment reversal of £29.7m (2018: charge of £104.7m) which is allocated between Bacton (£15.8m; 2018: impairment of £19.3m) and Sean (£13.9m; 2018: impairment reversal of £18.8m) driven by an increase in the independently assessed quantity of available proved and probable (2P) hydrocarbon reserves and an increase in forecast gas prices.</p> <p>The Group has not recognised any impairments or impairment reversals on its Greater Laggan (2018: impairment of £104.2m) or ECA (2018: nil) assets based on the results of the impairment assessment. For each of these assets the impairment model indicated a modest reversal of impairment (GLA: £17.6m; ECA: £3.1m), however during sensitivity testing, testing of the GLA asset the model indicated an impairment under reasonably possible outcomes, and for ECA the reversal was considered immaterial.</p> <p>A 10% reduction in the volume and production profile of gas and liquids reserves would result in a £45.5m impairment charge across GLA assets, and a £17.7m reduction in the write-back of historical impairment charges at Bacton and Sean fields. A 10% increase would result in an £8.9m increase in the write back of historic impairment charges at the Bacton field, and an additional £48.8m write-back of historical impairment charges at GLA and ECA assets. The measurement of gas and liquids reserves is an area of estimation uncertainty, as detailed in note 4.1 (i).</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
		<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 for a period of three years, 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 field operator, validated by 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 from 2P volumes was 8.7%. (2018: 10%). Where 2C volumes were also considered, a pre-tax discount rate of 14.8% (2018: 12.5%) has been applied with the difference in rates representing a development risk adjustment for 2C volumes.</p>	<p>Gas prices used in the impairment model range between 41-46p/therm in the next three years. Oil prices range between \$52-\$65/bbl in the next three years, based on internally generated market forecasts. A 5% reduction to commodity prices would result in a £23.7m impairment charge for the GLA fields, and a £7.9m reduction in the write-back of historical impairment charges related to the Sean and Bacton Fields.</p> <p>A 5% increase in commodity prices would result in a £4.3m increase in the write back of historical impairment charges at the Bacton asset, and an additional £25.2m write-back of historical impairment charges related to the ECA and GLA fields.</p> <p>A 1% increase to the discount rate would result in a £6.4m reduction to the write back of historic impairment charges, with a 1% decrease resulting in a £2.8m increase to the current year write back of historic impairment charges.</p> <p>note 7 provides further detail on the exceptional credit taken, as well as residual values for Gas production assets.</p>
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 6.7% (2018: 6.9%) reflecting the specific risks in the Irish market.</p> <p>There remains valuation uncertainty in the Irish Electricity market following the implementation of the Isle of Ireland Integrated Single Electricity Market ("I-SEM") in October 2018. In particular, there is an increased level of subjectivity around assumed demand forecasts, level of renewables penetration and contribution from capacity mechanism payments beyond the next five years.</p>	<p>During the year management has assessed that the future outlook for the asset is more favourable, following the introduction of I-SEM and the outcome of capacity market auctions in Ireland. As a result, the headroom on the carrying value of the asset is significantly greater as at 31 March 2019, though Management accepts that there remains valuation uncertainty in the Irish electricity market following the introduction of I-SEM, particularly beyond the next five years. As such, we have also included below the change required in key assumptions that would remove this headroom.</p> <p>A 1% increase in the discount rate – considered to be a reasonably possible change – would not result in any impairment being recognised. A 4% increase in the discount rate would need to occur before an impairment is incurred.</p> <p>A 10% decrease in forecast future cashflows – considered to be a reasonably possible change – would not result in any impairment being recognised. A 33% reduction in forecast future cashflows would need to occur before an impairment is incurred.</p>

## Notes to the consolidated financial statements continued

### for the year ended 31 March 2019

#### 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
Keadby Power Station	Period to end of life	<p>The VIU of the Group's Keadby power station was based on pre-tax discounted cash flows expected to be generated by the plant, based on management's view of operating prospects and operational flexibility within the GB wholesale market, including capacity market clearing prices. Cash flows are subject to a real pre-tax discount rate of 6.9%.</p> <p>In the prior year the asset was not subject to a detailed impairment review as Management assessed that there were no indicators of impairment at the time. In the year, a movement in electricity price spreads has been assessed as an indicator of impairment and has resulted in a detailed review being performed.</p>	<p>The VIU assessment performed on the Keadby asset indicated an impairment of £30.5m, which has been recognised at 31 March 2019.</p> <p>A 1% increase in the discount rate would result in a further £0.1m of impairment, whereas a 1% decrease in the discount rate would reduce impairment by £0.1m.</p> <p>A £5/KW decrease in capacity market clearing prices would result in a further impairment of £3.5m, whereas a £10/KW increase in capacity market clearing prices would reduce impairment by £6.9m.</p> <p>A 10% decrease in overall forecast future cashflows would result in a further £2.1m of impairment, whereas a 10% increase in the forecast future cashflows would reduce impairment by £2.1m.</p>
Marchwood Power Station (PPA Finance Lease)	Period to end of life	<p>The VIU of the Group's power purchase agreement ("PPA") of the output at Marchwood power station was based on pre-tax discounted cash flows expected to be generated by the plant, based on management's view of operating prospects and operational flexibility within the GB wholesale market, including capacity market clearing prices. Cash flows are subject to a real pre-tax discount rate of 6.9%.</p> <p>In the prior year the asset was not subject to a detailed impairment review as Management assessed that there were no indicators of impairment at the time. In the year, a movement in electricity price spreads has been assessed as an indicator of impairment and has resulted in a detailed review being performed.</p>	<p>The VIU assessment performed on the Marchwood PPA asset indicated a reversal of previous impairments of £27.8m, which has been recognised at 31 March 2019.</p> <p>A 1% increase in the discount rate would reduce the impairment reversal by £3.4m, whereas a 1% decrease in the discount rate would increase the impairment reversal by £3.4m.</p> <p>A £5/KW decrease in capacity market clearing prices would reduce the impairment reversal by £13.7m, whereas a £10/KW increase in capacity market clearing prices would increase the impairment reversal by £27.6m.</p> <p>A 10% decrease in overall forecast future cashflows would reduce the impairment reversal by £12.8m, whereas a 10% increase in the forecast future cashflows would increase the impairment reversal by £12.8m.</p>

## 16. Investments

### 16.1 Joint Ventures and associates

Share of net assets/cost	2019			2018		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
At 1 April	977.0	781.0	1,758.0	985.8	788.4	1,774.2
Additions	124.9	200.4	325.3	30.9	231.1	262.0
Transfer on loss of control (i)	714.0	162.1	876.1	–	–	–
Repayment of shareholder loans	–	(69.5)	(69.5)	–	(128.0)	(128.0)
Dividends received	(121.7)	–	(121.7)	(171.9)	–	(171.9)
Share of profit/(loss) after tax	129.2	–	129.2	146.2	–	146.2
Share of other reserves adjustments	(38.7)	–	(38.7)	40.4	–	40.4
Disposals	(34.8)	(2.5)	(37.3)	(19.7)	(28.6)	(48.3)
Transfer to held for disposal	–	–	–	(35.3)	(81.9)	(117.2)
Transfer – debt for equity swap	136.7	(136.7)	–	–	–	–
Transfers – Other Investments	–	0.6	0.6	–	–	–
Impairment reversal (note 7)	13.3	–	13.3	(0.4)	–	(0.4)
Exchange rate adjustments	(0.9)	–	(0.9)	1.0	–	1.0
At 31 March	1,899.0	935.4	2,834.4	977.0	781.0	1,758.0

(i) The Group has assessed that the equity stakes retained following the disposals of its wholly owned subsidiaries, Stronelaig Wind Farm Limited, Dunmaglass Wind Farm Limited and SSE Telecommunications Limited will be accounted for as equity accounted joint ventures. In the table above an equity investment of £714.0m (including a fair value uplift of £488.5m on acquisition of the joint venture (see note 12.2)) and loans of £162.1m were recognised on deconsolidation.

### 16.2 Acquisitions of equity in the current year

On 31 March 2019 the Group disposed of a 49.9% equity stake in its wholly owned subsidiaries Stronelaig Wind Farm Limited and Dunmaglass Wind Farm Limited as disclosed in note 12.2. The Group has assessed that it lost control of Stronelaig and Dunmaglass on that date and the 50.1% interest retained in the entities will be accounted for as equity accounted investments in Joint Ventures under the principles of IFRS 11 "Joint Arrangements".

On 29 March 2019 the group disposed of a 50% equity stake in its wholly owned subsidiary, SSE Telecommunications Limited as disclosed in note 12.2. The Group has assessed that it lost control of SSE Telecommunications as a result of the transaction and the 50.0% equity stake retained will be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements".

### 16.3 Disposals of equity in the current year

In May 2018, the Group disposed of a 14.9% equity stake in its joint venture investment Clyde Windfarm (Scotland) Limited ("Clyde") to the existing joint venture partners (see note 12.2) for consideration of £202.0m. Following this transaction the Group retains a 50.1% interest in Clyde. The assets and liabilities disposed were classified as held for sale at 31 March 2018.

The Group holds an investment in the Scottish Equity partners "SEP" Fund, which disposed of its investment in Indigo Pipelines as disclosed in note 12.2. On 5 March 2019, the SEP Fund paid a special dividend to SSE of £69.2m, resulting in a £54.3m exceptional profit.

On 28 March 2019, the Group disposed of 25.0% equity stake in its joint venture investment in Cloosh Valley Wind Farm Holdings DAC ("Cloosh") to GR Wind Farms 1 Limited ("GRWF1") for consideration of €34.5m (£29.8m), recognising a gain on sale of £23.6m in the year. Following the disposal SSE continues to hold a 25% investment in Cloosh, with GRWF1 holding the remaining 75% investment (see note 12.2).

### 16.4 Additions and disposals of equity in the previous year

Additions in the prior year relate to acquisition of a 50% equity stake in Ferrybridge MFE2 Limited for £79.3m and a restructuring of Doggerbank Offshore Wind development for £42.3m. The 50% equity stake in Ferrybridge MF2 Limited was subsequently disposed of during the same 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 12.5).

### 16.5 Principal joint ventures and associates

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).

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 16. Investments continued

#### 16.5 Principal joint ventures and associates

##### Share of results of joint ventures and associates

	2019 SGN £m	2019 Windfarms £m	2019 Other Generation £m	2019 Other (i) £m	2019 Total £m	2018 Total £m
Revenue	411.4	172.9	118.1	6.5	708.9	677.0
Depreciation and amortisation	(57.5)	(40.3)	(23.1)	(2.6)	(123.5)	(116.1)
Other operating costs	(177.5)	(57.3)	(66.0)	(1.2)	(302.0)	(267.6)
Operating profit	176.4	75.3	29.0	2.7	283.4	293.3
Interest expense	(75.2)	(31.8)	(12.9)	(3.8)	(123.7)	(112.6)
Changes in fair value of derivatives	1.2	—	—	—	1.2	3.3
Corporation tax	(19.1)	(8.4)	(4.2)	—	(31.7)	(37.8)
<b>Share of post taxation results</b>	<b>83.3</b>	<b>35.1</b>	<b>11.9</b>	<b>(1.1)</b>	<b>129.2</b>	<b>146.2</b>
<b>Recognised in other comprehensive income</b>						
Actuarial gain on retirement benefit schemes	(6.1)	—	—	—	(6.1)	57.0
Taxation	0.9	—	—	—	0.9	(9.7)
Cashflow hedges	(1.1)	(37.6)	(1.8)	—	(40.5)	(8.4)
Taxation	0.2	6.5	0.3	—	7.0	1.5
<b>Total comprehensive income</b>	<b>77.2</b>	<b>4.0</b>	<b>10.4</b>	<b>(1.1)</b>	<b>90.5</b>	<b>186.6</b>

(i) Other includes companies that have not yet contributed any profit or loss to the Group.

##### Share of joint ventures and associates assets and liabilities

	2019 SGN £m	2019 Windfarms £m	2019 Other Generation £m	2019 Other £m	2019 Total £m	2018 Total £m
Non-current assets	2,545.6	1,857.9	470.8	234.2	5,108.5	3,880.6
Current assets	111.1	82.9	55.0	90.7	339.7	327.0
Cash & cash equivalents	4.1	89.4	17.7	9.8	121.0	96.2
Current liabilities	(272.6)	(94.6)	(52.1)	(106.2)	(525.5)	(275.9)
Non-current liabilities	(1,925.6)	(1,395.0)	(304.8)	(87.1)	(3,712.5)	(3,108.1)
	462.6	540.6	186.6	141.4	1,331.2	919.8
Other adjustments	16.8	477.7	(38.1)	111.4	567.8	92.5
<b>Share of net assets of joint ventures and associates</b>	<b>479.4</b>	<b>1,018.3</b>	<b>148.5</b>	<b>252.8</b>	<b>1,899.0</b>	<b>1,012.3</b>
Shareholder loans	109.1	474.8	321.9	29.6	935.4	862.9
Interest in joint venture and associate	588.5	1,493.1	470.4	282.4	2,834.4	1,875.2
Transfer to Held for Sale (i)	—	—	—	—	—	(117.2)
	588.5	1,493.1	470.4	282.4	2,834.4	1,758.0

(i) The assets and liabilities classified as held for sale at 31 March 2018 were 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.

### 16.6 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. Investments continued

### 16.7 Other investments

	Faroe Petroleum £m	Other £m	Total £m
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
Dividends received in the year	–	(0.2)	(0.2)
Impairments in the year	–	(3.5)	(3.5)
Transfer to Joint ventures and associates	–	(0.6)	(0.6)
At 31 March 2019	–	0.5	0.5

(i) The remaining shares in Faroe Petroleum were disposed in the prior year for a cash consideration of £4.0m.

(ii) In the prior year revaluations of £14.4m relating to Faroe Petroleum and Bifab, recognised in the statement of other comprehensive income/(loss) in previous years, have been recycled through the income statement.

## 17. Inventories

	2019 £m	2018 £m
Fuel and consumables	259.7	218.3
Less: provisions held	(31.2)	(30.9)
Work in progress	–	38.5
	228.5	225.9

The Group has recognised £129.4m within cost of sales in the year (2018: £316.1m).


## 18. Trade and other receivables

	2019 £m	2018 £m
Current assets		
Retail trade receivables*	567.9	718.6
Wholesale trade receivables	1,604.6	1,901.2
Other trade receivables	124.5	79.0
Trade receivables	2,297.0	2,698.8
Unbilled energy income	395.9	1,128.6
Other receivables	55.3	77.1
Cash held as collateral	344.2	75.1
Other prepayments and accrued income	52.2	92.1
	3,144.6	4,071.7

\* Retail balance as at 31 March 2019 refers to continuing operations only, with the balance relating to SSE Energy Services being held for disposal. (See note 12).

Unbilled energy income 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 (iii). The Group estimates the value of residual electricity consumption uncertainty at the year end is plus or minus £8m (2018: plus or minus £7m (excluding UK domestic energy)). 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 £1m in the current year (2018: £1m (excluding UK domestic energy)).

Other receivables include financial assets totalling £3.8m (2018: £5.0m). Cash held as collateral relates to amounts deposited on commodity trading exchanges of £344.2m (2018: £75.1m).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in accompanying information note A6 .

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 19. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	2,479.1	2,562.6
Other creditors	267.6	1,154.0
Accruals and deferred income (i)	1,266.2	1,261.0
	<b>4,012.9</b>	<b>4,977.6</b>
Non-current liabilities		
Accruals and deferred income (ii)	355.4	385.3
	<b>4,368.3</b>	<b>5,362.9</b>

(i) Current accruals and deferred income includes customer contributions of £17.7m (2018: £16.5m) and government grants of £0.1m (2018: £0.4m).

(ii) Non-current accruals and deferred income includes customer contributions of £207.4m (2018: £174.4m) and government grants of £2.1m (2018: £2.2m).

### 20. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
At 1 April 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
Charged in the year	–	4.2	–	16.7	20.9
Increase in decommissioning provision (i)	228.8	–	–	–	228.8
Unwind of discount	17.4	–	–	–	17.4
Released during the year	(20.4)	(7.1)	–	(6.4)	(33.9)
Disposed during the year	(4.4)	–	–	–	(4.4)
Utilised during the year	(20.7)	(3.2)	(0.5)	(3.0)	(27.4)
Transfer to held for disposal	–	–	–	(4.6)	(4.6)
At 31 March 2019	966.4	17.8	0.1	45.6	1,029.9
At 31 March 2019					
Non-current	966.4	10.7	–	40.6	1,017.7
Current	–	7.1	0.1	5.0	12.2
	<b>966.4</b>	<b>17.8</b>	<b>0.1</b>	<b>45.6</b>	<b>1,029.9</b>
At 31 March 2018					
Non-current	765.7	16.6	–	30.2	812.5
Current	–	7.3	0.6	12.7	20.6
	<b>765.7</b>	<b>23.9</b>	<b>0.6</b>	<b>42.9</b>	<b>833.1</b>

(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 reduced the decommissioning liabilities held in respect of its Ferrybridge Power plant by £20.9m. Increases of £26.3m were recognised relating to reassessments of provisions for windfarm, thermal generation and gas storage assets, and exclude any salvage value related to those 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 were disposed in prior years.

(iii) Restructuring includes provisions 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 2019, the Group's long term credit rating was BBB+ stable outlook for Standard & Poor's and Baa1 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.

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. During the year to 31 March 2019, SSE successfully issued its second Green Bond being a €650m, nine year bond with a coupon of 1.375% which has been fully swapped to Sterling giving an all-in rate of 2.58%. This followed the €600m 0.875%, seven year Green Bond SSE issued in September 2017 and will continue to 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.

During October 2018, SSE also issued a €200m two year Floating Rate note that was fully swapped back to Sterling giving an all in floating rate of GBP Libor plus 50.5bps.

In March 2019, SSE refinanced its £1.3bn Revolving Credit Facility (RCF) to have an extended maturity date of March 2024 with an option to extend by two years to 2026. This is now classified as a Sustainable RCF with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed independently by Vigeo Eiris. The £200m bilateral facility matures in November 2022. 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, and are undrawn at 31 March 2019.

The Group capital comprises:

	2019 £m	2018 £m
Total borrowings (excluding finance leases)	9,086.8	8,359.4
Less: Cash and cash equivalents	(431.6)	(232.2)
Cash presented as held for disposal	(95.2)	–
Net debt (excluding hybrid equity)	8,560.0	8,127.2
Hybrid equity	1,169.7	1,169.7
Cash held as collateral and other short term loans	(344.2)	(75.1)
Adjusted Net Debt and Hybrid Equity <sup>(APM)</sup>	9,385.5	9,221.8
Equity attributable to shareholders of the parent	4,671.6	4,060.5
Total capital excluding finance leases	14,057.1	13,282.3

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 IFRS 9 remeasurements.
- **"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.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 21. Sources of finance continued

#### 21.2 Loans and other borrowings

	2019 £m	2018 £m
<b>Current</b>		
Short-term loans	668.4	626.3
Obligations under finance leases	29.0	24.0
	<b>697.4</b>	<b>650.3</b>
<b>Non-current</b>		
Loans	8,418.4	7,733.1
Obligations under finance leases	200.3	227.1
	<b>8,618.7</b>	<b>7,960.2</b>
<b>Total loans and borrowings</b>	<b>9,316.1</b>	<b>8,610.5</b>
Cash and cash equivalents	(431.6)	(232.2)
<b>Unadjusted Net Debt</b>	<b>8,884.5</b>	<b>8,378.3</b>
<b>Add/(less):</b>		
Hybrid equity	1,169.7	1,169.7
Obligations under finance leases	(229.3)	(251.1)
Cash held as collateral and other short term loans	(344.2)	(75.1)
Cash presented as held for disposal	(95.2)	–
<b>Adjusted Net Debt and Hybrids <small>[APM]</small></b>	<b>9,385.5</b>	<b>9,221.8</b>

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 higher year on year due to the disposal proceeds received in March 2019.

#### 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 2019 £497.7m of commercial paper was outstanding (2018: £nil). The Group also has £1.5bn of revolving credit facilities (see note 21.1). These facilities continue to provide back-up to the commercial paper programme and, as at 31 March 2019, they were undrawn.

**21. Sources of finance** continued  
**21.3 Borrowing facilities** continued  
**Analysis of Borrowings**

	2019 Weighted average interest rate (iii)	2019 Face value £m	2019 Fair value £m	2019 Carrying amount £m	2018 Weighted average interest rate (iii)	2018 Face value £m	2018 Fair value £m	2018 Carrying amount £m
<b>Current</b>								
Bank Loans – non-amortising (i)	1.5%	107.7	107.7	107.7	3.5%	126.6	153.7	126.6
Other Short term loans – non-amortising	1.4%	497.7	499.6	493.7	–	–	–	–
US Private placement 16 April 2019	3.7%	67.0	82.0	67.0	–	–	–	–
5.00% Eurobond repayable 1 October 2018	–	–	–	–	5.0%	500.0	509.2	499.7
<b>Total current</b>		<b>672.4</b>	<b>689.3</b>	<b>668.4</b>		<b>626.6</b>	<b>662.9</b>	<b>626.3</b>
<b>Non-Current</b>								
Bank loans – non-amortising (i)	2.1%	924.9	938.4	924.8	1.9%	807.7	822.9	807.7
US Private placement 16 April 2019	–	–	–	–	3.7%	67.0	76.1	66.9
US Private Placement 16 April 2022	4.3%	162.7	202.5	162.5	4.3%	162.7	186.8	162.4
US Private Placement 28 April 2023	2.8%	35.0	35.4	34.5	–	–	–	–
US Private Placement 6 September 2023	2.9%	120.0	120.6	118.0	–	–	–	–
2.00% 600m Eurobond repayable 17 June 2020 (iv)	2.7%	542.5	555.1	541.6	2.0%	545.5	567.4	543.8
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	319.7	299.0	4.3%	300.0	326	298.7
2.375% €500m Eurobond repayable 10 February 2022 (v)	2.4%	415.0	439.5	414.7	2.4%	415.0	447.4	414.6
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	342.4	299.1	5.9%	300.0	352.4	298.8
1.75% €700m Eurobond repayable 8 September 2023 (vi)	1.8%	514.6	541.6	513.7	–	–	–	–
4.75% \$900m NC5.5 Hybrid debt maturing 16 September 2077 (vii)	4.8%	736.9	713.1	734.5	–	–	–	–
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	297.7	299.0	–	–	–	–
<b>Between two and five years</b>		<b>4,351.6</b>	<b>4,506.0</b>	<b>4,341.4</b>		<b>2,597.9</b>	<b>2,779.0</b>	<b>2,592.9</b>
Bank loans – non-amortising (i)	1.9%	500.0	499.1	499.8	1.9%	550.0	553.8	549.7
US Private Placement 28 April 2023	–	–	–	–	2.8%	35.0	35.7	34.3
US Private Placement 6 September 2023	–	–	–	–	2.9%	120.0	121.6	117.6
US Private Placement 16 April 2024	4.4%	204.1	255.0	203.8	4.4%	204.1	234	203.8
US Private Placement 8 June 2026	3.1%	64.0	65.1	62.8	3.1%	64.0	65.9	62.7
US Private Placement 6 September 2026	3.2%	247.1	259.9	242.4	3.2%	247.1	244.7	241.8
US Private Placement 6 September 2027	3.2%	35.0	35.7	34.4	3.2%	35.0	36.1	34.3
1.75% €700m Eurobond repayable 8 September 2023 (vi)	–	–	–	–	1.8%	514.6	544.2	513.5
0.875% €600m Eurobond repayable 8 September 2025	0.9%	518.1	513.7	514.5	1.0%	527.0	516.8	522.8
1.375% €650m Eurobond repayable 4 September 2027 (viii)	1.4%	591.4	599.4	589.5	–	–	–	–
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	746.9	496.0	8.4%	500.0	753.8	495.6
5.50% Eurobond repayable on 7 June 2032	5.5%	350.0	458.9	350.1	5.5%	350.0	459.5	350.1
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	399.4	324.0	4.6%	325.0	403.3	323.9
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	509.2	346.9	6.3%	350.0	516.6	346.7
4.454% Index linked loan repayable on 27 February 2044	4.4%	133.6	275.7	131.3	4.5%	127.7	217.0	127.2
1.429% Index linked bond repayable on 20 October 2056	2.0%	142.4	233.2	142.4	2.0%	137.7	236.7	137.7
4.75% \$900m NC5.5 Hybrid debt maturing 16 September 2077 (vii)	–	–	–	–	4.8%	745.4	750.7	742.4
3.625% NC5.5 Hybrid maturing 16 September 2077	–	–	–	–	3.6%	300.0	307.2	298.8
<b>Over five years</b>		<b>3,960.7</b>	<b>4,851.2</b>	<b>3,937.9</b>		<b>5,132.6</b>	<b>5,997.6</b>	<b>5,102.9</b>
Fair value adjustment (ii)				139.1		–	–	37.3
<b>Total non-Current</b>		<b>8,312.3</b>	<b>9,357.2</b>	<b>8,418.4</b>		<b>7,730.5</b>	<b>8,776.6</b>	<b>7,733.1</b>
<b>Total</b>		<b>8,984.7</b>	<b>10,046.5</b>	<b>9,086.8</b>		<b>8,357.1</b>	<b>9,439.5</b>	<b>8,359.4</b>

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 21. Sources of finance continued

#### 21.3 Borrowing facilities continued

- (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 2019 was 3.28% (2018: 3.56%).  
(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.  
(viii) The 1.375% €650m Eurobond maturing 4 September 2027 has been swapped to Sterling giving an effective interest rate of 2.58%.

#### (i) Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments		Present Value of minimum lease payments	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts payable:				
Within one year	53.1	53.3	29.0	24.0
Between one and five years	201.8	204.1	137.0	128.4
After five years	83.9	126.3	63.3	98.7
	338.8	383.7	229.3	251.1
Less: future finance charge	(109.5)	(132.6)		
Present value of lease obligations	229.3	251.1		

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. £22.6m (2018: £25.8m) 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.

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. Due to these hybrid instruments 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

	2019 £m	2018 £m
Increase/(decrease) in cash and cash equivalents	199.4	(1,194.8)
Add/(less):		
Cash presented as held for disposal	95.2	–
Redemption of Hybrid equity	–	1,040.0
New borrowings	(1,260.0)	(859.0)
Repayment of borrowings	626.6	118.8
Non-cash movement on borrowings	(94.0)	186.3
Increase/(decrease) in cash held as collateral and other short term loans	269.1	(30.1)
<b>Movement in adjusted net debt and hybrids <small>(APM)</small></b>	<b>(163.7)</b>	<b>(738.8)</b>

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 2019 £m
	At 31 March 2018 £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	
<b>Financing Liabilities</b>										
Bank loans	1,329.6	174.9	–	–	33.4	–	–	(107.7)	–	1,430.2
US Private Placement	956.0	–	–	–	76.6	–	–	(67.0)	0.1	965.7
Fixed rate Eurobonds	4,264.3	591.4	–	–	(73.3)	(11.9)	–	–	2.6	4,773.1
Index Linked Loans	264.9	–	–	–	65.1	–	–	–	8.8	338.8
Hybrid Debt	918.3	–	–	–	–	(8.5)	–	–	0.8	910.6
<b>Total long-term borrowings</b>	<b>7,733.1</b>	<b>766.3</b>	<b>–</b>	<b>–</b>	<b>101.8</b>	<b>(20.4)</b>	<b>–</b>	<b>(174.7)</b>	<b>12.3</b>	<b>8,418.4</b>
Bank loans	126.6	–	(126.6)	–	–	–	–	107.7	–	107.7
Fixed rate Eurobonds	499.7	–	(500.0)	–	–	–	–	–	0.3	–
Other short-term loans – non-amortising	–	493.7	–	–	–	–	–	–	–	493.7
US Private placement	–	–	–	–	–	–	–	67.0	–	67.0
<b>Total short-term borrowings</b>	<b>626.3</b>	<b>493.7</b>	<b>(626.6)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>174.7</b>	<b>0.3</b>	<b>668.4</b>
Finance leases	251.1	–	–	(50.4)	–	–	28.6	–	–	229.3
<b>Total loans and borrowings</b>	<b>8,610.5</b>	<b>1,260.0</b>	<b>(626.6)</b>	<b>(50.4)</b>	<b>101.8</b>	<b>(20.4)</b>	<b>28.6</b>	<b>–</b>	<b>12.6</b>	<b>9,316.1</b>
<b>Assets held to hedge long-term borrowings</b>	<b>(171.1)</b>	<b>405.0</b>	<b>–</b>	<b>–</b>	<b>(360.0)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(126.1)</b>
	<b>8,439.4</b>	<b>1,665.0</b>	<b>(626.6)</b>	<b>(50.4)</b>	<b>(258.2)</b>	<b>(20.4)</b>	<b>28.6</b>	<b>–</b>	<b>12.6</b>	<b>9,190.0</b>

	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	
<b>Financing Liabilities</b>										
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
<b>Total long-term borrowings</b>	<b>7,686.7</b>	<b>859.0</b>	<b>–</b>	<b>–</b>	<b>(220.1)</b>	<b>23.9</b>	<b>–</b>	<b>(625.8)</b>	<b>9.4</b>	<b>7,733.1</b>
Bank loans	106.0	–	(106.0)	–	–	–	–	126.6	–	126.6
Fixed rate Eurobonds	–	–	–	–	–	–	–	499.2	0.5	499.7
US Private placement	12.8	–	(12.8)	–	–	–	–	–	–	–
<b>Total short-term borrowings</b>	<b>118.8</b>	<b>–</b>	<b>(118.8)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>625.8</b>	<b>0.5</b>	<b>626.3</b>
Finance leases	276.9	–	–	(56.6)	–	–	30.8	–	–	251.1
<b>Total loans and borrowings</b>	<b>8,082.4</b>	<b>859.0</b>	<b>(118.8)</b>	<b>(56.6)</b>	<b>(220.1)</b>	<b>23.9</b>	<b>30.8</b>	<b>–</b>	<b>9.9</b>	<b>8,610.5</b>
<b>Assets held to hedge long-term borrowings</b>	<b>104.7</b>	<b>320.2</b>	<b>–</b>	<b>–</b>	<b>(602.8)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6.8</b>	<b>(171.1)</b>
	<b>8,187.1</b>	<b>1,179.2</b>	<b>(118.8)</b>	<b>(56.6)</b>	<b>(822.9)</b>	<b>23.9</b>	<b>30.8</b>	<b>–</b>	<b>16.7</b>	<b>8,439.4</b>

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 22. Equity

#### 22.1 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
Shares repurchased (ii)	(16.7)	(8.3)
At 31 March 2018	1,023.0	511.5
Issue of shares (i)	23.9	11.9
Shares repurchased (ii)	—	—
At 31 March 2019	1,046.9	523.4

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 66.3p per ordinary share (in relation to year ended 31 March 2018) and the interim dividend of 29.3p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 11,316,873 and 12,543,773 new fully paid ordinary shares respectively (2018: 23,497,675 and 546,613). In addition, the Company issued 0.1m (2018: 1.4m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £1.2m (2018: £16.6m).
- (ii) There were no shares repurchased in the current year. 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. 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 purchased 9.2m shares 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. At 31 March 2019, there remain 7.8m shares held in treasury. 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). A new capital return programme was announced on 1 February 2019, which commenced on 1 April 2019, subsequent to the balance sheet date. Under this programme 4.4m shares have been purchased for consideration of £50.0m since 31 March 2019.

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.

During the year, on behalf of the Company, the employee share trust purchased 0.3m shares for a total consideration of £3.6m (2018: 1.4m shares, consideration of £19.8m) to be held in trust for the benefit of employee share schemes. At 31 March 2019, the trust held 2.8m shares (2018: 3.3m) which had a market value of £32.8m (2018: £41.8m).

#### 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

	2019 £m	2018 £m
GBP 750m 3.875% perpetual subordinated capital securities (ii)	748.3	748.3
EUR 600m 2.375% perpetual subordinated capital securities (ii)	421.4	421.4
	1,169.7	1,169.7

##### (i) 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

#### (ii) 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.

#### (iii) Coupon Payments

In relation to the €600m hybrid equity bond a coupon payment of £17.5m (2018: £17.6m) was made on 1 April 2018 and for the £750m hybrid equity bond a coupon payment of £29.1m (2018: £29.1m) was made on 10 September 2018.

In relation to the \$700m hybrid equity bond coupon payments of £nil (2018: £21.2m) were made. In relation to the €750m hybrid equity bond coupon payments of £nil (2018: £30.6m) were made.

The coupon payments in the year to 31 March 2019 consequently totalled £46.6m (2018: £98.5m).

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 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 years' 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.

### Guaranteed minimum pension ("GMP") equalisation charge

On 26 October 2018, the High Court finalised a judgement in the case of Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc. The ruling has resulted in the Group recognising an exceptional past service cost of £9.0m (see note 7.1 (iv)) in the 31 March 2019 income statement for equalisation across the schemes. The equalisation is a point estimate calculated under the C2 method of equalisation with no limit on the period of arrears.

### 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 2018	31 March 2016
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£2,059.0m	£1,828.4m
Value of liabilities based on valuation	£1,902.3m	£2,245.5m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	RPI+1.1%	RPI+1%
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	108.2%	81.4%

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 23. Retirement Benefit Obligations continued

#### Future Contributions

##### Scottish Hydro Electric Scheme

The last actuarial valuation of the scheme was carried out at 31 March 2018 and was concluded in the year which showed a surplus of £156.7m. Following this valuation, the Group agreed to cease deficit repair contributions in the year ended 31 March 2019 and is expected to make contributions of £10.6m to the scheme in the year ending 31 March 2020. The next funding valuation will be carried out as at 31 March 2021. 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 £68.6m are expected to be paid by the Company during the year ending on 31 March 2020 including deficit repair contributions of £48.0m. These payments will be made annually until March 2020. Following the scheme valuation process at 31 March 2019 the trustee and the scheme sponsor, SSE Services plc, will agree a long term funding strategy, which may include a revision to the schedule of contributions.

#### 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)	
		2019 £m	2018 £m	2019 £m	2018 £m
Scottish Hydro Electric	Defined benefit	(38.9)	30.5	537.7	572.1
Southern Electric	Defined benefit	(43.5)	191.3	(250.6)	(237.6)
Net actuarial gain/(loss)		(82.4)	221.8	287.1	334.5

#### 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.

In 2016/17 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 2019 was equal to £537.7m (2018: £572.1m).

At 31 March 2019, the Southern Electric Pension Scheme has a net deficit of £250.6m, and unrecognised future contributions of £306.7m, which when paid, will result in a notional surplus of £56.1m. 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 2019 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 2019	At 31 March 2018
Rate of increase in pensionable salaries	3.85%	4.20%
Rate of increase in pension payments	3.35%	3.20%
Discount rate	2.40%	2.65%
Inflation rate	3.35%	3.20%

## 23. Retirement Benefit Obligations continued

### 23.2 Sensitivity Analysis

The assumptions relating to longevity underlying the pension liabilities at 31 March 2019 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 2019		At 31 March 2018	
	Male	Female	Male	Female
Currently aged 65	23	24	23	24
Currently aged 45	24	27	25	27

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2019		At 31 March 2018	
	Increase/decrease in assumption	Effect on scheme's liabilities	Increase/decrease in assumption	Effect on scheme's 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%	+/- 1.6%
Discount rate	0.1%	+/- 1.9%	0.1%	+/- 2.1%
Longevity	1 year	+/- 4.0%	1 year	+/- 3.5%

#### Southern Electric

	At 31 March 2019		At 31 March 2018	
	Male	Female	Male	Female
Currently aged 65	23	25	23	25
Currently aged 45	24	26	24	26

The impact on the schemes liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2019		At 31 March 2018	
	Increase/decrease in assumption	Effect on scheme's liabilities	Increase/decrease in assumption	Effect on scheme's liabilities
Rate of increase in pensionable salaries	0.1%	+/- 0.3%	0.1%	+/- 0.4%
Rate of increase in pension payments	0.1%	+/- 1.3%	0.1%	+/- 1.9%
Discount rate	0.1%	+/- 1.7%	0.1%	+/- 2.1%
Longevity	1 year	+/- 4.4%	1 year	+/- 5.2%

### 23.3 Valuation of combined Pension Schemes

	Quoted £m	Unquoted £m	Value at 31 March 2019 £m	Quoted £m	Unquoted £m	Value at 31 March 2018 £m
Equities	571.4	–	571.4	891.5	–	891.5
Government bonds	2,081.6	–	2,081.6	1,222.7	–	1,222.7
Corporate bonds	537.9	–	537.9	1,285.0	–	1,285.0
Insurance Contracts (i)	–	194.4	194.4	–	210.8	210.8
Other investments	944.3	–	944.3	587.3	–	587.3
Total fair value of plan assets			4,329.6			4,197.3
Present value of defined benefit obligation			(4,042.5)			(3,862.8)
Surplus/(deficit) in the schemes			287.1			334.5
Deferred tax thereon (ii)			(145.6)			(159.8)
Net pension asset			141.5			174.7

(i) See details of valuations of insurance contracts in note 23.6 (iv).

(ii) Deferred tax rate of 35% applied to SHEPS pension surplus, and 17% applied to SEPS pension deficit.

## Notes to the consolidated financial statements continued

### for the year ended 31 March 2019

#### 23. Retirement Benefit Obligations continued

#### 23.4 Movements in the combined defined benefit asset obligations and assets during the year

	2019			2018		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total
at 1 April	4,197.3	(3,862.8)	334.5	4,385.6	(4,315.1)	70.5
<b>Included in Income Statement</b>						
Current service cost	–	(43.0)	(43.0)	–	(55.2)	(55.2)
Past service cost (i)	–	(10.4)	(10.4)	–	(3.2)	(3.2)
Interest income/(cost)	109.2	(99.7)	9.5	112.3	(109.6)	2.7
	109.2	(153.1)	(43.9)	112.3	(168.0)	(55.7)
<b>Included in Other Comprehensive Income</b>						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	23.6	23.6	–	118.0	118.0
Financial assumptions	–	(214.5)	(214.5)	–	66.4	66.4
Experience assumptions	–	(65.2)	(65.2)	–	(2.6)	(2.6)
Return on plan assets excluding interest income	173.7	–	173.7	40.0	–	40.0
	173.7	(256.1)	(82.4)	40.0	181.8	221.8
<b>Other</b>						
Contributions paid by the employer	78.9	–	78.9	97.9	–	97.9
Scheme participant's contributions	0.2	(0.2)	–	0.2	(0.2)	–
Benefits Paid	(229.7)	229.7	–	(438.7)	438.7	–
	(150.6)	229.5	78.9	(340.6)	438.5	97.9
<b>Balance at 31 March</b>	<b>4,329.6</b>	<b>(4,042.5)</b>	<b>287.1</b>	<b>4,197.3</b>	<b>(3,862.8)</b>	<b>334.5</b>

#### Pension scheme contributions and costs

#### Charges/(credits) recognised:

	2019 £m	2018 £m
Service costs (charged to operating profit) (i)	53.4	58.4
	53.4	58.4
(Credited)/charged to finance costs:		
Interest from pension scheme assets	(109.2)	(112.3)
Interest on pension scheme liabilities	99.7	109.6
	(9.5)	(2.7)

(i) Service costs charged to operating profit includes a charge of £9.0m for GMP equalisation (see note 7.1 (iv)).

The return on Pension Scheme assets is as follows:

	2019 £m	2018 £m
Return/(loss) on Pension Scheme assets	282.9	152.3

#### Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £71.1m (2018: £71.0m).

#### Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation to EFRB was £3.6m (2018: £0.1m). This is included in other provisions (note 20).

## 23. Retirement Benefit Obligations continued

### 23.4 Movements in the combined defined benefit asset obligations and assets during the year continued

#### Staff costs analysis

The pension costs in note 8 can be analysed thus;

	2019 £m	2018 £m
Service costs	53.4	58.4
Defined contribution scheme payments	71.1	71.0
Less: pension costs of employees in discontinued operations	(40.7)	(35.4)
	83.8	94.0

### 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.

#### 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 prior 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 prior 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 had 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 was recognised as an experience loss in the prior year and was due to the effect of unwinding the discount on the scheme liabilities to their present value.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 23. Retirement Benefit Obligations continued

#### 23.5 Pension Scheme Risk Assessment and Mitigation continued

##### (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 18 years (2018: 21 years) for the Scottish Hydro Electric Pension Scheme and 18 years (2018: 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	28	39
Deferred members	11	9
Pensioners	61	52
	100	100

#### 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 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.

##### (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

	2019 £m	2018 £m
<b>Operating Derivatives</b>		
Total result on operating derivatives (i)	(695.9)	(445.9)
Less: Amounts settled (ii)	367.7	356.8
Movement in unrealised derivatives	(328.2)	(89.1)
<b>Financing Derivatives (and hedged items)</b>		
Total result on financing derivatives (i)	(35.7)	(95.6)
Less: Amounts settled (ii)	(9.1)	62.6
Movement in unrealised derivatives	(44.8)	(33.0)
<b>Net income statement impact</b>	<b>(373.0)</b>	<b>(122.1)</b>

(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:

	2019 £m	2018 £m
<b>Derivative financial assets</b>		
Non-current	325.9	336.4
Current	1,452.2	1,060.1
	<b>1,778.1</b>	<b>1,396.5</b>
<b>Derivative liabilities</b>		
Non-current	(602.4)	(566.9)
Current	(1,882.4)	(1,253.1)
<b>Total derivative liabilities</b>	<b>(2,484.8)</b>	<b>(1,820.0)</b>
<b>Net liability</b>	<b>(706.7)</b>	<b>(423.5)</b>

Information on the Group's financial risk management and the fair value of financial instruments is available at A6 and A7.

## Notes to the consolidated financial statements continued for the year ended 31 March 2019

### 25. Commitments and contingencies

#### 25.1 Capital commitments

	2019 £m	2018 £m
Capital expenditure:		
Contracted for but not provided	768.8	527.3

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:

	2019 £m	2018 £m
Amount included in the income statement relating to the current year leasing arrangements		
Minimum lease payments – power purchase agreement	12.3	90.5
Other lease payments	101.9	84.1
	114.2	174.6

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:

	2019			2018		
	PPAs £m	Other £m	Total £m	PPAs £m	Other £m	Total £m
Within one year	12.3	54.5	66.8	12.5	67.6	80.1
Two to five years	18.2	119.9	138.1	30.3	142.0	172.3
After five years	–	226.0	226.0	–	214.9	214.9
	30.5	400.4	430.9	42.8	424.5	467.3

The average power purchase agreement (PPA) lease term is 2 years (2018: 3 years).

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.

#### 25.3 Contingent assets and liabilities

The Group have unrecognised contingent assets totalling £58m (2018: £nil). Contingent assets relate to the suspension of payments under the UK Capacity Market scheme (note 4.2 (iii)). Based on our assessment of the facts and circumstances of these future payments at the year end, including current UK Government guidance around the suspension of the UK Capacity Market scheme, we consider it is probable but not virtually certain that these payments will be received.

Other contingent liabilities for the Group solely relate to SSE plc, and have been disclosed within note 12 to the Company Financial Statements.



## 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. Whilst this assessment is principally focussed on any "Reserved Matters", being the material activities that typically require all significant shareholders to approve, other contractual agreements such as Power Purchase Agreements and Management Services Agreements are also considered. The Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investee's legal form and the investor's contractual rights and obligations over the assets and liabilities of the investee.

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 net investments (comprising both equity and long term loans) are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. For those investments that were formerly subsidiaries of the Group, this will also include any fair value uplift arising from loss of control. 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.

		2019	2018	Change
EUR v GBP	Year end spot rate	1.1581	1.1386	1.7%
	Average spot rate	1.1338	1.1339	-

#### A1.2 Significant accounting policies

##### Revenue (notes 2 & 5)

The Group's accounting policies for Revenue have changed during the year, following adoption of IFRS 15, with the principal changes disclosed in note 2.

## Accompanying information continued

### A1. Basis of consolidation and significant accounting policies continued

#### A1.2 Significant accounting policies continued

Revenue from contracts with customers is recognised to the extent that it reflects the expected consideration for goods or services provided to the customer under contract, over the performance obligations they are being provided. For each separable performance obligation identified, the Group determines whether it is satisfied at a "point in time" or "over time" based upon an evaluation of the receipt and consumption of benefits, control of assets and enforceable payment rights associated with that obligation. If the criteria required for "over time" recognition are not met, the performance obligation is deemed to be satisfied at a "point in time".

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:

#### Networks

##### Use of electricity 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, which informs the tariffs we set.

Electricity distribution revenue recognised is based on the volume of electricity distributed "over time", as use of distribution service is determined by the customer, 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. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

Electricity transmission revenue is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised "over time" as charged to National Grid. As with electricity distribution revenue, any revenue adjustments assessed by Ofgem are reflected in future financial year's allowed revenue.

##### Network contracted services

Where the Group has an ongoing obligation to provide contracted services (such as for network transmission and distribution connections), revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Payments from customers are typically received from customers in advance of providing the contracted service and are deferred on balance sheet. No extended warranty periods are offered.

#### Retail (including SSE Energy Services)

##### Supply of energy

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. Revenue is recognised "over time" consistent with the delivery of energy to the customer as we consider the receipt and consumption of the benefits of the energy to be simultaneous. Revenue is measured based on the applicable customer tariff rate and after deduction of discounts for direct debits, paperless billing or government schemes such as the "Warm Home Discount".

Details of the estimation process for the value of electricity and gas supplied to customers is given within note 4.1(iii).

Commissions in relation to acquisition of energy supply contracts are expensed as incurred. Payments from customers may be received in advance of providing the contracted service and are deferred on balance sheet. Amounts received from customers in relation to energy management services provided by Third Party Intermediaries ("TPIs") are offset against payments to those TPIs, reflecting the responsibility for providing the energy management service.

##### Retail contracted services

Where the Group has an ongoing obligation to provide contracted services, revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period at the fixed contracted rate. Where the Group has an obligation to perform a specific service, revenues are recognised "point in time", following performance of the service at the fixed contracted consideration. No extended warranty periods are offered.

##### Construction related services

For construction related services (principally within the Enterprise reporting segment), revenue is recognised for each identified performance obligation "over time" by applying an input method to determine the proportion of total contract revenue (being fixed price consideration plus the latest estimate of variable consideration) that should be recognised. The input method applied is calculated by reference to the costs incurred to date on that performance obligation, relative to the total expected costs to satisfy that performance obligation, provided the contract outcome can be assessed with reasonable certainty. Revenue from non-contracted agreements or variations to contracted work is only recognised to the extent there is additional supporting evidence to their recoverability, and may be subject to constraints on recognition. Revenue on contracts in customer dispute is recognised only to the extent it is considered to be highly probable that the revenue will be recovered.

Commissions in relation to acquisition of construction related contracts are expensed as incurred. No extended warranty periods are offered. Payments from customers are based on agreed billing schedules, with payment milestones typically aligned with delivery of performance obligations.

## **A1. Basis of consolidation and significant accounting policies continued**

### **A1.2 Significant accounting policies continued**

#### **Wholesale**

##### **Physical energy**

Revenue from the physical generation of electricity is recognised "point in time" as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Revenue from the physical 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 "point in time" based on the production that has been delivered to the customer at the specified delivery point. Any short-term imbalances between cumulative production entitlement and cumulative sales (known as overlift and underlift) is recognised at the balance sheet date as a payable or receivable measured at market value. Revenue is measured based on the applicable market price as specified in the customer contracts.

Income from sales commodity optimisation trading is presented net in cost of sales alongside purchase commodity optimisation trades.

##### **Gas storage**

Revenue from gas storage related services is recognised "point in time" based on the number of days the storage service has been provided at the applicable contractual rate. Revenue for the injection and withdrawal of gas is recognised at the point of gas flowing into or out of the storage facilities at the applicable contractual rate.

##### **Generation contracted services**

Revenue from national support schemes, such as Renewable Obligation Certificates or the Capacity Market, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Aside from where specifically noted above, consideration is due when the performance obligation has been satisfied. As the period between satisfaction of the performance obligation and receipt of consideration from the customer is expected to be less than a year, the Group has applied the practical expedient not to adjust revenue for the effect of any financing components.

#### **Cost of sales (note 6)**

Cost of sales includes fuel and energy purchases, direct employee benefits, and depreciation of property, plant and equipment.

The net result from sales and purchases of commodity optimisation trades – comprising both realised and unrealised gains and losses arising from optimisation trading activities – is also presented within cost of sales, reflecting the underlying economic purpose of this trading activity.

#### **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 219 [19](#) and for finance lease charges on page 223 [19](#).

#### **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.

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.

## Accompanying information continued

### A1. Basis of consolidation and significant accounting policies continued

#### A1.2 Significant accounting policies continued

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 re-measured through the income statement. Acquisition costs are expensed as incurred.

#### Held for disposal assets and liabilities and discontinued operations (note 12)

Non-current assets are classified as held for disposal if their recoverable value is likely to be recovered via a sale or distribution as opposed to continued use by the Group. In order to be classified as assets held for disposal, assets must meet all of the following conditions; the disposal is highly probable, it is available for immediate disposal, it is being actively marketed and the disposal is likely to occur within one year.

Assets that qualify as held for disposal and related liabilities are disclosed separately from other assets and liabilities in the balance sheet prospectively from the date of classification. Non-current assets determined as held for disposal 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 disposal.

Assets or groups of assets and related liabilities that qualify as held for disposal are classified as discontinued operations when they represent a separate major line of business or geographical area, are part of a single plan to dispose of a separate major line of business or geographical area, or are acquired exclusively with a view to resale. Income and expenses relating to these discontinued operations are disclosed in a single net amount after taxes in the income statement, with comparative amounts re-presented accordingly.

#### 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 certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased obligations certificates. 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.

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. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, including forward carbon contracts, 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.

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.

## **A1. Basis of consolidation and significant accounting policies continued**

### **A1.2 Significant accounting policies continued**

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.

#### **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	Contract term
Developed software assets and application software licences	3-15

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
<b>Wholesale specific assets</b>	
Hydro civil assets	75 to 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
<b>Networks specific assets</b>	
Overhead lines, underground cables and other network assets	5 to 80
Non-operational assets, Fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10
<b>Group wide assets</b>	
Office buildings	30 to 40
Fixtures, IT assets, vehicles and mobile plant	3 to 15

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 21 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 223 [a](#).

#### **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, or where there are indications that a previously recognised impairment loss has reduced. 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, or until previously recognised impairment losses have been fully written back. 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. Reversals of previous impairment charges are recognised if the recoverable amount of the asset or CGU significantly exceeds the carrying amount. Previous impairments of goodwill are not 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.

Any impairment charge identified will initially be adjusted against the goodwill allocated to the cash-generating unit. Any excess charge will be allocated against the remaining assets of the cash-generating unit. Reversals of previous impairment charges are allocated against the carrying value of assets previously subject to an impairment charge.

#### **Inventories (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.

## Accompanying information continued

### A1. Basis of consolidation and significant accounting policies continued

#### A1.2 Significant accounting policies continued

##### 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.

##### 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, and excludes any salvage value related to those assets. 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.

##### Retirement 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.

As previously noted in the 31 March 2018 Annual Report, and in note 2.1, 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.



## **A1. Basis of consolidation and significant accounting policies continued**

### **A1.2 Significant accounting policies continued**

#### **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 re-measured 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.

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 IFRS 9.

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 lifetime expected credit losses.

#### **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.

## Accompanying information continued

**A1. Basis of consolidation and significant accounting policies continued****A1.2 Significant accounting policies continued****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.

**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.

	2019 £m	2019 %	2018 £m	2018 %
Group profit before tax	1,370.6		864.4	
Less: share of results of associates and jointly controlled entities	(129.2)		(146.2)	
<b>Profit before tax</b>	<b>1,241.4</b>		<b>718.2</b>	
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	235.9	19.0	136.5	19.0
Tax effect of:				
Capital allowances less than depreciation	(21.9)	(1.8)	8.5	1.2
Reassessment of capital allowances for previous years	–	–	(101.3)	(14.1)
Increase in restructuring and settlement provisions	4.2	0.3	4.2	0.6
Non-taxable gain on sale of assets	(211.3)	(17.0)	(4.5)	(0.6)
Fair value movements on derivatives	70.9	5.7	23.2	3.2
Pension movements	(6.7)	(0.5)	(8.0)	(1.1)
Relief for capitalised interest and revenue costs	(18.2)	(1.5)	(26.2)	(3.7)
Hybrid equity coupon payments	(8.9)	(0.7)	(18.7)	(2.6)
Expenses not deductible for tax purposes	20.5	1.7	7.2	1.0
Utilisation of tax losses brought forward	(35.6)	(2.9)	(23.2)	(3.2)
Other items	1.9	0.2	0.7	0.1
Losses carried back to earlier years	–	–	(24.0)	(3.4)
Adjustments to tax charge in respect of previous years	(98.0)	(7.9)	(66.7)	(9.3)
<b>Reported current tax charge and effective rate</b>	<b>(67.2)</b>	<b>(5.4)</b>	<b>(92.3)</b>	<b>(12.9)</b>
Depreciation in excess of capital allowances	30.1	2.4	(5.6)	(0.8)
Reassessment of capital allowances for previous years	–	–	101.3	14.1
Increase in provisions	(4.2)	(0.3)	(4.2)	(0.6)
Fair value movements on derivatives	(70.9)	(5.7)	(26.1)	(3.6)
Pension movements	6.7	0.5	8.0	1.1
Relief for capitalised interest and revenue costs	18.2	1.5	26.2	3.7
Impact of higher deferred tax rates on Gas Production profits	(2.9)	(0.2)	20.7	2.9
Adjustments to tax charge in respect of previous years	32.7	2.6	67.4	9.4
Change in rate of UK corporation tax	(1.5)	(0.1)	(0.5)	(0.1)
Tax losses utilised	5.5	0.4	23.2	3.2
Other items	(4.1)	(0.3)	1.7	0.2
<b>Reported deferred tax credit and effective rate</b>	<b>9.6</b>	<b>0.8</b>	<b>208.7</b>	<b>29.1</b>
<b>Group tax charge and effective rate</b>	<b>(57.6)</b>	<b>(4.6)</b>	<b>116.4</b>	<b>16.2</b>

## A2. Taxation 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".

	2019 £m	2018 £m
Profit before tax	1,370.6	864.4
Add/(less):		
Exceptional items and certain re-measurements	(667.9)	275.8
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	31.5	37.2
Depreciation charge on fair value uplifts	2.9	4.8
Interest income/(charge) on pension scheme assets/(liabilities)	(9.5)	(2.7)
Share of interest on net pension liabilities in jointly controlled entities and associates	(1.9)	(0.2)
<b>Adjusted profit before tax</b> <small>(APM)</small>	<b>725.7</b>	<b>1,179.3</b>

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2019 £m	2019 %	2018 £m	2018 %
<b>Adjusted profit before tax</b>	<b>725.7</b>		<b>1,179.3</b>	
Tax on profit on ordinary activities at standard UK corporation tax rate	137.9	19.0	224.1	19.0
<b>Tax effect of:</b>				
Capital allowances in excess of depreciation	(38.6)	(5.3)	(29.1)	(2.5)
Non-taxable gain on sale of assets	(3.0)	(0.4)	(4.7)	(0.4)
Non-qualifying depreciation	15.7	2.2	4.3	0.4
Adjustment for profit on internal trading	0.5	0.1	4.9	0.4
Increase in restructuring and settlement provisions	4.2	0.6	4.3	0.4
Pension movements	(9.7)	(1.3)	(7.4)	(0.6)
Relief for capitalised interest and revenue costs	(4.7)	(0.6)	(7.3)	(0.6)
Hybrid equity coupon payments	(8.9)	(1.2)	(18.7)	(1.6)
Amortisation of contributions and revenue	-	-	(3.4)	(0.3)
Goodwill impairment	-	-	(6.6)	(0.6)
Expenses not deductible for tax purposes	7.0	1.0	6.5	0.5
Relief for brought forward losses	-	-	(24.7)	(2.1)
Losses carried back to earlier years	(37.3)	(5.1)	(24.0)	(2.0)
Adjustments to tax charge in respect of previous years	(69.6)	(9.6)	(38.7)	(3.3)
Other	(0.3)	(0.3)	-3.0	0.3
<b>Adjusted current tax charge and effective rate</b> <small>(APM)</small>	<b>(6.8)</b>	<b>(0.9)</b>	<b>82.5</b>	<b>7.0</b>

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 2019 (2018: 19%). 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 2019 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

As explained at Accompanying Information A1 and A6, the Group measures its operating and financing derivatives at fair value under IFRS 9. 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 Subsidiary Undertakings

Details of the principal subsidiary undertakings are as follows:

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 Holding %	Principal Activity
Abernedd Power Company Limited	England and Wales	B	100.0	100.0	Holding Company
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
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	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
Dromada Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
ESG (International) Limited	England and Wales	D	–	100.0	Dormant (Dissolved 15/01/19)
Evolve Energy Limited	England and Wales	D	100.0	100.0	Dormant (Dissolved 14/5/19)
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	100.0	Construction of utility projects
Fusion Heating Limited	Northern Ireland	W	100.0	50.0	Energy Related Services
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	100.0	Dormant
Islay Offshore Winds Limited	Scotland	A	–	100.0	Renewable Development (Dissolved 29/1/19)
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	Dormant (Dissolved 15/1/19)
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
Nobbs & Jones Limited	England and Wales	D	–	100.0	Dormant (Dissolved 15/1/19)
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	Ireland	F	–	100.0	Renewable Development (Dissolved 26/3/19)
Richfield Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Seagreen Wind Energy Limited	England and Wales	B	100.0	50.0	Renewable Development
Seagreen Alpha Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
Seagreen Bravo Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
Seagreen Charlie Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
Seagreen Delta Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
Seagreen Echo Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
Seagreen Foxtrot Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant

**A3. Related Undertakings continued**  
**Subsidiary Undertakings continued**

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 Holding %	Principal Activity
Seagreen Golf Wind Energy Limited	England and Wales	B	100.0	50.0	Dormant
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
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	Dormant
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 Beatrice Offshore Windfarm Holdings Limited	Scotland	A	100.0	100.0	Holding Company
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	Energy Supply
SSE Energy Services Group Limited	England and Wales	B	100.0	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	Dormant (Dissolved 16/10/18)
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	Dormant (Dissolved 5/2/19)
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
SSE Renewables Holdings (Europe) Limited	Ireland	C	100.0	100.0	Holding Company

## Accompanying information continued

**A3. Related Undertakings** continued  
**Subsidiary Undertakings** continued

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 Holding %	Principal Activity
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	Power Generation
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	Telecommunications
SSE Rogerstone Limited	England and Wales	B	–	100.0	Dormant (Dissolved 16/10/18)
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	Dormant (Dissolved 22/8/18)
SSE Services plc	England and Wales	B	100.0	100.0	Corporate Services
SSE Shetland Power Generation Limited	Scotland	A	–	100.0	Dormant (Dissolved 8/1/19)
SSE Slough Multifuel Limited	England and Wales	B	100.0	100.0	Power Generation
SSE Stock Limited	Scotland	A	100.0	100.0	Stock Holding
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	Dormant (Dissolved 8/1/19)
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
Tournafulla Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation

All shares in subsidiary companies are ordinary share capital, unless otherwise stated.

**A3.1.2. Partnerships**

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 Holding %	Principal Activity
The Glasa LLP	Scotland	A	50.0	50.0	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

**A3.1.3 Joint arrangements (incorporated)**

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 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	49.9	49.9	Renewable Development
AtlasConnect Limited	Scotland	A	50.0	100.0	Dormant
Baglan Pipeline Limited	England and Wales	L	50.0	50.0	Dormant
Beatrice Offshore Windfarm Holdco Limited	Scotland	A	40.0	40.0	Holding Company
Beatrice Offshore Windfarm Limited	Scotland	A	40.0	40.0	Power Generation
Brims Tidal Array Limited	Scotland	M	50.0	50.0	Renewable Development

**A3. Related Undertakings continued**  
**Subsidiary Undertakings continued**

Company	Country of Incorporation	Registered Address (Key)	2019 Holding %	2018 Holding %	Principal Activity
Cloosh Valley Wind Farm Designated Activity Company	Ireland	N	25.0	50.0	Power Generation
Cloosh Valley Wind Farm Holdings Designated Activity Company	Ireland	N	25.0	50.0	Holding Company
Clyde Windfarm (Scotland) Limited	Scotland	A	50.1	65.0	Power Generation
Doggerbank Offshore Windfarm Project 1 Holdco Limited	England and Wales	B	50.0	50.0	Holding Company
Doggerbank Offshore Windfarm Project 1 Projco Limited	England and Wales	B	50.0	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 2 Holdco Limited	England and Wales	B	50.0	50.0	Holding Company
Doggerbank Offshore Windfarm Project 2 Projco Limited	England and Wales	B	50.0	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 3 Holdco Limited	England and Wales	B	50.0	50.0	Holding Company
Doggerbank Offshore Windfarm Project 3 Projco Limited	England and Wales	B	50.0	50.0	Renewable Development
Dunmaglass Wind Farm Limited	Scotland	A	50.1	–	Power Generation
Everwind Limited	Ireland	Y	49.0	49.0	Power Generation
Ferrybridge MFE 2 Limited	England and Wales	B	50.0	50.0	Development Company
Ferrybridge MFE Ltd	England and Wales	B	50.0	50.0	Power Generation
Forewind Limited	England and Wales	B	50.0	50.0	Dormant
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	Power Generation
Green Way Energy Limited	Ireland	O	50.0	50.0	Holding Company
Kerry Power Limited	Ireland	O	49.0	49.0	Power Generation
Maple Topco Limited	England & Wales	R	33.3	33.3	Holding Company
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	50.0	Power Generation
Multifuel Energy Limited	Scotland	A	50.0	50.0	Power Generation
Neos Networks Limited	England and Wales	B	50.0	100.0	Telecommunications
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
SSE Telecommunications Limited	Scotland	A	50.0	100.0	Telecommunications
Stronelaig Wind Farm Limited	Scotland	A	50.1	–	Power Generation

**A3.1.3 Associates**

Company	Country of Incorporation	Registered Address (Key (ii))	2019 Holding %	2018 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

## Accompanying information continued

### A3. Related Undertakings continued

#### A3.1.4 Registered Address Key

Reference	Company registered address
A	Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ
B	No 1 Forbury Place, 43 Forbury Road, Reading RG1 3JH
C	Red Oak South, South County Business Park, Leopardstown, Dublin 18
D	Ocean Court, Caspian Road, Atlantic Street, Altrincham, WA14 5HH
E	Keadby Power Station, Trentside, Keadby, Scunthorpe, North Lincs DN17 3AZ
F	3rd Floor, Millennium House, 17–25 Great Victoria Street, Belfast, BT2 7AQ
G	Tower House, Loch Promenade, Douglas, Isle of Man
H	Büro München, Elektrastrasse 6, 81925, München, Germany
I	The Gutters' Hut, North Ness Business Park, Lerwick, Shetland ZE1 0LZ
J	Dunedin House Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire MK1 1BU
K	City Point, 65 Haymarket Terrace, Edinburgh EH12 5HD
L	16 Axis Way, Mallard Way, Swansea Vale, Swansea SA7 0AJ
M	The Vision Building, 20 Greenmarket, Dundee DD1 4QB
N	6th Floor, South Bank House, Barrow Street, Dublin 4
O	Lissarda Industrial Park, Lissarda, Macroom, County Cork
P	Oceanic Way, Marchwood Industrial Park, Marchwood, Southampton SO40 4BD
Q	Capital Tower, 91 Waterloo Road, London SE1 8RT
R	St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ
S	Severn Road, Hallen, Bristol BS10 7SP
T	18th Floor, 10 Upper Bank Street, Canary Wharf, London E14 5BF
U	4–6 Church Walk, Daventry, NN11 4BL
V	5 Horwick Place, London SW1P 1WG
W	Unit 14 Maryland Industrial Estate, Ballygowan Road, Belfast
X	Dunoge, carrickmacross, Co. Monaghan, Ireland
Y	Gorthleahy, Macroom, Co. Cork, Ireland

### 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 date	Consolidation basis
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	33.3	33.3	31 March	Equity
Beatrice Offshore Windfarms Limited	Power Generation	UK	Ordinary	40.0	40.0	31 March	Equity
Dunmaglass Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Stronelairg Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
SSE Telecommunications Limited	Telecommunications	UK	Ordinary	50.0	50.0	31 March	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	50.1	50.1	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 2019 £m	Seabank Power Limited 2019 £m	Marchwood Power Limited 2019 £m	Multifuel Energy Limited 2019 £m	Clyde Windfarm (Scotland) Limited 2019 £m	Walney (UK) Offshore Windfarms Limited 2019 £m	Beatrice Offshore Windfarm Limited 2019 £m	Dunmaglass Wind Farm Limited (i) 2019 £m	Stronelairg Wind Farm Limited (ii) 2019 £m	SSE Telecommu- nications Limited (ii) 2019 £m	Other 2019 £m	Total 2019 £m
Revenue	1,235.4	87.3	71.1	77.8	172.2	128.1	84.6	-	-	-	60.9	1,917.4
Depreciation and amortisation	(172.6)	(11.5)	(17.7)	(17.0)	(36.2)	(53.4)	(22.6)	-	-	-	(25.4)	(356.4)
Other operating costs	(533.1)	(83.8)	(28.3)	(22.4)	(38.5)	(60.5)	(25.0)	-	-	-	(15.9)	(807.5)
Operating profit	529.7	(8.0)	25.1	38.4	97.5	14.2	37.0	-	-	-	19.6	753.5
Interest expense	(222.2)	0.1	(6.3)	(16.5)	(29.0)	(2.1)	(19.5)	-	-	-	(21.4)	(316.9)
Profit before tax	307.5	(7.9)	18.8	21.9	68.5	12.1	17.5	-	-	-	(1.8)	436.6
Corporation tax	(57.4)	-	(3.9)	(4.2)	(13.0)	(2.3)	(3.3)	-	-	-	0.2	(83.9)
Profit after tax	250.1	(7.9)	14.9	17.7	55.5	9.8	14.2	-	-	-	(1.6)	352.7
<b>Recognised in other comprehensive income</b>												
Actuarial gain on retirement benefit schemes	(18.3)	-	-	-	-	-	-	-	-	-	-	(18.3)
Taxation	2.7	-	-	-	-	-	-	-	-	-	-	2.7
Cash flow hedges	(3.3)	-	-	-	-	-	(99.5)	-	-	-	(2.3)	(105.1)
Taxation	0.6	-	-	-	-	-	16.9	-	-	-	0.2	17.7
	(18.3)	-	-	-	-	-	(82.6)	-	-	-	(2.1)	(103.0)
Total comprehensive income/(loss)	231.8	(7.9)	14.9	17.7	55.5	9.8	(68.4)	-	-	-	(3.7)	249.7
<b>SSE share of profit (based on % equity)</b>	83.3	(4.0)	7.2	8.9	27.8	2.5	5.7	-	-	-	(2.2)	(129.2)
Dividends paid to shareholders	205.0	-	12.5	-	41.8	73.5	-	-	-	-	-	332.8
Non-current assets	7,644.5	129.9	264.6	265.2	620.6	675.6	2,340.3	197.4	344.5	229.2	1,083.6	13,795.4
Current assets	333.5	27.5	39.6	38.9	42.9	8.9	37.1	9.9	38.1	151.9	90.9	819.2
Cash and cash equivalents	12.2	23.0	11.3	-	49.7	17.7	74.0	6.7	19.8	-	57.6	272.0
Current liabilities	(818.4)	(4.1)	(65.2)	(27.9)	(30.7)	(15.0)	(81.8)	(2.0)	(19.5)	(184.0)	(105.9)	(1,354.5)
Non-current liabilities	(5,782.6)	(38.0)	(125.7)	(204.9)	(334.8)	(109.5)	(2,172.0)	(116.2)	(197.6)	(12.0)	(799.8)	(9,893.1)
Net assets	1,389.2	138.3	124.6	71.3	347.7	577.7	197.6	95.8	185.3	185.1	326.4	3,639.0
<b>Reconciliation of the above amounts to the investment recognised in the consolidated financial statements</b>												
Group equity interest	33.3%	50%	50%	50%	50.1%	25.1%	40%	50.1%	50.1%	50%		
Net assets	1,389.2	138.3	124.6	71.3	347.7	577.7	197.6	95.8	185.3	185.1	326.4	3,639.0
Group's share of ownership interest	463.1	69.2	62.3	35.7	174.2	145.0	79.0	48.0	92.8	92.6	69.3	1,331.2
Other adjustments	16.3	(19.1)	2.9	(9.3)	57.9	18.6	(1.2)	87.6	273.6	119.2	21.3	567.8
Carrying value of group's equity interest	479.4	50.1	65.2	26.4	232.1	163.6	77.8	135.6	366.4	211.8	90.6	1,899.0

## Accompanying information continued

## A4. Joint ventures and associates continued

	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	Beatrice Offshore Windfarm 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
<b>Recognised in other comprehensive income</b>									
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
<b>SSE share of profit (based on % equity)</b>									
	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	1,549.0	1,296.7	12,287.7
Current assets	560.5	28.3	27.3	19.7	41.4	13.2	1,498.0	231.1	2,419.5
Cash and cash equivalents	9.7	27.5	19.4	16.5	41.4	13.5	50.0	1.2	179.2
Current liabilities	(314.0)	(17.2)	(44.5)	(28.1)	(26.5)	(24.5)	(1,547.0)	(236.6)	(2,238.4)
Non-current liabilities	(6,215.2)	(33.1)	(152.0)	(237.6)	(619.8)	(92.6)	(1,550.0)	(952.6)	(9,852.9)
Net assets	1,413.0	146.6	118.5	47.9	90.4	638.9	–	339.8	2,795.1
<b>Reconciliation of the above amounts to the investment recognised in the consolidated financial statements</b>									
Group equity interest	33.3%	50%	50%	50%	65%	25.1%			
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

(i) Dunmaglass Wind Farm Limited and Stronelaig Wind Farm Limited were incorporated on 6 September 2018.

In addition to the above at 31 March 2019, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £109.1m (2018: £109.1m), Multifuel Energy Limited £251.2m (2018: £238.3m), Marchwood Power Limited £70.6m (2018: £79.8m) and Clyde Windfarm (Scotland) Ltd £127.0m (2018: £357.5m). The Group made new loans during the year to Beatrice Offshore Windfarm Limited £147.7m (2018: Enil), Dunmaglass Wind Farm Limited £46.6m (2018: Enil), Stronelaig Wind Farm Limited £88.7m (2018: Enil) and SSE Telecommunications Limited £26.8m (2018: Enil).

This represents 92.8% (2018: 92.5%) 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.

	2019 Sale of goods and services £m	2019 Purchase of goods and services £m	2019 Amounts owed from £m	2019 Amounts owed to £m	2018 Sale of goods and services £m	2018 Purchase of goods and services £m	2018 Amounts owed from £m	2018 Amounts owed to £m
<b>Joint ventures:</b>								
Seabank Power Ltd	45.9	(60.5)	0.1	(10.2)	14.4	(155.0)	0.1	(16.2)
Marchwood Power Ltd	15.4	(116.2)	0.4	(14.6)	8.5	(132.3)	0.2	(10.6)
Scotia Gas Networks Ltd	46.2	(140.3)	11.8	(1.2)	41.4	(144.8)	0.6	(14.2)
Clyde Windfarm (Scotland) Ltd	3.5	(150.3)	3.7	(41.3)	4.8	(129.3)	6.5	(37.7)
Other Joint Ventures	55.9	(171.4)	19.4	(44.3)	23.3	(186.2)	17.1	(52.3)
<b>Associates</b>	–	(35.4)	–	–	–	(34.7)	4.5	–

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. During the financial year, the Risk Committees in the Wholesale and Retail divisions reported directly to the Executive Committee to support the Group's risk management responsibilities to review 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 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 appropriate governance forum.

From April 2019, and following a comprehensive assessment of SSE's governance framework during the reporting period (see page 78), the Risk Committees in the Wholesale and Retail divisions have been reshaped to form a Group-wide committee reporting to the Group Executive Committee to support the Group's risk management responsibilities.

In addition, a Board level sub-committee, the Energy Markets Risk Committee, was established with the principal purpose to oversee the implementation of the Group's new approach to hedging. This new hedging approach was published on [www.sse.com](http://www.sse.com) in November 2018.

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 2019, EPM had pledged £210.7m (2018: £222.0m) of cash collateral and letters of credit and had received £72.4m (2018: £41.0m) 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:

	2019 £m	2018 £m
<b>Continuing operations</b>		
<b>Networks</b>		
Electricity Distribution	93.3	61.7
Electricity Transmission	17.2	1.5
	<b>110.5</b>	<b>63.2</b>
<b>Retail</b>		
Business Energy	225.5	171.8
Airtricity	186.1	122.2
Enterprise	156.3	91.4
	<b>567.9</b>	<b>385.4</b>
<b>Wholesale</b>		
Electricity Generation	79.0	68.1
EPM	1,522.8	1,829.5
Gas Storage	2.5	1.1
Gas Production	0.3	2.5
	<b>1,604.6</b>	<b>1,901.2</b>
Corporate Unallocated	14.0	15.8
<b>Total continuing operations</b>	<b>2,297.0</b>	<b>2,365.6</b>
<b>Discontinued operations</b>		
SSE Energy Services – Energy Supply	292.2	325.9
SSE Energy Services – Energy-related Services	7.9	7.3
<b>Total discontinued operations</b>	<b>300.1</b>	<b>333.2</b>
<b>Total SSE Group</b>	<b>2,597.1</b>	<b>2,698.8</b>

The Retail segment accounts for 24.7% (2018: 16.3%) of the Group's trade receivables from continuing operations. Including both continuing and discontinued operations, the Retail segment accounts for 33.4% (2018: 26.6%) of the total SSE Group's trade receivables. Trade receivables associated with the Group's 7.1 million electricity and gas customers (from continuing and discontinued operations) 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% (2018: 10%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2019 £m Continuing	2019 £m Discontinued	2019 £m Total SSE Group	2018 £m Total SSE Group
Not past due	2,227.0	125.9	2,352.9	2,439.6
Past due but not individually impaired:				
0 – 30 days	52.8	69.6	122.4	153.8
31 – 90 days	16.2	55.3	71.5	77.2
Over 90 days	42.9	128.4	171.3	151.8
	<b>2,338.9</b>	<b>379.2</b>	<b>2,718.1</b>	<b>2,822.4</b>
Less: allowance for impairment	(41.9)	(79.1)	(121.0)	(123.6)
<b>Net Trade receivables</b>	<b>2,297.0</b>	<b>300.1</b>	<b>2,597.1</b>	<b>2,698.8</b>

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.

The Group has other receivables which are financial assets totalling £3.8m (2018: £5.0m).

## Accompanying information continued

### A6. Financial risk management continued

#### A6.2 Concentrations of risk continued

The movement in the allowance for impairment of trade receivables was:

	2019 £m	2018 £m
Balance at 1 April	123.6	120.0
Increase in allowance for impairment	3.9	55.0
Impairment losses recognised	(4.2)	(51.4)
Released on disposal	(2.3)	–
Transfer to held for disposal	(79.1)	–
Balance at 31 March	41.9	123.6

At the end of each reporting period a review of the allowance for impairment of trade receivables is performed. Trade receivables do not contain a significant financing element, and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised on initial recognition. A provision matrix is utilised to estimate the lifetime expected credit losses – based on the age, status and risk of each class of receivable – which is periodically updated to include changes to both forward-looking and historical inputs.

#### 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 £100m of uncommitted bank lines and a £15m overdraft facility.

The refinancing requirement in the 19/20 financial year is £672.4m, being the £67.0m USPP maturing on 16 April 2019, \$150m (£107.7m) term loan maturing on 17 March 2020 and £497.7m of Commercial Paper maturing between April and October 2019. The view of the Directors is that the Group's 105% funding policy is currently met out to June 2020 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 both the Group and SSE plc as Parent Company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have also taken into account the successful issuance of £7.8bn 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 108.

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 2019, the value of outstanding cash collateral in respect of mark-to-market related margin calls on exchange traded positions was £344.2m (2018: £75.1m).

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.

## A6. Financial risk management continued

### A6.3 Liquidity risk and Going Concern continued

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.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity Risk	2019 Carrying Value £m	2019 Contractual Cash Flows £m	2019 0-12 months £m	2019 1-2 years £m	2019 2-5 years £m	2019 > 5 years £m	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
<b>Financial Liabilities</b>												
Loans and Borrowings												
Commercial paper and cash advances	493.7	(497.7)	(497.7)	-	-	-	-	-	-	-	-	-
Loans – floating	932.5	(975.8)	(12.3)	(593.5)	(159.2)	(210.8)	757.7	(805.9)	(9.8)	(117.6)	(465.0)	(213.5)
Loans – fixed	1,656.5	(2,076.5)	(52.4)	(218.2)	(648.8)	(1,157.1)	1,777.3	(2,258.8)	(186.4)	(121.3)	(559.9)	(1,391.2)
Unsecured bonds – fixed	5,865.0	(8,052.0)	(225.4)	(768.0)	(3,088.0)	(3,970.6)	5,787.1	(7,698.0)	(731.8)	(206.6)	(2,798.4)	(3,961.2)
Fair value adjustment	139.1	-	-	-	-	-	37.3	-	-	-	-	-
	9,086.8	(11,602.0)	(787.8)	(1,579.7)	(3,896.0)	(5,338.5)	8,359.4	(10,762.7)	(928.0)	(445.5)	(3,823.3)	(5,565.9)
Finance lease obligations	229.3	(338.8)	(53.1)	(51.7)	(150.1)	(83.9)	251.1	(383.8)	(53.3)	(53.0)	(151.1)	(126.4)
	9,316.1	(11,940.8)	(840.9)	(1,631.4)	(4,046.1)	(5,422.4)	8,610.5	(11,146.5)	(981.3)	(498.5)	(3,974.4)	(5,692.3)
<b>Derivative Financial Liabilities</b>												
Operating derivatives designated at fair value	2,013.5	(4,961.5)	(4,363.6)	(592.4)	(5.5)	-	1,338.1	(7,751.9)	(6,976.9)	(752.2)	(22.8)	-
Interest rate swaps used for hedging	123.8	(123.8)	(39.9)	(26.2)	(39.9)	(17.8)	168.3	(168.3)	(61.5)	(34.4)	(70.7)	(1.7)
Interest rate swaps designated at fair value	338.5	(338.5)	(22.9)	(21.1)	(58.1)	(236.4)	311.7	(311.7)	(19.0)	(17.3)	(49.7)	(225.7)
Forward exchange contracts held for hedging	3.1	(166.0)	(81.4)	-	(84.6)	-	0.9	(42.7)	(42.7)	-	-	-
Forward exchange contracts designated at fair value	5.9	(109.4)	(121.0)	6.6	5.0	-	1.0	(109.6)	(108.3)	(1.3)	-	-
	2,484.8	(5,699.2)	(4,628.8)	(633.1)	(183.1)	(254.2)	1,820.0	(8,384.2)	(7,208.4)	(805.2)	(143.2)	(227.4)
<b>Other financial liabilities</b>												
Trade payables	2,479.1	(2,479.1)	(2,479.1)	-	-	-	2,562.6	(2,562.6)	(2,562.6)	-	-	-
	2,479.1	(2,479.1)	(2,479.1)	-	-	-	2,562.6	(2,562.6)	(2,562.6)	-	-	-
<b>TOTAL</b>	<b>14,280.0</b>	<b>(20,119.1)</b>	<b>(7,948.8)</b>	<b>(2,264.5)</b>	<b>(4,229.2)</b>	<b>(5,676.6)</b>	<b>12,993.1</b>	<b>(22,093.3)</b>	<b>(10,752.3)</b>	<b>(1,303.7)</b>	<b>(4,117.6)</b>	<b>(5,919.7)</b>
<b>Derivative Financial Assets</b>												
Financing derivatives	(345.2)	357.5	148.7	89.9	110.3	8.6	(310.8)	151.4	(47.2)	59.9	126.5	12.2
Operating derivatives designated at fair value	(1,432.9)	4,539.2	4,172.0	314.2	53.0	-	(1,085.7)	6,532.1	6,153.2	377.2	1.7	-
	(1,778.1)	4,896.7	4,320.7	404.1	163.3	8.6	(1,396.5)	6,683.5	6,106.0	437.1	128.2	12.2
<b>Net total (i)</b>	<b>12,501.9</b>	<b>(15,222.4)</b>	<b>(3,628.1)</b>	<b>(1,860.4)</b>	<b>(4,065.9)</b>	<b>(5,668.0)</b>	<b>11,596.6</b>	<b>(15,409.8)</b>	<b>(4,646.3)</b>	<b>(866.6)</b>	<b>(3,989.4)</b>	<b>(5,907.5)</b>

(i) 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 IFRS 9 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, Gas Storage and Gas Production.

##### Current hedging approach

The Group's strategy has been to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of Value at Risk (VaR) models 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 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 IFRS 9. 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 IFRS 9 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 IFRS 9 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 IFRS 9 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 IFRS 9.

In EPM, the economic volatility that the Group is exposed to from commodity 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 domestic and business 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 IFRS 9 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.

##### Future hedging approach

In November 2018, the Group published a Statement on SSE's Approach to Hedging, which explained the changes that will be made to the current hedging strategy to reduce the Group's exposure to variations in earnings from assets subject to volatility in energy commodity prices. The Group is currently implementing this new hedging approach and aims to have it fully in place by April 2020. Further details on the new approach, and SSE's hedging position at 31 March 2019, are contained on [www.sse.com](http://www.sse.com).

##### Sensitivity analysis

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IFRS 9 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 IFRS 9 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IFRS 9.



## A6. Financial risk management continued

### A6.4 Commodity risk continued

	2019		2018	
	Base Price (i)	Reasonably possible increase/decrease in variable	Base Price (i)	Reasonably possible increase/decrease in variable
Commodity prices				
UK gas (p/therm)	47	+/-19	45	+/-11
UK power (£/MWh)	48	+/-19	45	+/-11
UK coal (US\$/tonne)	73	+/-8	74	+/-12
UK emissions (£/tonne)	22	+/-7	13	+/-5
UK oil (US\$/bbl)	63	+/-13	61	+/-10
IRL power (£/MWh)	64	+/-16	48	+/-15

(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:

	2019 Impact on profit and equity (£m)	2018 Impact on profit and equity (£m)
Incremental profit/(loss)		
Commodity prices combined – increase	104.2	(327.4)
Commodity prices combined – decrease	(104.2)	327.4

The sensitivity analysis provided is hypothetical and is based on the exposure to energy-related commodities, and their corresponding valuation under IFRS 9, that the Group has at each period end. This analysis 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 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:

	2019 £m	2018 £m
Forward foreign exchange contracts	3,637.4	2,581.5

## Accompanying information continued

**A6. Financial risk management** continued**A6.5 Currency risk** continued

The Group's exposure to foreign currency risk was as follows:

	2019						2018					
	Ym	DKK (million)	SEK (million)	€m	\$m	NOK (million)	Ym	DKK (million)	SEK (million)	€m	\$m	NOK (million)
Loans and borrowings	-	-	-	4,340.0	1,974.0	-	15,000.0	-	-	2,975.0	1,974.0	-
Purchase and commodity contract commitments	-	-	29.5	312.7	(884.4)	-	-	25.3	80.7	179.7	(869.1)	5.9
Gross exposure	-	-	29.5	4,652.7	1,089.6	-	15,000.0	25.3	80.7	3,154.7	1,104.9	5.9
Forward exchange/swap contracts	-	-	29.5	3,237.9	1,090.2	-	15,000.0	25.3	80.7	1,899.0	1,126.4	5.9
Net exposure (in currency)	-	-	-	1,414.8	(0.6)	-	-	-	-	1,255.7	(21.5)	-
Net exposure (in £m)	-	-	-	1,221.6	(0.5)	-	-	-	-	1,102.8	(15.3)	-

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 2019 £m	At 31 March 2018 £m	At 31 March 2019 £m	At 31 March 2018 £m
US Dollars	-	-	-	1.4
Euro	106.9	108.7	3.1	(9.4)
DKK	-	-	-	-
¥	-	-	-	-
SEK	-	-	-	-
NOK	-	-	-	-
	106.9	108.7	3.1	(8.0)

The impact of a decrease in rates would be an identical reduction in the annual charge.

## A6. Financial risk management continued

### 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) and a two year FRN.

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:

	2019 Carrying Amount £m	2018 Carrying Amount £m
Interest bearing/earning assets and liabilities:		
– fixed	(8,269.0)	(8,269.1)
– floating	(646.9)	(287.3)
	(8,915.9)	(8,556.4)
Represented by:		
Cash and cash equivalents	431.6	232.2
Cash presented as held for disposal	95.2	–
Derivative financial liabilities	(126.6)	(178.1)
Loans and borrowings	(9,086.8)	(8,359.4)
Finance lease obligations	(229.3)	(251.1)
	(8,915.9)	(8,556.4)

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.

	2019 £m	2018 £m
Income statement	9.6	4.4

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:

	2019 Amortised Cost (i) £m	2019 FVTPL/ FVTOCI (ii) £m	2019 Total Carrying Value £m	2019 Fair Value £m	2018 Amortised Cost (i) £m	2018 FVTPL/ FVTOCI (ii) £m	2018 Total Carrying Value £m	2018 Fair Value £m
<b>Financial Assets</b>								
<b>Current</b>								
Trade receivables	2,297.0	–	2,297.0	2,297.0	2,698.8	–	2,698.8	2,698.8
Other receivables	3.8	–	3.8	3.8	5.0	–	5.0	5.0
Cash collateral and other short term loans	344.2	–	344.2	344.2	75.1	–	75.1	75.1
Cash and cash equivalents	431.6	–	431.6	431.6	232.2	–	232.2	232.2
Derivative financial assets	–	1,452.2	1,452.2	1,452.2	–	1,060.1	1,060.1	1,060.1
	<b>3,076.6</b>	<b>1,452.2</b>	<b>4,528.8</b>	<b>4,528.8</b>	<b>3,011.1</b>	<b>1,060.1</b>	<b>4,071.2</b>	<b>4,071.2</b>
<b>Non-current</b>								
Unquoted equity investments	–	0.5	0.5	0.5	–	4.8	4.8	4.8
Loans to associates and jointly controlled entities	935.4	–	935.4	935.4	781.0	–	781.0	781.0
Derivative financial assets	–	325.9	325.9	325.9	–	336.4	336.4	336.4
	<b>935.4</b>	<b>326.4</b>	<b>1,261.8</b>	<b>1,261.8</b>	<b>781.0</b>	<b>341.2</b>	<b>1,122.2</b>	<b>1,122.2</b>
	<b>4,012.0</b>	<b>1,778.6</b>	<b>5,790.6</b>	<b>5,790.6</b>	<b>3,792.1</b>	<b>1,401.3</b>	<b>5,193.4</b>	<b>5,193.4</b>
<b>Financial Liabilities</b>								
<b>Current</b>								
Trade payables	(2,479.1)	–	(2,479.1)	(2,479.1)	(2,562.6)	–	(2,562.6)	(2,562.6)
Loans and Borrowings	(668.4)	–	(668.4)	(689.4)	(626.3)	–	(626.3)	(662.8)
Finance lease liabilities	(29.0)	–	(29.0)	(29.0)	(24.0)	–	(24.0)	(24.0)
Derivative financial liabilities	–	(1,882.4)	(1,882.4)	(1,882.4)	–	(1,253.1)	(1,253.1)	(1,253.1)
	<b>(3,176.5)</b>	<b>(1,882.4)</b>	<b>(5,058.9)</b>	<b>(5,079.9)</b>	<b>(3,212.9)</b>	<b>(1,253.1)</b>	<b>(4,466.0)</b>	<b>(4,502.5)</b>
<b>Non-current</b>								
Loans and Borrowings	(8,279.3)	(139.1)	(8,418.4)	(9,357.2)	(7,695.8)	(37.3)	(7,733.1)	(8,776.5)
Finance lease liabilities	(200.3)	–	(200.3)	(200.3)	(227.1)	–	(227.1)	(227.1)
Derivative financial liabilities	–	(602.4)	(602.4)	(602.4)	–	(566.9)	(566.9)	(566.9)
	<b>(8,479.6)</b>	<b>(741.5)</b>	<b>(9,221.1)</b>	<b>(10,159.9)</b>	<b>(7,922.9)</b>	<b>(604.2)</b>	<b>(8,527.1)</b>	<b>(9,570.5)</b>
	<b>(11,656.1)</b>	<b>(2,623.9)</b>	<b>(14,280.0)</b>	<b>(15,239.8)</b>	<b>(11,135.8)</b>	<b>(1,857.3)</b>	<b>(12,993.1)</b>	<b>(14,073.0)</b>
<b>Net financial liabilities</b>	<b>(7,644.1)</b>	<b>(845.3)</b>	<b>(8,489.4)</b>	<b>(9,449.2)</b>	<b>(7,343.7)</b>	<b>(456.0)</b>	<b>(7,799.7)</b>	<b>(8,879.6)</b>

(i) Financial assets and liabilities that are measured at amortised cost.

(ii) Financial assets and liabilities that are measured at either Fair Value through Profit and Loss (Derivative Financial Assets and Liabilities) or Fair Value through Other Comprehensive Income (Unquoted Equity Investments).

**A7.1.1 Basis of determining fair value**

Certain assets and liabilities have been classified and carried at amortised cost on inception in line with IFRS 9 criteria. The carrying value of these assets are approximately equivalent to fair value due to short term maturity aside from loans and borrowings which are subject to longer maturity dates.

All other financial assets and liabilities are measured at either Fair Value through Profit and Loss ("FVTPL") or Fair Value through Other Comprehensive Income ("FVTOCI"). Fair values for energy derivatives are based on unadjusted quoted market prices, where actively traded. For energy derivatives that are not actively traded, interest rate instruments, foreign currency hedge contracts and cross currency swap contracts associated with foreign currency denominated long-term fixed rate debt, the fair values are determined by reference to closing rate market prices for similar instruments. Fair values for unquoted equity instruments are derived from venture capital or growth equity firm valuation statements.

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 considered 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.

	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
<b>Financial Assets</b>				
Energy derivatives	357.4	1,075.5	–	<b>1,432.9</b>
Interest rate derivatives	–	335.7	–	<b>335.7</b>
Foreign exchange derivatives	–	9.5	–	<b>9.5</b>
Unquoted equity investments	–	–	0.5	<b>0.5</b>
	357.4	1,420.7	0.5	<b>1,778.6</b>
<b>Financial Liabilities</b>				
Energy derivatives	(678.9)	(1,334.6)	–	<b>(2,013.5)</b>
Interest rate derivatives	–	(462.3)	–	<b>(462.3)</b>
Foreign exchange derivatives	–	(9.0)	–	<b>(9.0)</b>
Loans and borrowings	–	(139.1)	–	<b>(139.1)</b>
	(678.9)	(1,945.0)	–	<b>(2,623.9)</b>

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 2019. The level 3 movements during the year totalled £4.3m and solely related to disposals of unquoted equity investments.

## 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 IFRS 9. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1 on page 227.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated:

	2019 Carrying amount	2019 Expected cash flows	2019 0-12 months	2019 1-2 years	2019 2-5 years	2019 > 5 years	2018 Carrying amount	2018 Expected cash flows	2018 0-12 months	2018 1-2 years	2018 2-5 years	2018 > 5 years
<b>Cash flow hedges</b>												
<b>Interest rate swaps:</b>												
Assets	–	–	–	–	–	–	2.4	2.4	0.3	0.3	0.8	1.0
Liabilities	(7.5)	(7.5)	(0.9)	(0.9)	(2.6)	(3.1)	–	–	–	–	–	–
	(7.5)	(7.5)	(0.9)	(0.9)	(2.6)	(3.1)	2.4	2.4	0.3	0.3	0.8	1.0
<b>Forward exchange contracts:</b>												
Assets	5.9	(58.4)	(48.5)	(9.9)	–	–	5.9	(176.8)	(145.7)	(22.9)	(8.2)	–
Liabilities	(3.1)	(166.0)	(81.4)	–	(84.6)	–	(0.9)	(42.7)	(42.7)	–	–	–
	2.8	(224.4)	(129.9)	(9.9)	(84.6)	–	5.0	(219.5)	(188.4)	(22.9)	(8.2)	–

### A8.2 Net investment hedge

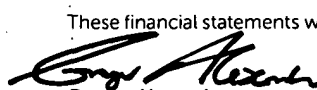
The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business and the thermal plants and wind farms in Ireland. The hedge compares the element of the net assets 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.

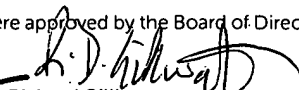
Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2019: £16.9m gain, 2018: £18.3m loss). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2019: Enil, 2018: Enil).

## Company balance sheet as at 31 March 2019

	Note	2019 £m	2018 £m
<b>Assets</b>			
Equity investments in joint ventures and associates	3	139.2	126.5
Loans to joint ventures and associates	3	208.4	315.5
Investments in subsidiaries	4	2,679.6	2,873.7
Trade and other receivables	5	9,528.3	11,286.5
Derivative financial assets	11	215.7	217.5
Retirement benefit assets	10	537.7	572.1
<b>Non-current assets</b>		<b>13,308.9</b>	<b>15,391.8</b>
Trade and other receivables	5	1,008.3	4,189.2
Cash and cash equivalents	8	377.2	72.2
Derivative financial assets	11	120.0	84.3
Current assets held for sale		—	32.8
<b>Current assets</b>		<b>1,505.5</b>	<b>4,378.5</b>
<b>Total assets</b>		<b>14,814.4</b>	<b>19,770.3</b>
<b>Liabilities</b>			
Loans and other borrowings	8	668.4	626.3
Trade and other payables	6	1,719.9	8,393.0
Current tax liabilities	7	20.0	21.8
Derivative financial liabilities	11	62.9	81.1
<b>Current liabilities</b>		<b>2,471.2</b>	<b>9,122.2</b>
Loans and other borrowings	8	6,720.8	6,044.5
Deferred tax liabilities	7	125.2	141.0
Derivative financial liabilities	11	392.8	392.8
<b>Non-current liabilities</b>		<b>7,238.8</b>	<b>6,578.3</b>
<b>Total liabilities</b>		<b>9,710.0</b>	<b>15,700.5</b>
<b>Net assets</b>		<b>5,104.4</b>	<b>4,069.8</b>
<b>Equity:</b>			
Share capital	9	523.4	511.5
Share premium		879.6	890.3
Capital redemption reserve		34.8	34.8
Hedge reserve		(1.5)	10.4
Retained earnings		2,498.4	1,453.1
<b>Equity attributable to ordinary share holders of the parent</b>		<b>3,934.7</b>	<b>2,900.1</b>
Hybrid equity	9	1,169.7	1,169.7
<b>Total equity</b>		<b>5,104.4</b>	<b>4,069.8</b>

These financial statements were approved by the Board of Directors on 21 May 2019 and signed on their behalf by

  
 Gregor Alexander  
 Finance Director

  
 Richard Gillingwater  
 Chair

SSE plc Registered No: SC117119

## Company statement of changes in equity for the year ended 31 March 2019

	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 2018	511.5	890.3	34.8	10.4	1,453.1	2,900.1	1,169.7	4,069.8
Total comprehensive income for the year	–	–	–	(11.9)	1,718.7	1,706.8	46.6	1,753.4
Dividends to shareholders	–	–	–	–	(973.0)	(973.0)	–	(973.0)
Scrip dividend related share issue	11.9	(11.9)	–	–	283.1	283.1	–	283.1
Distributions to Hybrid equity holders	–	–	–	–	–	–	(46.6)	(46.6)
Issue of shares	–	1.2	–	–	–	1.2	–	1.2
Credit in respect of employee share awards	–	–	–	–	20.1	20.1	–	20.1
Investment in own shares	–	–	–	–	(3.6)	(3.6)	–	(3.6)
<b>At 31 March 2019</b>	<b>523.4</b>	<b>879.6</b>	<b>34.8</b>	<b>(1.5)</b>	<b>2,498.4</b>	<b>3,934.7</b>	<b>1,169.7</b>	<b>5,104.4</b>

	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)
<b>At 31 March 2018</b>	<b>511.5</b>	<b>890.3</b>	<b>34.8</b>	<b>10.4</b>	<b>1,453.1</b>	<b>2,900.1</b>	<b>1,169.7</b>	<b>4,069.8</b>

### Result for the year

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £1,744.0m (2018: £1,138.0m). This includes exceptional income of £892.7m, which represents a gain from the fair value transfer of the GB domestic retail business from SSE plc to another group company, SSE Energy Services Group Limited. This gain is not currently distributable.

## 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 2019 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 (further details are contained in A6 Accompanying Information of the consolidated financial statements). 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. In particular, note 4.1(iv), Retirement Benefit Obligations, and the related disclosures in note 23 of the consolidated financial statements are relevant to the Company.

#### 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.



## 1. Principal accounting policies continued

### 1.2 Basis of preparation continued

#### 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 228 [↗](#))
- Defined benefit pension scheme (Supplementary information A1.2, page 226 [↗](#))
- Taxation (Supplementary information A1.2, page 221 [↗](#))
- Financial instruments (Supplementary information A1 and A6, pages 226 and 237 [↗](#))

## 2. Supplementary financial information

### 2.1 Auditor remuneration

The amounts paid to the Company's auditor in respect of the audit of these financial statements was £0.3m (2018: £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.

### 2.2 Employee numbers

The average number of people employed by the Company (including Executive Directors) during the year was 3 (2018: 3).

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.

### 2.3 Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 128 to 139 [↗](#). 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

	2019			2018		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
<b>Share of net assets/cost</b>						
At 1 April	126.5	315.5	442.0	126.5	439.0	565.5
Additions	12.7	29.2	41.9	–	77.0	77.0
Repayment of shareholder loans	–	(9.2)	(9.2)	–	(86.6)	(86.6)
Disposal (i)	–	–	–	–	(11.6)	(11.6)
Transfer of loans to subsidiary	–	(127.1)	(127.1)	–	(69.5)	(69.5)
Transfer to Held for Sale	–	–	–	–	(32.8)	(32.8)
<b>At 31 March</b>	<b>139.2</b>	<b>208.4</b>	<b>347.6</b>	<b>126.5</b>	<b>315.5</b>	<b>442.0</b>

(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.

### 3.2 Other Investments

	2019 £m	2018 £m
At 1 April	–	2.9
Disposals in the year	–	(2.9)
<b>At 31 March</b>	<b>–</b>	<b>–</b>

Other investments consisted of shares in Faroe Petroleum, which were fully disposed in the prior 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 230.

**Investment in subsidiaries**

	2019 £m	2018 £m
At 1 April	2,873.7	2,817.9
(Decrease)/increase in existing investments (i)	(194.1)	55.8
<b>At 31 March</b>	<b>2,679.6</b>	<b>2,873.7</b>

(i) The decrease in existing investments held by the Company relates to the disposal of 50% of SSE Telecommunications Limited (£25.3m); the transfer of SSE Home Services Limited to the Retail business (£39.5m); the recognition of a provision against the carrying value of the investment in SSE Services plc (£150.0m); 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 (2019: £20.8m; 2018: £21.7m (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. During the year the Company assessed its expected credit loss exposure to related party receivables under IFRS 9 and recorded a provision against future losses of £49.7m.

**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**

	2019 £m	2018 £m
Corporation tax	20.0	21.8

**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 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
Charge/(credit) to income statement	(6.7)	1.6	3.9	(1.2)
Charge/(credit) to equity	(1.7)	(13.6)	0.7	(14.6)
<b>At 31 March 2019</b>	<b>(44.2)</b>	<b>188.2</b>	<b>(18.8)</b>	<b>125.2</b>

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:

	2019 £m	2018 £m
Deferred tax liabilities	188.2	200.2
Deferred tax assets	(63.0)	(59.2)
<b>Net deferred tax liability</b>	<b>125.2</b>	<b>141.0</b>

The deferred tax liabilities disclosed include the deferred tax relating to the Company's pension scheme liabilities.

## 8. Loans and borrowings

	2019 £m	2018 £m
<b>Current</b>		
Other short-term loans	668.4	626.3
	<b>668.4</b>	<b>626.3</b>
<b>Non-current</b>		
Loans	6,720.8	6,044.5
	<b>6,720.8</b>	<b>6,044.5</b>
<b>Total loans and borrowings</b>	<b>7,389.2</b>	<b>6,670.8</b>
Cash and cash equivalents	(377.2)	(72.2)
<b>Unadjusted Net Debt</b>	<b>7,012.0</b>	<b>6,598.6</b>
Add/(less):		
Hybrid equity (note 9)	1,169.7	1,169.7
<b>Adjusted Net Debt and Hybrids</b>	<b>8,181.7</b>	<b>7,768.3</b>

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

During the year to 31 March 2019, SSE successfully issued its second Green Bond being a €650m, nine year bond with a coupon of 1.375% which has been fully swapped to Sterling giving an all-in rate of 2.58%. This followed the €600m 0.875%, seven year Green Bond SSE issued in September 2017 and will continue to 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.

During October 2018 SSE also issued a €200m two year Floating Rate note that was fully swapped back to Sterling giving an all in floating rate of GBP Libor plus 50.5bps.

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 2019 £497.7m of commercial paper was outstanding (2018: £nil). During the year, the Company refinanced its £1.3bn revolving credit facility with the facilities now maturing in March 2024 (£1.3bn) and November 2022 (£0.2bn). These facilities continue to provide back up to the commercial paper programme and, as at 31 March 2019, they were undrawn.

Included within loans and borrowings at 31 March 2019 is £1.0bn (March 2018: £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. 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

	2019 Weighted average interest rate	2019 Face value	2019 Fair value	2019 Carrying amount	2018 Weighted average interest rate	2018 Face value £m	2018 Fair value £m	2018 Carrying amount £m
<b>Current</b>								
Bank Loans – non-amortising (i)	1.5%	107.7	107.7	107.7	3.5%	126.6	153.7	126.6
Other short term loans – non-amortising	1.4%	497.7	499.6	493.7	–	–	–	–
US Private Placement 16 April 2019	3.7%	67.0	82.0	67.0	–	–	–	–
5.00% Eurobond repayable 1 October 2018	–	–	–	–	5.0%	500.0	509.2	499.7
<b>Total current</b>		<b>672.4</b>	<b>689.3</b>	<b>668.4</b>		<b>626.6</b>	<b>662.9</b>	<b>626.3</b>
<b>Non-Current</b>								
Bank Loans – non-amortising (i)	1.9%	574.9	579.8	574.8	1.7%	507.7	514.0	507.7
US Private Placement 16 April 2019	–	–	–	–	3.7%	67.0	76.1	66.9
US Private Placement 16 April 2022	4.3%	162.7	202.5	162.5	4.3%	162.7	186.8	162.4
US Private Placement 6 September 2023	2.9%	120.0	120.6	118.0	–	–	–	–
US Private Placement 28 April 2023	2.8%	35.0	35.4	34.5	–	–	–	–
2.00% €600m Eurobond repayable 17 June 2020 (iii)	2.7%	542.5	555.1	541.6	2.7%	545.5	567.4	543.8
4.25% Eurobond repayable 14 September 2021	4.3%	300.0	319.7	299.0	4.3%	300.0	326.0	298.7
2.375% €500m Eurobond repayable 10 February 2022 (iv)	2.4%	415.0	439.5	414.7	2.4%	415.0	447.4	414.6
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	342.4	299.1	5.9%	300.0	352.4	298.8
1.75% €700m Eurobond repayable 8 September 2023 (v)	1.8%	514.6	541.6	513.7	–	–	–	–
4.75% \$900 NC5.5 Hybrid maturing 16 September 2077 (vi)	4.8%	736.9	713.1	734.5	–	–	–	–
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	297.7	299.0	–	–	–	–
<b>Between two and five years</b>		<b>4,001.6</b>	<b>4,147.4</b>	<b>3,991.4</b>		<b>2,297.9</b>	<b>2,470.1</b>	<b>2,292.9</b>
Bank Loans – non-amortising (i)	1.7%	100.0	100.8	100.0	1.4%	100.0	100.6	100.0
US Private Placement 28 April 2023	–	–	–	–	2.8%	35.0	35.7	34.3
US Private Placement 6 September 2023	–	–	–	–	2.9%	120.0	121.6	117.6
US Private Placement 16 April 2024	4.4%	204.1	255.0	203.8	4.4%	204.1	234.0	203.8
US Private Placement 8 June 2026	3.1%	64.0	65.1	62.8	3.1%	64.0	65.9	62.7
US Private Placement 6 September 2026	3.2%	247.1	259.9	242.4	3.2%	247.1	244.7	241.8
US Private Placement 6 September 2027	3.2%	35.0	35.7	34.4	3.2%	35.0	36.1	34.3
1.75% €700m Eurobond repayable 8 September 2023 (v)	–	–	–	–	1.8%	514.6	544.2	513.5
0.875% €600m Eurobond repayable 8 September 2025	0.9%	518.1	513.7	514.5	0.9%	527.0	516.8	522.8
1.375% €650m Eurobond repayable 4 September 2027	1.4%	591.4	599.4	589.5	–	–	–	–
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	746.9	496.0	8.4%	500.0	753.8	495.6
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	509.2	346.9	6.3%	350.0	516.6	346.7
4.75% \$900m NC5.5 Hybrid maturing 16 September 2077 (vi)	–	–	–	–	4.8%	745.4	750.7	742.4
3.625% NC5.5 Hybrid maturing 16 September 2077	–	–	–	–	3.6%	300.0	307.2	298.8
<b>Over five years</b>		<b>2,609.7</b>	<b>3,085.7</b>	<b>2,590.3</b>		<b>3,742.2</b>	<b>4,227.9</b>	<b>3,714.3</b>
Fair value adjustment (ii)				139.1				37.3
<b>Total non-Current</b>		<b>6,611.3</b>	<b>7,233.1</b>	<b>6,720.8</b>		<b>6,040.1</b>	<b>6,698.0</b>	<b>6,044.5</b>
<b>TOTAL</b>		<b>7,283.7</b>	<b>7,922.4</b>	<b>7,389.2</b>		<b>6,666.7</b>	<b>7,360.9</b>	<b>6,670.8</b>

(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 2018	1,023.0	511.5
Issue of shares (i)	23.9	11.9
Share repurchases (ii)	–	–
<b>At 31 March 2019</b>	<b>1,046.9</b>	<b>523.4</b>

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 66.3p per ordinary share (in relation to year ended 31 March 2018) and the interim dividend of 29.3p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 11,316,873 and 12,543,773 new fully paid ordinary shares respectively (2018: 23,497,675 and 546,613). In addition, the Company issued 0.1m (2018: 1.4m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £1.2m (2018: £16.6m).
- (ii) There were no shares repurchased in the current year. 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. 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 purchased 9.2m shares 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). A new capital return programme was announced on 1 February 2019, which commenced on 1 April 2019, subsequent to the balance sheet date. Under this scheme 4.4m shares have been purchased for consideration of £50.0m since the year-end.

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.

During the year, on behalf of the Company, the employee share trust purchased 0.3m shares for a total consideration of £3.6m (2018: 1.4m shares, consideration of £19.8m) to be held in trust for the benefit of employee share schemes. At 31 March 2019, the trust held 2.8m shares (2018: 3.3m) which had a market value of £32.8m (2018: £41.8m).

### 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

	2019 £m	2018 £m
GBP 750m 3.875% perpetual subordinated capital securities	748.3	748.3
EUR 600m 2.375% perpetual subordinated capital securities	421.4	421.4
	<b>1,169.7</b>	<b>1,169.7</b>

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:**

Pension summary:

Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the Statement of Comprehensive Income		Net pension asset		
	2019 £m	2018 £m	2019 £m	2018 £m	
Scottish Hydro Electric	Defined benefit	(38.9)	30.5	537.7	572.1
Net actuarial (loss)/gain		(38.9)	30.5	537.7	572.1

**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.

In 2016/17 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 2019 was equal to £537.7m (2018: £572.1m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric
Latest formal actuarial valuation	31 March 2018
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	RPI +1.1%
Average pension increase	RPI
Value of fund assets/accrued benefits	108.2%

**10.1 Pension Scheme Assumptions**

The scheme has been updated to 31 March 2019 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 2019	At 31 March 2018
Rate of increase in pensionable salaries	3.85%	4.20%
Rate of increase in pension payments	3.35%	3.20%
Discount rate	2.40%	2.65%
Inflation rate	3.35%	3.20%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2019 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 2019 Male	At 31 March 2019 Female	At 31 March 2018 Male	At 31 March 2018 Female
Currently aged 65	23	24	23	24
Currently aged 45	24	27	25	27

## 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 2019		At 31 March 2018	
	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%	+/-1.6%
Discount rate	0.1%	+/-1.9%	0.1%	+/-2.1%
Longevity	1 year	+/-4.0%	1 year	+/-3.5%

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 2019 £m	Quoted £m	Unquoted £m	Value at 31 March 2018 £m
Equities	128.1	–	128.1	279.0	–	279.0
Government bonds	1,672.8	–	1,672.8	892.9	–	892.9
Corporate bonds	68.8	–	68.8	633.8	–	633.8
Insurance contracts	–	194.4	194.4	–	210.8	210.8
Other investments	14.3	–	14.3	20.1	–	20.1
Total fair value of plan assets	1,884.0	194.4	2,078.4	1,825.8	210.8	2,036.6
Present value of defined benefit obligation			(1,540.7)			(1,464.5)
<b>Surplus in the scheme</b>			<b>537.7</b>			<b>572.1</b>
Deferred tax thereon			(188.2)			(200.2)
Net pension asset			<b>349.5</b>			<b>371.9</b>

### 10.3 Movements in the defined benefit asset obligations and assets during the year:

	2019			2018		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
at 1 April	2,036.6	(1,464.5)	572.1	2,250.6	(1,725.2)	525.4
<b>Included in Income Statement</b>						
Current service cost	–	(18.8)	(18.8)	–	(26.8)	(26.8)
Past service cost	–	(4.6)	(4.6)	–	(0.3)	(0.3)
Interest income/(cost)	52.3	(37.0)	15.3	56.5	(42.2)	14.3
	52.3	(60.4)	(8.1)	56.5	(69.3)	(12.8)
<b>Included in Other Comprehensive Income</b>						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	3.8	3.8	–	33.5	33.5
Financial assumptions	–	(85.4)	(85.4)	–	25.1	25.1
Experience assumptions	–	(67.3)	(67.3)	–	(39.2)	(39.2)
Return on plan assets excluding interest income	110.0	–	110.0	11.1	–	11.1
	110.0	(148.9)	(38.9)	11.1	19.4	30.5
<b>Other</b>						
Contributions paid by the employer	12.6	–	12.6	29.0	–	29.0
Benefits Paid	(133.1)	133.1	–	(310.6)	310.6	–
	(120.5)	133.1	12.6	(281.6)	310.6	29.0
Balance at 31 March	2,078.4	(1,540.7)	537.7	2,036.6	(1,464.5)	572.1

## Notes to the company financial statements continued

**10. Retirement Benefit Obligations** continued**10.4 Pension Scheme Contributions and Costs**

Charges/(credits) recognised:

	2019 £m	2018 £m
Current service cost (charged to operating profit)	23.4	27.1
	23.4	27.1
Charged/(credited) to finance costs:		
Interest from pension scheme assets	(52.3)	(56.5)
Interest on pension scheme liabilities	37.0	42.2
	(15.3)	(14.3)

The return on Pension Scheme assets is as follows:

	2019 £m	2018 £m
Return on Pension Scheme assets	162.3	67.6

**Employer financed retirement benefit (EFRB) pension costs**

The increase in the year in relation EFRB was £3.6m (2018: £0.1m). This is included in other provisions.

Further discussion of the pension scheme assets, liabilities, policies, risk and strategy can be found on page 211 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:

	2019 £m	2018 £m
Derivative Financial Assets		
Non-current	215.7	217.5
Current	120.0	84.3
	335.7	301.8
Derivative Liabilities		
Non-current	(392.8)	(392.8)
Current	(62.9)	(81.1)
Total derivative liabilities	(455.7)	(473.9)
<b>Net (liability)/asset</b>	<b>(120.0)</b>	<b>(172.1)</b>

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:

	2019			2018	
	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	754.6
Performance of contracts (i)	2,068.5	223.2	–	2,291.7	1,929.3
Purchase of Gas	–	–	–	–	–

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2019 £m	2018 £m
Bank borrowing	1,863.0	1,862.8

(i) Included within the performance contracts above are guarantees of £137.8m relating to discontinued operations.

During the year, SSE plc provided a £467m guarantee in relation to an intragroup novation of a purchase and installation of smart meter contract as part of the reorganisation 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 envisaged at the time.

In the prior year to 31 March 2018, 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 were required to support a Moody's requirement to maintain the standalone credit rating of the SSE Subsidiaries. The guarantees are available on [www.sse.com](http://www.sse.com).

In previous periods SSE plc has provided unlimited guarantees 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.

# 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 2019 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 2019 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 (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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 21 financial years ended 31 March 2019. 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, 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
<b>Carrying value of certain consolidated non-current assets</b> Refer to page 107 (Audit Committee Report), page 225 (accounting policy) and page 198 (financial disclosures).  <b>Risk direction:</b> (unchanged)	<b>Forecast-based estimate</b> Certain consolidated non-current assets (tangible and intangible) being the group's exploration and production ("E&P") interests and the group's Great Island, Keadby and Marchwood gas fired power stations are at risk of impairment or reversal due to a number of global and national factors reducing or increasing their value in use triggering an impairment assessment. These include volatile commodity prices, uncertainty surrounding the level of future returns from capacity market mechanisms, the unpredictability of reserves in relation to exploration and production assets and the uncertainty arising from implementation of a new wholesale electricity market in Ireland. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows as a result of the above factors.  The effect of these matters is that, as part of our risk assessment, we determined that group's estimated value in use in respect of certain of the aforementioned assets have a high degree of estimation uncertainty, with a potential range of reasonable outcomes in aggregate greater than our materiality for the financial statements as a whole. The financial statements (note 15) disclose the range estimated by the Group.	<b>Our procedures included:</b> <ul style="list-style-type: none"> <li>– <b>Assessing methodology:</b> Assessing the principles of the cash flow model;</li> <li>– <b>Our sector experience:</b> Using our sector experience and our specialists (including specifically a reserves specialist with oil and gas experience, a discount rate specialist and a specialist with experience of assessing forward energy prices) in assessing and challenging the directors' judgements on the key assumptions including energy prices, gas and oil reserves, capacity payments and operating costs adopted in the estimate;</li> <li>– <b>Assessing transparency:</b> 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.</li> </ul> <b>Our results</b> <ul style="list-style-type: none"> <li>– We found the carrying values of the non-current assets, described in this section, to be acceptable (2018: acceptable).</li> </ul>

## 2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our approach
<p><b>Accounting for estimated revenue recognition in relation to GB domestic customers</b> (within the Energy Services discontinuing operation) (£0.6bn; 2018: £0.8bn) (Included within discontinued operations)</p> <p>Refer to page 107 (Audit Committee Report), page 220 (accounting policy) and page 161 (financial disclosures).</p> <p><b>Risk direction:</b> (reducing)</p>	<p><b>Subjective estimate</b> 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, judgemental and significant for GB domestic customers and requires estimates and assumptions to:</p> <ol style="list-style-type: none"> <li>1. estimate the volumes of energy consumed by customers subsequent to the meter reading; and</li> <li>2. assess the value to be ascribed to that volume given the range of tariffs.</li> </ol> <p>The effect of these matters is that, as part of our risk assessment, we determined that group's estimated revenue in respect of domestic customers has a high degree of estimation uncertainty. The financial statements (note 12.3) disclose the range estimated by the Group.</p>	<p><b>Our procedures included:</b></p> <ul style="list-style-type: none"> <li>– <b>Test of detail:</b> 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;</li> <li>– <b>Benchmarking assumptions:</b> In order to assess the estimated revenue made by the Group, we compared the estimated volume of energy consumed 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 and assessed explanations for variances from that;</li> <li>– <b>Analytical procedures:</b> 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;</li> <li>– <b>Assessing transparency:</b> Assessing the adequacy of the group's disclosures about the degree of estimation involved in arriving at the estimated revenue.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>– We found the resulting amount of recorded revenue to be acceptable (2018: acceptable).</li> </ul>
<p><b>Group and parent pension obligation</b> (Group: £4.0bn; 2018: £3.9bn; Parent: £1.5bn; 2017: £1.5bn)</p> <p>Refer to page 107 (Audit Committee Report), page 226 (accounting policy) and page 211 (financial disclosures).</p> <p><b>Risk direction:</b> (unchanged)</p>	<p><b>Subjective valuation</b> 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.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the group's and the parent company's pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 23.2) disclose the range estimated by the Group and Company.</p>	<p><b>Our procedures included:</b></p> <ul style="list-style-type: none"> <li>– <b>Assessing valuer's credentials:</b> We assessed the independence and competence of the Group's external actuaries;</li> <li>– <b>Benchmarking assumptions:</b> 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</li> <li>– <b>Assessing transparency:</b> We considered the adequacy of the group's disclosures in respect of the sensitivity of the obligation to these assumptions.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>– We found the valuation of the pension scheme obligation to be acceptable (2018: acceptable).</li> </ul>
<p><b>Classification of Energy Services as held for sale</b> Refer to page 107 (Audit Committee Report), page 222 (accounting policy) and page 160 (financial disclosures).</p>	<p><b>Subjective judgement</b> Following the announcement that the proposed demerger of Energy Services and combination of this business with nPower would not be continuing, there is judgement required around its presentation as "held for sale" at 31 March 2019. "Held for sale" classification determines whether Energy Services is presented as a discontinuing operation with assets and liability presented separately as held for sale, and therefore current or whether it is presented as part of continuing operations. There is particular judgement as to the likely timescale of a proposed transaction (float or disposal) in relation to the Energy Services group and therefore whether management can be confident that such a transaction is highly probable.</p>	<p><b>Our procedures included</b></p> <ul style="list-style-type: none"> <li>– <b>Accounting analysis:</b> We assessed whether the classification of Energy Services as Held for Disposal was in accordance with the accounting standards;</li> <li>– <b>Evaluating Directors' intent:</b> We challenged whether it was highly probable that the Group would dispose of Energy Services either through a sale or through a dividend in specie. We reviewed correspondence to demonstrate that Energy Services is being actively marketed for sale. We held separate discussions with the Chairman, CEO and CFO to challenge whether the Board is serious in its intention to dispose of the business. We held discussions with a senior adviser to the group on whether the option of disposal by dividend in specie was being actively pursued. We reviewed the Board paper and minutes documenting the Board's held for sale judgement;</li> <li>– <b>Assessing transparency:</b> We challenged management's disclosure in relation to the judgement exercised.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>– We found the classification of Energy Services as held for sale to be acceptable.</li> </ul>

## Independent auditor's report to the members of SSE plc continued

### 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 £35.1 million (2018: £74.0 million), determined with reference to a benchmark of Group profit before taxation, before exceptional items and certain remeasurements of £668.1 million credit (2018: £275.8 million of a loss) disclosed on the face of the income statement, of which it represents 5% (2018: 5%). We consider Profit before tax before exceptional items and certain remeasurements to be the most appropriate benchmark because it excludes the non-recurring distorting impact of exceptional items such as impairment charges and of certain remeasurements and therefore produces a more stable benchmark than profit before tax. The group team performed procedures on the items excluded from the group profit before taxation.

Materiality for the parent company financial statements as a whole was set at £15 million (2018: £70 million), determined with reference to a benchmark of company net assets, of which it represents 1% (2018: 2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2 million (2018: £3 million), 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.

Audits for group reporting purposes were performed by the group team; these audits accounted for the following percentages of the group's results (in each case including discontinuing operations to give a consistent view of our scope): 86% (2018: 96%) of Group revenue, 95% (2018: 98%) of Group profit before tax; and 90% (2018: 94%) of Group net assets. The Group audit team set the component materialities, which ranged from £7 million to £15 million, having regard to the mix of size and risk profile of the Group across the components. 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 (2018: one) 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 £15 million, (2018: £30 million) 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

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- the availability of ongoing funding;
- the impact of a material loss on the group's commodity position (ie a material change in the expected future value of commodities such that the mark to market value declines significantly).

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a reduction of available financial resources.

Based on this work, 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 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 108 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## **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 Directors' Remuneration 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 Viability Statement on page 67 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 Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

### **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.

## Independent auditor's report to the members of SSE plc continued

### 7. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on page 142 [14](#), 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 or other irregularities (see below), 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](http://www.frc.org.uk/auditorsresponsibilities) [15](#).

#### 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 general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. 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.

The potential effect of these laws and regulations on the financial statements varies considerably.


Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety and the requirements of operating licences set by the Gas and Electricity Marketing Authority recognising the financial and regulated nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

### 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

21 May 2019

## Consolidated segmental statement

### SSE consolidated segmental statement for the year ended 31 March 2019

Year ending 31 March 2018	Unit	Electricity Generation		Aggregate Generation Business 2019	Electricity Supply		Gas Supply		Aggregate Supply Business 2019
		Conventional 2019	Renewable 2019		Domestic 2019	Non-domestic 2019	Domestic 2019	Non-domestic 2019	
<b>Total revenue</b>	£m	1,181.7	866.7	2,048.4	2,188.8	2,400.9	1,228.9	218.2	6,036.8
Revenue from sales of electricity and gas	£m	866.9	784.0	1,650.9	2,188.8	2,400.9	1,228.9	218.2	6,036.8
Other revenue	£m	314.8	82.7	397.5	–	–	–	–	–
<b>Total operating costs</b>	£m	1,164.0	296.1	1,460.1	2,128.5	2,358.0	1,169.6	209.2	5,865.3
Direct fuel costs	£m	637.8	–	637.8	759.3	1,032.7	543.8	134.8	2,470.6
Transportation costs	£m	50.2	113.3	163.5	514.8	600.4	323.9	56.3	1,495.4
Env. & social obligation costs	£m	192.4	–	192.4	458.5	643.0	13.8	–	1,115.3
Other direct costs	£m	151.7	(0.3)	151.4	38.2	12.4	26.5	2.5	79.6
Indirect costs	£m	131.9	183.1	315.0	357.7	69.5	261.6	15.6	704.4
<b>EBITDA</b>	£m	17.7	570.6	588.3	60.3	42.9	59.3	9.0	171.5
DA	£m	35.1	172.4	207.5	21.4	0.3	14.2	–	35.9
<b>EBIT</b>	£m	(17.4)	398.2	380.8	38.9	42.6	45.1	9.0	135.6
Volume	TWh, mTherms	19.2	8.2	27.4	12.7	19.3	1,008.0	275.0	
WACOF/E/G	£/MWh, p/th	43.25	–		59.61	53.41	53.90	49.10	
Customer numbers	'000s				3,610	478	2,424	77	6,589

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. The types of products and services from which each reportable segment derives its revenues are:

Business area	Reported segments	Description
<b>Continuing operations</b>		
<b>Networks</b>	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.
<b>Retail</b>	Business Energy (covered by CSS)	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.
<b>Wholesale</b>	Electricity Generation (covered by CSS)	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.
<b>Discontinued operations</b>		
	SSE Energy Services – Supply (covered by CSS)	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.

SSE Energy Services (shown as a discontinued operation in the SSE Financial Statements for March 19) comprises SSE's household energy and related services businesses in Great Britain. Like all energy suppliers in the GB market, since 1 January it has been subject to Ofgem's Default Tariff Cap, which places restrictions on the amount suppliers can charge customers on standard variable tariffs. This, alongside lower customer numbers, has contributed to a reduction in SSE Energy Services' earnings for 2018/19. SSE believes the best long-term future for SSE Energy Services lies outside the SSE group, and during the year has taken further steps to increase its autonomy and independence from the rest of the SSE group.

## Consolidated segmental statement continued

### Basis of preparation and disclosure notes continued

The Group's reportable operating segments for "Business Energy", "Electricity Generation" and "SSE Energy Services – Supply" 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.

### How the accounts are presented

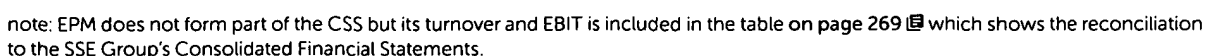
The financial information presented in the CSS is based on operating activities of a GB electricity generation business ("Electricity Generation" segment described above) and four GB energy supply businesses (the reported "SSE Energy Services – Supply" and "Business Energy" segments described above). The paragraphs that follow describe how SSE's "Electricity Generation", "Business Energy" (non-domestic supply) and "SSE Energy Services – Supply" (domestic supply) interact with Energy Portfolio Management (EPM), 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 2019.

### Summary

"Electricity Generation" sells electricity 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, balancing market participation and other contractual arrangements with third parties including government. It purchases its requirement for gas, coal, oil and carbon from EPM.

"Energy Services – Supply" sells electricity and gas to circa 6m domestic customer accounts in Great Britain. It procures electricity, gas and ROCs from EPM. "Business Energy" sells electricity and gas to circa 0.5m business customer accounts in Great Britain and procures electricity, gas and ROCs from EPM.

EPM acts as a route to market for Electricity Generation and as counterparty with the external market for the procurement of electricity and gas for Energy Supply.

note: EPM does not form part of the CSS but its turnover and EBIT is included in the table on page 269  which shows the reconciliation to the SSE Group's Consolidated Financial Statements.

The forward hedging policies for Group are overseen by Energy Markets Risk Committee, whose responsibilities and roles are described on page 112  of SSE Group's Directors' Report for the year ended March 2019.

### Electricity Generation

The Electricity 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.

Revenue From Sales of Electricity and Gas – revenue is recognised as generated and supplied to the national settlements body. Revenue is sold to the wholesale market through EPM at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation. Revenue includes the sale of ROCs generated from qualifying plant to EPM. Generation volumes are the volume of power actually sold to the wholesale market.

**Other Revenue** – includes ancillary services, capacity income (up to 1 October 2018 following the European Court of Justice ruling), balancing market participation and other miscellaneous income.

**Direct Fuel Costs** – 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. 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).

**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.

**Depreciation and Amortisation** – the depreciation shown in the CSS is the underlying amount and excludes exceptional generation asset impairments

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 companies<sup>1</sup>. 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.

<sup>1</sup> The tolling arrangements that SSE has with its joint venture companies Seabank Power Ltd, Marchwood Power Ltd, Clyde, MEL, Stronelaig and Dunmaglass 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.



## **Electricity Generation continued**

The Electricity 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.

## **SSE Energy Services – Supply (Domestic)**

**Revenue From Sales of Electricity and Gas** – revenues are the value of electricity and gas supplied to domestic 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. Revenue is expressed net of discounts, loyalty products and Warm Home Discount (WHD) and other social tariff costs. Domestic volumes are expressed at customer meter point net of transmission and distribution losses and are based on external settlements data.

**Direct Fuel Costs** – SSE Energy Services does not engage in the trading of electricity and gas and procures all of its electricity and gas from EPM. The method by which EPM procures energy at an arm's length arrangement on behalf of SSE Energy Services is governed by SSE Energy Services forward hedging policy. The forward trades between SSE Energy Services 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. WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas. This transfer pricing methodology reflects how SSE Energy Services actually acquired its energy. The forward hedging policies are determined by SSE Energy Service's Risk and Trading Committee. There have been no material changes in the transfer pricing policy in respect of SSE Energy Services since the CSS for the financial year ending March 2018.

**Transportation Costs** – these are essentially network type costs and include: electricity transmission and distribution use of system costs; gas transportation costs including the transportation element of RbD and market participation costs.

**Environmental and Social Obligation Costs** – relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, 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). Although the UK Capacity Market was ruled invalid by the General Court of the European Court of Justice in November 2018, SSE has continued to provide for estimated costs of the Capacity Mechanism as it expects the scheme to be reinstated.

**Other Direct Costs** – include: settlement costs, wider Smart Metering costs, management charges from EPM and commissions paid to 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 fuel (electricity/gas), they have been allocated using costing models based on activity, customer billing or customer numbers – whichever is the most appropriate.

**Depreciation and Amortisation** – charges which relate to depreciation of Smart Metering Systems and other IT software.

The SSE Energy Services profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. It is also exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

## **Business Energy (Non-Domestic)**

**Revenue From Sales of Electricity and Gas** – revenues are the value of electricity and gas supplied to 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. Non-domestic volumes are expressed at customer meter point net of transmission and distribution losses and are based on external settlements data.

**Direct Fuel Costs** – Business Energy does not engage in the trading of electricity and gas and procures all of its electricity and gas from EPM. The method by which EPM procures energy at an arm's length arrangement on behalf of Business Energy is governed by Business Energy's forward hedging policy. The forward trades between Business Energy 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. WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas. The WACOE and WACOG 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 Business Energy actually acquired its energy. There have been no material changes in the transfer pricing policy in respect of Business Energy since the CSS for the financial year ending March 2018.

**Transportation Costs** – these are essentially network type costs and include: electricity transmission and distribution use of system costs; gas transportation costs including the transportation element of RbD and market participation costs.

**Environmental and Social Obligation Costs** – relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Feed In Tariff, charges under the Capacity Mechanism and CfD schemes and charges in relation to "assistance for areas with high electricity distribution costs" (AAHEDC). Although the UK Capacity Market was ruled invalid by the General Court of the European Court of Justice in November 2018, SSE has continued to provide for estimated costs of the Capacity Mechanism as it expects the scheme to be reinstated.

## Consolidated segmental statement continued

### Business Energy (Non-Domestic) continued

**Other Direct Costs** – include: settlement costs, management charges from EPM and other miscellaneous costs.

**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 fuel (electricity/gas), they have been allocated using costing models based on activity, customer billing or customer numbers – whichever is the most appropriate.

**Depreciation and Amortisation** – charges which relate to IT software.

Business Energy's profit and loss account bears the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. It is also exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.

### EPM

The operating profit for EPM for the financial year ended March 2019 was a loss of £284.9m. In November 2018, the Group published a Statement on SSE's Approach to Hedging, which explained the changes that will be made to the current hedging strategy to reduce the Group's exposure to variations in earnings from assets subject to volatility in energy commodity prices. The Group is currently implementing this new hedging approach and aims to have it fully in place by April 2020.

### 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)	3	✓	✓	✓
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 was the responsibility of the Supply Risk and Trading Committee and the Wholesale Risk and Trading Committee which were sub committees of the SSE Executive Committee. The Group announced in November 2018, following a review of the Group's hedging policies, that all commodity hedging will be overseen by the Energy Markets Risk committee.
4. SSE EPM implements the hedging policy determined by the Energy Markets Risk committee on behalf of Generation, Business Energy and SSE Energy Services.
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 Business Energy and SSE Energy Services (expressed at NBP) was 34.5TWh and the total Generation output was 27.4TWh (79%).
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.

## Reconciliation of CSS to SSE Financial Statements 2018/19

The table below shows how the CSS reconciles with the revenue and adjusted operating profit in the SSE Group's consolidated financial statements (note 5 of SSE Group's consolidated financial statements):

Reconciliation of CSS to SSE Financial Statements	Note	Revenue £m	EBIT £m
<b>Retail</b>			
CSS Supply – Non-Domestic		2,619.1	51.6
Non-GB Supply (Airtricity)	1.	1,232.0	38.6
Enterprise	2	593.9	31.8
<b>Total Retail segment in SSE Financial Statements</b>		<b>4,445.0</b>	<b>122.0</b>
<b>Wholesale</b>			
CSS Electricity Generation		2,048.4	380.8
Non-GB Generation	3	289.6	52.8
JVs/Associate revenue in CSS	4	(252.7)	–
EPM	5	6,372.4	(284.9)
Gas Storage	6	512.5	(5.7)
Gas Production	7	241.0	48.9
<b>Total Wholesale Segment financial statements</b>		<b>9,211.2</b>	<b>191.9</b>
<b>SSE Energy Services – Discontinued Operations</b>			
CSS Supply – Domestic		3,417.7	84.0
Income reclassification	8	53.0	0.0
Energy Related Services	9	298.9	5.6
<b>Total SSE Energy Services segment in Financial Statements</b>		<b>3,769.6</b>	<b>89.6</b>

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.

### Notes

- 1 Non-GB supply relates to SSE's Energy Supply business, Airtricity, which sells gas and electricity to customers in the Republic of Ireland and Northern Ireland;
- 2 Enterprise relates to the provision of services in competitive markets for industrial and commercial customers;
- 3 Non-GB Generation relates to SSE's Generation business in the Republic of Ireland and Northern Ireland;
- 4 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;
- 5 EPM optimises SSE's power, gas and other commodity requirements;
- 6 Gas Storage relates to the operation of gas storage facilities in the UK;
- 7 Gas Production relates to the production and processing of gas and oil from North Sea fields;
- 8 Reclassification of metering income for CSS;
- 9 Energy Related Services consists of SSE's Metering, Home Services, Retail Telecoms and Energy Solutions businesses.

**Adjustments to reported profit before tax.** SSE focuses its internal and external reporting on "adjusted profit before tax" which excludes exceptional items, re-measurements arising from IFRS 9 (formerly IAS 39), depreciation on fair value uplifts 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 IFRS 9. Therefore, these items have been excluded from the CSS.

## Appendix 1

### Independent auditor's report to the directors of SSE plc

We have audited the accompanying statement (the "Consolidated Segmental Statement" or "CSS") of SSE plc as at 31 March 2019 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 265 to 268.

### Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 265 to 268 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 £15 million 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 2019 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 265 to 268.

### Basis of accounting and restriction of distribution

Without modifying our opinion, we draw attention to pages 265 to 268 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 265 to 268. 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  
24 May 2019

## 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	14 June 2019
AGM (Perth) and Trading Statement	18 July 2019
Ex-dividend date for final dividend	25 July 2019
Record date for final dividend	26 July 2019
Final date for Scrip elections	22 August 2019
Payment date	20 September 2019
Notification of Close Period by	30 September 2019
Results for six months to 30 September	13 November 2019

### Website

SSE's website, [www.sse.com](http://www.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.

### Reporting Centre

SSE has launched a new online Reporting Centre. It contains the full Annual Report 2019 in interactive form, and has been designed to increase shareholder accessibility to useful information surrounding the Company and performance. The SSE Reporting Centre can be accessed at: [sse.com/investors/reportsandresults](http://sse.com/investors/reportsandresults)

### Digital news

SSE uses a dedicated news and views website (available at [www.sse.com/newsandviews](http://www.sse.com/newsandviews)) and Twitter ([www.twitter.com/sse](https://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. Shareholders are reminded that the Company will no longer be paying dividends by cheque. The Company considers this to be the most efficient and secure way to receive your dividends and going forward it will be the only payment method for cash dividends offered by SSE. For the avoidance of doubt, this applies to the proposed dividend payments due on 20 September 2019. From this date, dividends will be credited directly into a shareholders' UK bank or building society account. If you still

currently receive SSE dividends by cheque, you must register your UK bank/building society account details as soon as possible to ensure that you receive any future dividends paid by SSE. The bank/building society account information you provide will not be shared with third parties. It will be held securely by Link Asset Services (Link), SSE's Share Registrar, as part of your shareholder account details. You will require your Investor Code (IVC) which can be found on your share certificate(s) or any older shareholder correspondence you may have received from SSE previously. You can register your UK bank/building society account details by following one of the options below:

- Complete the Dividend Mandate Form\* and return it to "Link" in the envelope provided; or
- Register them through the Shareholder Portal at [www.sse-shares.com](http://www.sse-shares.com); or
- Call Link on 0345 143 4005 and speak to one of the team.

\* Please note the Dividend Mandate Form will be included as an insert in the 2019 Annual Report and AGM mailing for those that require to take action.

Shareholders will continue to 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 [www.sse-shares.com/welcome](http://www.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 [www.sse.com/investors/ecommsprogramme](http://www.sse.com/investors/ecommsprogramme) and follow the instructions under "how to register or update your email address".

**For further information about SSE,  
please contact:**

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