



**CREATING VALUE
IN A SUSTAINABLE WAY**

SSE plc Sustainability Report 2018

SUSTAINABLE



ABOUT SSE

SSE plc is one of the UK and Ireland's leading energy companies, involved in the generation, transportation and supply of electricity and in the extraction, storage, transportation and supply of gas. Its purpose is to responsibly provide the energy and related services needed now and in the future. Its vision is to be a leading provider of energy and related services in a low-carbon world. Its strategy is to create value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way.

IMPORTANT NOTE:

PLANNED SSE ENERGY SERVICES TRANSACTION

On 8 November 2017, the Board of Directors of SSE plc announced it had entered into an agreement with innogy SE in respect of a proposed demerger of SSE's household energy and services business in Great Britain (now named SSE Energy Services) and immediate combination of that business with innogy SE's subsidiary npower to form a new independent UK-based group.

For more information about SSE's business operations or the planned SSE Energy Services transaction, please see the Annual Report 2018.

ABOUT THIS REPORT

The disclosure of SSE's most material sustainability impacts is integrated into its Annual Report 2018 and, given the demand from SSE's stakeholders for comprehensive transparency on the impact it has on the outside world, this Sustainability Report provides greater detailed information around SSE's key policies, management and performance in relation to its economic, social and environmental impacts. The Sustainability Report is therefore intended to be the sister document to the Annual Report. However, it also exists as a standalone report in its own right and it is not necessary to read it alongside the Annual Report.

The scope of this report is generally focused on performance data for the financial year ending 31 March 2018. On occasion the report refers to activities of joint ventures and in these instances it is made clear this is the case.

In 2018, SSE sought assurance on its carbon and water data from professional services firm PwC. PwC also undertook the economic analysis of SSE's contribution to the UK and Irish economies.

SSE actively encourages feedback on the content of this report from its stakeholders. Please get in touch by emailing sustainability@sse.com.

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CHIEF EXECUTIVE'S INTRODUCTION

CREATING VALUE FOR SHAREHOLDERS AND SOCIETY

This Sustainability Report 2018 is the sister document of the SSE Annual Report 2018. Both reports share the strategic theme of creating value in a sustainable way. The particular purpose of the Sustainability Report is to disclose the way in which SSE's business activities impact on the world outside it in support of that strategic theme.

The spirit from which we approach sustainability reporting is to disclose the facts, explain our ambitions for improvement, and then – most importantly – be held to account for progress made. We understand that stakeholder scrutiny and accountability are powerful agents for change and improvement. True openness and transparency means we must disclose imperfect impacts.

This year's report demonstrates there is scope to reduce SSE's carbon emissions further; to make swifter progress in closing the gender pay gap; and to improve the processes for speeding up the payment of suppliers. We must do all of this, and more.

The strategic imperative is clear: by improving SSE's sustainability impacts, we create value both for SSE's shareholders and for society as a whole. Reducing carbon emissions supports the transition to a low-carbon world, helping to prevent dangerous climate change and presenting economic opportunities for SSE's future commercial success. Closing the gender pay gap creates a much stronger labour market where the talents and skills of women and men can be better accessed to create value. And, finally, the quicker suppliers are paid, the better we support a financially viable supply chain that our businesses depend upon.

Therefore, creating value for shareholders and society in a sustainable way is SSE's strategic objective.

2018 is a year of transition for SSE. We are seeking to demerge our household energy and services business in Great Britain, establishing a unique, independent UK-based energy retailer by merging with innogy SE's subsidiary npower. We believe this will be good for customers and it will enable a greater clarity of focus in both the new retail company and the remaining SSE. The business that remains will be able to direct all its attention on the energy and energy-related infrastructure the UK and Ireland needs. SSE will be a company with networks and renewable electricity generation at its core, with flexible thermal generation providing a key supporting role to variable renewable output, and a number of complementary businesses to support its core purpose.

Through this transition, SSE has taken the opportunity to reassert the significance of sustainability to its business, and this report outlines a number of new ambitions, targets and commitments for the years ahead. From ambitions to improve the gender diversity at the most senior levels, to an important new carbon target for SSE's electricity generation output, the direction of travel for SSE's businesses is clear. We seek to create value simultaneously for shareholders and the societies in which we serve and operate.

Engagement, feedback and comment from our stakeholders is vital if we are to meet those ambitions. That means we actively encourage stakeholders to get in touch by emailing sustainability@sse.com if you have any comments or queries relating to our sustainability performance and reporting.

Alistair Phillips-Davies
Chief Executive



VISION	TARGETS	PROGRESS MADE IN 2017/18	RAG*	SDG
<p>SERVICE PROVIDER Doing more to provide essential services affordably.</p>	<p>Provide sector-leading service to its household and business energy customers.</p>	<p>In 2017/18, SSE was once again identified in the Citizens Advice energy supplier rating as having the lowest levels of complaints to third parties amongst the major energy suppliers in GB. SSE Airtricity was named Best for Customer Service in February 2018 for the second year running by leading Irish internet comparison site Bonkers.ie.</p>	Amber	7 AFFORDABLE AND CLEAN ENERGY
	<p>Achieve the British Standard for inclusive service provision (BS18477) in SSE's Retail business and maintain the accreditation in Scottish and Southern Electricity Networks (SSEN).</p>	<p>In March 2018, SSE's Retail business became one of the first major energy suppliers to achieve the British Standard for inclusive service provision. SSE's Networks business also achieved the standard having met the requirements of the Standard for the previous two years.</p>	Green	7 AFFORDABLE AND CLEAN ENERGY
<p>SOCIETY MEMBER To contribute positively to society through sharing the value SSE creates at all levels, from local communities to national economies.</p>	<p>Achieve the Fair Tax Mark accreditation.</p>	<p>SSE achieved the Fair Tax Mark for the fourth consecutive year, improving its score to achieve 42/45 – well above the 29/45 threshold for achieving the Fair Tax Mark. It also published its second <i>Talking Tax</i> report, which provides increased transparency around SSE's tax affairs.</p>	Green	8 DECENT WORK AND ECONOMIC GROWTH
	<p>'Best-in-class' delivery of SSE's community investment funds in the UK and Ireland.</p>	<p>SSE awarded £5.7m through its community investment funds across the UK and Ireland in 2017/18, supporting local community and charitable projects. SSE also published results of its first social return on investment (SROI) analysis undertaken for the Beatrice Partnership Fund, finding that for every £1 invested, £3.21 of value is expected to be created for the communities.</p>	Green	11 SUSTAINABLE CITIES AND COMMUNITIES
<p>OPERATOR To support the energy markets in Great Britain and Ireland move towards low-carbon generation by 2050.</p>	<p>Ensure the carbon intensity of SSE's generated electricity is halved by 2020, from its 2006 baseline.</p>	<p>The carbon intensity of energy generated by SSE in 2017/18 was 307gCO₂e/kWh, meaning it met its 2020 target early for the second consecutive year. SSE has now set a new, longer term ambition to further reduce the carbon intensity of the electricity it generates by 50% by 2030, compared to 2018 levels.</p>	Green	13 CLIMATE ACTION
	<p>Enable low-carbon generation to connect to SSE's electricity network.</p>	<p>In 2017/18, Scottish and Southern Electricity Networks (SSEN) connected around 400MW of new renewable generation capacity to the transmission network. SSEN also made significant progress on major projects which enable further connections, such as the Caithness-Moray transmission link which remains on track for delivery by the end of 2018.</p>	Green	13 CLIMATE ACTION
<p>DEVELOPER To develop and upgrade the energy infrastructure in the UK and Ireland in a sustainable way.</p>	<p>Invest around £6bn between 2016 and 2020, of which around two thirds is in electricity networks and renewable sources of electricity.</p>	<p>SSE's investment and capital expenditure in 2017/18 was over £1.5bn. Around 70% of this investment was in networks and renewables. Over the five years to 31 March 2023, SSE expects its capital and investment expenditure to total around £6bn, with approximately 70% of this expected to be invested in regulated electricity networks and renewable sources of energy.</p>	Amber	9 INDUSTRY INNOVATION AND INFRASTRUCTURE
	<p>Increase SSE's renewable energy capacity, including pumped storage, to over 4.2GW by 2020.</p>	<p>SSE has the largest renewable energy capacity across the UK and Ireland at around 3.8GW (inc. pumped storage), over 500MW of which became operational in 2017/18. SSE has around 500MW of further renewable energy capacity currently in construction.</p>	Amber	7 AFFORDABLE AND CLEAN ENERGY
<p>EMPLOYER To attract, develop and retain a sustainable pipeline of highly engaged employees, and in doing so help to address the lack of diversity and skills shortage in the energy industry.</p>	<p>Treat employees with fairness, respect and dignity, and create a highly-engaged workforce as a result.</p>	<p>SSE's Great Place to Work survey was undertaken in June 2017, with the results and action plan published online in October 2017. Valuable feedback from employees about change management in SSE has been particularly instructive given the potential changes arising from the planned SSE Energy Services transaction. Two-way employee communications channels have been established for this process.</p>	Amber	8 DECENT WORK AND ECONOMIC GROWTH
	<p>Support productivity by developing an inclusive and diverse workforce which meets future talent and skill requirements.</p>	<p>SSE invested £25.2m in pipeline programmes and employee learning and development in 2017/18. In its drive to create a more inclusive and diverse workforce, the first year of SSE's Inclusion Strategy 2017-2020 was implemented and SSE also set new initial gender balance targets for senior leadership, with the aim of achieving them by 31 March 2021.</p>	Amber	8 DECENT WORK AND ECONOMIC GROWTH
<p>BUYER To be a responsible buyer of goods and services and to work with suppliers to manage risk in SSE's supply chain and achieve long-term sustainable benefits.</p>	<p>Work with contractors to be 'best-in-class' on safety and keep them as safe as SSE employees. 2017/18 target for contractor Total Recordable Injury Rate (TRIR) was <0.44 per 100,000 hours worked.</p>	<p>SSE's TRIR for contractors in 2017/18 was 0.44 per 100,000 hours worked, meaning its performance was in line with its target. It also represents a marked improvement compared to the previous year when the contractor TRIR was 0.51 per 100,000 hours worked.</p>	Amber	8 DECENT WORK AND ECONOMIC GROWTH
	<p>Ensure a comprehensive response to modern slavery in SSE's supply chain.</p>	<p>SSE has published its Modern Slavery Statement 2018 which outlines steps taken to prevent modern slavery and human trafficking within SSE's business and supply chains. By the end of March 2018, 99% of procurement professionals had received training to raise awareness of the Modern Slavery Act and highlight the obligations they must meet.</p>	Red	8 DECENT WORK AND ECONOMIC GROWTH
<p>DO NO HARM SSE's business activities are underpinned by an ethical business culture, and an ethos of 'doing no harm' with safety being its first priority.</p>	<p>50by20 SHE (safety, health and environment) goal: reduce the Total Recordable Injury Rate (TRIR) by 50% from 31 March 2017 to 31 March 2021.</p>	<p>SSE's TRIR for employees and contractors combined was 0.20 per 100,000 hours worked in 2017/18. This represents an improvement compared to the previous year, when the combined TRIR was 0.22 per 100,000 hours worked. This is a positive trend as SSE continues to work towards its target of a combined TRIR of 0.11 per 100,000 hours worked by 31 March 2021.</p>	Amber	8 DECENT WORK AND ECONOMIC GROWTH
	<p>Establish and maintain a healthy culture of 'Speaking Up' against wrongdoing.</p>	<p>SSE deployed an extensive internal communications campaign in 2017/18 with a spotlight on encouraging employees to 'Speak Up' when they suspect wrongdoing. In SSE's 2017 Great Place to Work survey, 86% of employees said they would speak up if they had a concern about wrongdoing or unethical behaviour within SSE.</p>	Amber	8 DECENT WORK AND ECONOMIC GROWTH

* 'RAG' represents the status of progress made against meeting SSE's targets. Red = target has not been met, Amber = progress is in line with meeting the target, Green = target has been met.

RENEWING SSE

A PROUD PAST

For 75 years, SSE and its predecessor companies and boards have kept the core belief that energy provision is an essential part of modern life, on which people, organisations and businesses depend. This means that SSE must make decisions in a sustainable way, acting in the public interest and for the benefit of energy customers. SSE's proud past and its current success is the result of this way it makes decisions, embraces change, and adapts to economic, social and technological progress.

A STRONG FUTURE

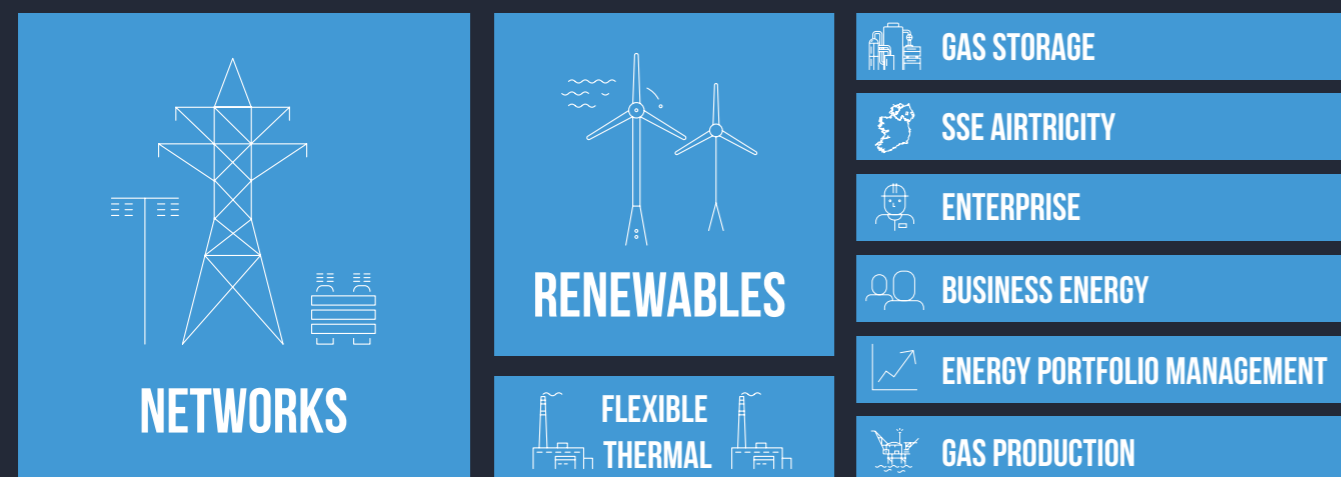
SSE is now using its long history and experiences to focus on building a strong future. The extent of change taking place in the energy sector is unprecedented, and the needs of customers and society are evolving rapidly. The planned SSE Energy Services transaction will create an efficient new independent energy supply and services business and help create a new market model by combining the resources and experience of two established players with the focus and agility of an independent supplier. This transaction is subject to necessary shareholder and regulatory approvals, but it is designed to renew the remaining SSE business in a way that will bring benefits to SSE and to energy customers. As SSE supports the drive towards decarbonisation of the economy, electrification of transport and modernisation of critical infrastructure, it does so with a commitment to maintaining and growing a range of complementary businesses that have energy and related services at their core.

A FOCUSED STRATEGY

SSE's renewed strategy will focus on creating value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way. This means being focused on earning returns for shareholders and making a positive economic, social and environmental contribution to the countries in which it operates; being efficient in developing, owning and operating infrastructure and related services and being agile in creating and securing value from them; and maintaining a range of complementary business activities with a depth of insight into a core sector and doing things responsibly.

As SSE changes over the years to come, it will remain focused on improving energy infrastructure for the future; committed to being a transparent, responsible company that makes good decisions for the long-term; and guided by the SSE SET of values (Safety, Service, Efficiency, Sustainability, Excellence and Teamwork).

A NEW BUSINESS MODEL



Networks and renewable generation will be core to the 'NEW' SSE business, with flexible thermal generation also having a key role. SSE will also continue to maintain and grow a range of complementary businesses that have energy and related services at their core. The needs of energy customers will continue to be SSE's key focus.

SSE'S RESPONSIBILITY FRAMEWORK

Underpinning SSE's Responsibility Framework is the firmly held view that the simultaneous creation of value for shareholders and society enhances the long-term viability of SSE. SSE's Responsibility Framework has been designed to ensure that in achieving its core business objectives, SSE conducts itself in a way that respects the social contract it has with society and creates long-term value. The framework features a core set of policies and procedures supported by a governance structure designed to ensure SSE addresses the most material issues to its key stakeholders and wider society.

SUSTAINABLE GOVERNANCE

SSE's governance of sustainability issues within its business is built on the values of transparency, accountability and operating with integrity. SSE's key governance structure around sustainability is outlined below.

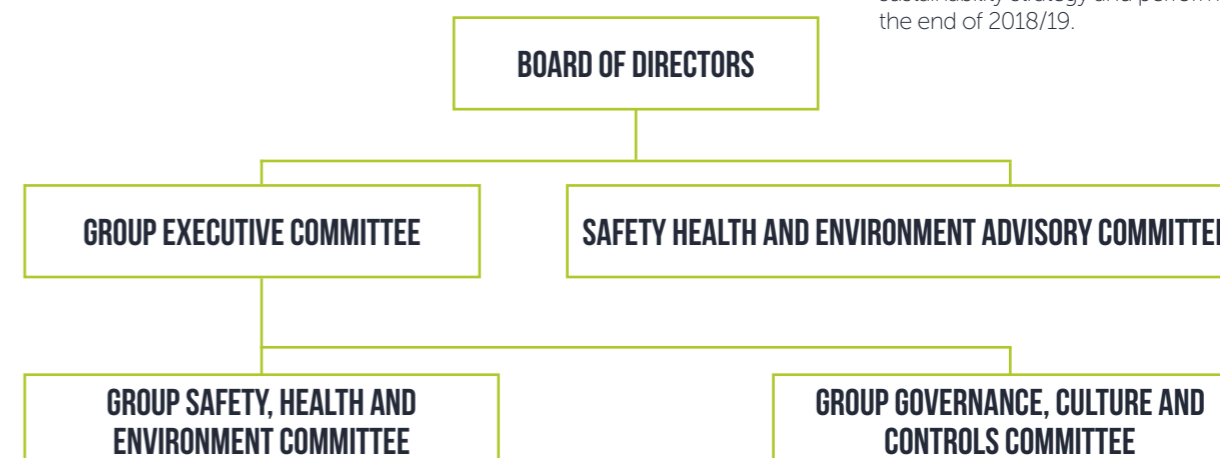
SSE's Chief Executive has overall lead responsibility for sustainability, including at Board-level. The Board is advised on matters of safety, health and environment by the Safety, Health and Environment Advisory Committee (SHEAC).

The Executive Committee is responsible for implementing Group strategy set by the Board. Sustainability is integrated and considered within the Group strategy. The Executive Committee also monitors the operational and financial performance of sustainability related activities across the organisation. It is supported by two Group Committees – the Group Governance, Culture and Controls Committee; and the Safety, Health and Environment Committee – which help to govern key aspects of sustainability across the SSE Group.

The Board and these committees are supported by the Sustainability team, which works closely with all areas of the business to understand and manage key sustainability impacts. It provides insight and advice on key sustainability-related policies and issues and oversees reporting and associated disclosures.

More information on SSE's governance structure, and the roles and responsibilities of different committees, can be found in the Corporate Governance section of the Directors' Report in SSE's Annual Report 2018, pages 86 to 139.

SSE'S SUSTAINABILITY GOVERNANCE STRUCTURE



SSE'S RESPONSIBLE HOUSE

Since 2014, SSE has framed its sustainability strategy and performance using its so-called 'Responsible House'. The Responsible House communicates to stakeholders how SSE's relationships and activities add value and support the fulfillment of the company's core purpose and sustainability value.

Three 'bricks' of the house outline the way in which the core businesses across the SSE Group add value as service providers, operators of existing assets and developers of new assets. Three more bricks describe the way in which the SSE Group adds value through core relationships with employees, suppliers and society as a whole. The house is underpinned by an ethos of 'doing no harm' to people or the environment. Find more information on SSE's Responsible House at sse.com/beingresponsible.

The proposed change to the SSE Group provides an opportunity to consider a more impactful way to frame SSE's sustainability strategy. SSE will consult with its stakeholders with a view to recasting the articulation and disclosure of its sustainability strategy and performance at the end of 2018/19.

IDENTIFYING MATERIAL ISSUES

Overall, the 'energy trilemma' – the challenge of maintaining a secure and affordable supply of energy, while mitigating the environmental impact of producing it – remains the most material challenge to SSE's business. SSE engages with stakeholders on other material issues that are directly relevant to its ability to contribute to the resolution of the 'energy trilemma' and, in doing so, creates value for shareholders and society. More detail around SSE's approach is outlined on the following pages. By identifying issues that are most material to its business and stakeholders, SSE is able to focus and prioritise decision-making within the organisation. This allows SSE to undertake its activities more efficiently and achieve more positive environmental, social and economic impacts, thereby creating value for shareholders and society in a sustainable way.

EMERGING TRENDS

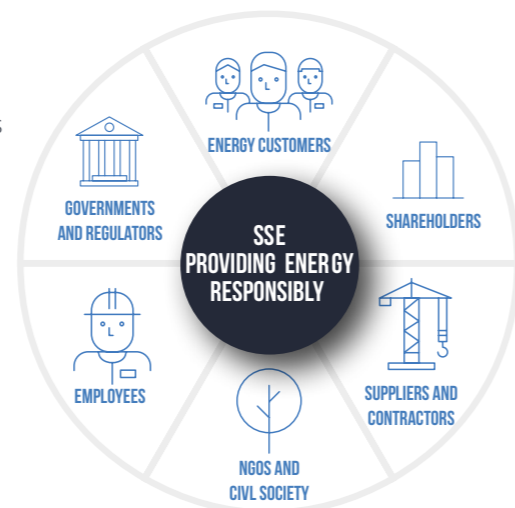
» Read more on **page 7**.

SSE tracks emerging trends in the external environment which may influence its ability to meet its business objectives. These trends are not restricted to the energy sector alone, but extend to wider societal issues also. Horizon scanning for these trends and factors can highlight challenges and opportunities for the business, its stakeholders and society as a whole.

STAKEHOLDER ENGAGEMENT

» Read more on **pages 8 to 9**.

SSE engages constructively with key internal and external stakeholders to understand what issues are most important to them and how SSE impacts on them. By creating open, two-way channels of communication with stakeholders, SSE gains a deeper understanding of their concerns and can find ways to increase transparency around SSE's activities which may impact them. Through these processes, SSE is able to identify the most material issues to these groups and better equip the business to respond them. SSE engages with six key stakeholder groups – energy customers, shareholders, government and regulators, employees, NGOs and civil society, and suppliers and contractors.



INTERNATIONAL PRINCIPLES AND GOALS

» Read more on **pages 10 to 13**.

SSE also considers the role its business plays in an international and global context. It reports against the UN Sustainable Development Goals, highlighting which of the goals are most material to its business and how it contributes to them. In 2018, SSE also took the decision to become a signatory to the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative. The UNGC supports companies to take a sustainable approach to business and align their strategies and operations with 10 universal principles on human rights, labour, environment and anti-corruption. Actively participating in initiatives such as these ensures SSE is considering material issues to its business in a much wider societal and global sense. It also means SSE is playing its part in addressing global challenges, thereby enhancing the sustainability of its business and its capacity to create value over the long-term.

The new EU Corporate Social Responsibility Directive (2014/95/EC) requires additional disclosure from companies around their non-financial impacts. SSE welcomes this development and has reported in line with the requirements within its Annual Report 2018. A table summarising how SSE is meeting the new reporting expectation, and pointing to where additional information can be found, is on pages 70 to 71 of the Annual Report 2018.

EMERGING TRENDS

ENHANCED CLIMATE-RELATED DISCLOSURE

Since the 2015 Paris Agreement on Climate Change, there has been increasing interest from stakeholders on both climate-related risks and opportunities. As part of this, there has been increasing pressure from investors for companies to increase disclosure around how they manage these risks and opportunities.

In November 2017, SSE committed to fulfilling the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations on climate disclosure. These recommendations, which emphasise financial disclosure and the use of scenario analysis, focus on governance, strategy, risk management, and metrics and targets.

SSE will fulfil each of the recommendations before the end of financial year 2020/21.

ELECTRICITY NETWORKS AND THE PUBLIC INTEREST

In 2017 and 2018, a public debate has been stimulated about the way in which a number of utility sectors meet public interest expectations in terms of service performance, costs, investment and corporate conduct.

SSE agrees that network companies should work at all times in the public interest, and its response to the debate is consistent with its long-held view that it has to continually earn the right to make a profit.

The provision of energy comes with enhanced responsibilities that non-utility sectors may not have. SSE will contribute, and respond positively to, proposals that enhance the requirement for energy companies to demonstrate – and improve – their performance in meeting public interest expectations.

THE UK'S INDUSTRIAL STRATEGY

In 2017, the UK Government published its long-term plan to boost productivity and prosperity for people throughout the UK. At the heart of this Industrial Strategy is clean growth – growing the UK economy while cutting GHG emissions. This blueprint for a successful UK economy impacts SSE because its business activities are clearly focused on enabling low-carbon growth in its core energy markets of the UK and Ireland. SSE's future success is deeply influenced by the economic success of the places it operates within.

SSE seeks to contribute to strengthening the foundations identified in the UK's Industrial Strategy through: the physical improvement it will deliver to energy infrastructure; the development of its workforce; and sharing the economic benefits of its operations with local communities and society as a whole.

FLEXIBILITY REVOLUTION

In July 2017, the UK Government published its Smart Systems and Flexibility Plan, which outlined how the Government and Ofgem are working alongside industry to deliver a smarter, more flexible energy system. Network companies such as Scottish and Southern Electricity Networks (SSEN) will be key to this new decentralised system as traditional Distribution Network Operator (DNO) businesses transition into active Distribution System Operators (DSO).

In November 2017, SSEN published its *Supporting a Smarter Electricity System* report, outlining the principles it will adhere to in its transition to a DSO. Alongside the report, SSEN launched a public consultation on its transition.

The smart, flexibility transition is not limited to the distribution network – SSEN's transmission business is also transforming and will play a key role in ensuring the transmission system does not restrict this transition, and enables distributed energy providers to compete in this flexibility market.

BUSINESS ETHICS AND DIGITAL CONDUCT

While the trend of greater scrutiny and accountability of the business conduct of big companies is not new, the areas of focus within this trend develop from year to year.

With the implementation of new data laws in the UK, known as GDPR, the ethics of digital conduct are in the spotlight more than ever before. SSE, alongside many companies in the UK, have treated the GDPR 'go live' date in May 2018 as an opportunity to ensure, firstly that it meets its obligations of the GDPR regulations and, secondly, that the spirit and meaning of those laws are fully understood across the organisation.

SSE anticipates that the ethics of how and when data is captured, used and eliminated will continue to be a focus for companies and policy makers in the months and years to come.

INCLUSION AND DIVERSITY

Under new UK Government regulations, UK companies are required to publish their gender pay gap as at 5 April 2017 within one year. SSE published its 2017 gender pay gap in June 2017, and it has now published its 2018 gender pay gap within this report (see pages 36 to 37) along with its updated action plan for how to close the gap and encourage greater inclusion across the company.

Published in November 2017, the 2017 Hampton-Alexander Review provides an independent review on women in leadership positions in FTSE 350 companies. SSE has since set gender balance ambitions for the most senior levels of the company.

As well as focus on gender diversity, there is growing understanding on the benefits of creating more inclusive organisations overall. Having focused on developing a wider inclusion strategy and plan, SSE intends to measure the initial impact on its 'return on inclusion' during 2018.

STAKEHOLDER ENGAGEMENT

SSE's success depends on its ability to engage effectively and work constructively with stakeholders who have an interest in SSE and the wider industry. Listening and responding to their views and needs helps SSE better achieve its business objectives and deliver the best outcomes for customers, shareholders and wider society. SSE engages with six key stakeholder groups – energy customers, shareholders, government and regulators, employees, NGOs and civil society, and suppliers and contractors. By creating open, two-way channels of communication with stakeholders, SSE gains a deeper understanding of their concerns and can find ways to increase transparency around SSE's activities which may impact them.

SSE HAS MILLIONS OF ENERGY CUSTOMERS

SSE's electricity distribution and energy supply customers expect a quality service that they can rely on. Ongoing customer engagement provides a better understanding of customer needs, as well as how continuous improvement in customer service can be delivered.

MATERIAL ISSUES AND ENGAGEMENT METHODS

Material issues for energy customers include: affordable and accessible energy; quality customer service; responsiveness to vulnerability; efficient energy use; and the impact of industry change. SSE engages with customers daily through customer calls and social media activity. It engages at a deeper level through qualitative research and detailed surveys, and holds customer forums and consultation events to gain customer feedback.

HOW SSE CREATED VALUE 2017/18

Supporting vulnerable customers

574,047

Networks customers on the Priority Services Register

SSE HAS OVER 300,000 SHAREHOLDERS

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 concerns and ensure these are considered in its decision-making.

MATERIAL ISSUES AND ENGAGEMENT METHODS

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

HOW SSE CREATED VALUE 2017/18

Delivering returns for shareholders

94.7p

Recommended full-year dividend price per share

SSE WORKS WITH GOVERNMENTS AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. SSE works constructively with the governments and regulators in the UK and Ireland in order to protect the long-term interests of energy customers.

MATERIAL ISSUES AND ENGAGEMENT METHODS

Material issues for governments and regulators include: security of energy supply, cost-effective decarbonisation; fair treatment of customers; economic impact of investment; and ethical business conduct. SSE directly engages with policymakers and pursues positive and constructive relationships. SSE employs dedicated teams responsible for engaging with governing and regulatory bodies.

HOW SSE CREATED VALUE 2017/18

Paying a fair share of tax

£484.1m/€22.6m

Total taxes paid in the UK and Ireland

CASE STUDY: ENGAGING STAKEHOLDERS IN DECISION-MAKING

During 2017/18 SSEN held three major stakeholder engagement events for each of its three licenced electricity networks. The events focused on SSEN's performance against its business plan and will lead to a number of changes to its practices and priorities during 2018/19 and beyond, as a direct result of the feedback received.

SSEN's independent Stakeholder Advisory Panel is now firmly established and, working alongside its Board, it continues to provide key external input to help scrutinise business performance in meeting SSEN's business plan commitments. In January 2018, SSEN also established the industry's first Inclusive Service Panel, bringing together representatives with expertise ranging from mental and physical disability to religious diversity and equality. The Panel is already providing invaluable insight and making practical recommendations to help ensure SSEN delivers a truly inclusive service for all. The commitment to place its stakeholders at the heart of its business will help ensure SSEN is well placed to adapt to the evolution of the regulatory framework, RII02, and to the enhanced and enduring role its customers and stakeholders will play in the development of its future business plans.

SSE EMPLOYS AROUND 21,000 DIRECT EMPLOYEES

SSE depends on the shared talent, skills and values of its employees. It has a framework for ongoing engagement and feedback between itself and employees. This helps ensure SSE creates an engaging and supportive environment where people want to work.

MATERIAL ISSUES AND ENGAGEMENT METHODS

Material issues for employees include: opportunities for development and progression; agile working patterns; inclusion and diversity; and the opportunity to have a say and make a difference in the business. SSE engages with employees through continued and structured career conversations, its trade union partners, all-employee engagement surveys and internal communication channels such as its intranet news and blog feed, the SSE employee app and employee conferences.

HOW SSE CREATED VALUE 2017/18

Developing people

£25.2m

Investment in training and development

SSE ENGAGES WITH NGOS AND CIVIL SOCIETY

NGOs and civil society bring specialist and distinctive perspectives, contributing to business decision-making. SSE engages with NGOs and civil society groups that focus on social, environmental and other energy- and business-related issues on behalf of energy customers and wider society.

MATERIAL ISSUES AND ENGAGEMENT METHODS

Material issues for NGOs and civil society include: environmental protection and climate change; customer vulnerability; employee issues such as the real Living Wage and the gender pay gap; and SSE's economic contribution and approach to tax. SSE recognises that more can be achieved to solve key societal issues by working with NGOs and civil society groups. It actively seeks engagement through direct feedback on reports, participation in public events and responses to surveys and consultations.

HOW SSE CREATED VALUE 2017/18

Addressing climate change

307gCO₂e/kWh

Carbon intensity of electricity generated

SSE WORKS WITH c.9,000 DIRECT 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.

MATERIAL ISSUES AND ENGAGEMENT METHODS

Material issues for suppliers and contractors include: fair expectation in project delivery; management of health and safety; local supply chains; and management of social and environmental impacts. SSE has a structured approach to engaging with its most strategic supply chain partners to establish long-term relationships which create value for all partners. In addition to regular engagement and audits, SSE's procurement function engages directly with suppliers around key issues to ensure its values are upheld throughout its supply chain.

HOW SSE CREATED VALUE 2017/18

Supporting sustainable supply chains

c.£2.9bn

Total procurement expenditure

UN GLOBAL COMPACT

SSE recognises the need for companies to align their strategies and operations with universal principles on the environment, human rights, labour and anti-corruption, if they are to create value in a sustainable way. Therefore, in 2018, SSE took the decision to become a signatory to the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative, committing to take action that advances societal goals. Becoming a signatory to the Compact reinforces SSE's sustainability values and demonstrates its commitment to a responsible business approach to stakeholders.

The UNGC believes that business can have a positive impact through taking shared responsibility to contribute to creating better societies. SSE agrees with this principle, believing that a healthy society creates a good operating environment for business, and seeks to disclose the contribution it makes to society, in particular to report against the UN Sustainable Development Goals (SDGs). By incorporating the Ten Principles of the UNGC into its strategy and operations, SSE upholds its social and environmental responsibilities which, in turn, supports achievement of long-term business success.

UNITED NATIONS GLOBAL COMPACT PRINCIPLES	SSE ACTIONS IN 2017/18
<p>HUMAN RIGHTS</p> <p>Read more on page 39.</p>	<p>1. Businesses should support and respect the protection of internationally proclaimed human rights</p> <p>SSE's Human Rights Policy is based on the UNGC guiding principles. It outlines standards to ensure human rights of direct and supply chain employees are respected and protected, and how to report instances of suspected human rights violations.</p> <p>2. Make sure that they are not complicit in human rights abuses</p> <p>SSE has mechanisms to ensure that modern slavery does not exist within its direct workforce, such as a right to work checklist, and manages the risk of modern slavery in its supply chain, through a series of due diligence steps undertaken both at an industry level and within SSE's own contracts with its suppliers.</p>
<p>LABOUR</p> <p>Read more on pages 32 to 35.</p>	<p>3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</p> <p>SSE complies with high standards of employment regulations in the countries it operates in – the UK and Ireland – and does not discriminate against the protected characteristics set out in the Equalities Act 2010.</p> <p>4. The elimination of all forms of forced and compulsory labour</p> <p>The right of employees to join a trade union is outlined within SSE's Human Rights Policy. SSE recognises four trade unions and a Joint Negotiating and Consultative Committee, covering 65% of SSE employees, provides the structure by which industrial relations are conducted.</p> <p>5. The effective abolition of child labour</p> <p>SSE's Modern Slavery Statement 2018 outlines steps taken by SSE since April 2017 to prevent modern slavery, including child exploitation, existing within its business and supply chains. By the end of March 2018, 99% of current procurement professionals had received training to raise awareness of the Modern Slavery Act 2015 and highlight the standards they must meet.</p> <p>6. The elimination of discrimination in respect of employment and occupation</p>
<p>ENVIRONMENT</p> <p>Read more on pages 24 to 31.</p>	<p>7. Businesses should support a precautionary approach to environmental challenges</p> <p>As a responsible developer and operator, SSE manages impacts from its activities by taking a strategic approach and adopting methods that take account of the environment at the point of project initiation and design, as well as during construction and operation of the asset.</p> <p>8. Undertake initiatives to promote greater environmental responsibility</p> <p>SSE recognises that its most material environmental impact is the carbon emitted from its electricity generation activities. SSE has a long-term ambition to reduce the carbon intensity of the electricity it generates by 50% by 2030, compared to 2018 levels. If SSE achieves this, it will have reduced the carbon intensity of its electricity generated by 75% compared to 2006 levels.</p> <p>9. Encourage the development and diffusion of environmentally friendly technologies</p> <p>In 2017/18, SSE's investment and capital expenditure was over £1.5bn. Around 70% of this investment was in networks and renewables. In September 2017, SSE issued the largest ever Green Bond by a UK company. Proceeds from the eight-year €600m bond are financing projects in SSE's renewable portfolio.</p>
<p>ANTI-CORRUPTION</p> <p>Read more on pages 46 to 47.</p>	<p>10. Businesses should work against corruption in all its forms, including extortion and bribery</p> <p>SSE's Anti-Bribery and Corruption Policy details definitions of corruption and bribery as well as how to report any cases of suspected wrongdoing. SSE employees can report incidents of wrongdoing internally or through an independent 'Speak Up' phone line and email service, hosted externally by SafeCall. SSE's <i>Doing the right thing: A guide to ethical business conduct for SSE employees</i> is available to all employees. SSE also runs internal awareness campaigns around business ethics and has tailored online training for anti-bribery, which all employees are required to complete. The standards around bribery that SSE expects its suppliers to meet are detailed in its Responsible Procurement Charter, along with how to report any cases of suspected violations.</p>


CONTRIBUTING TO THE UN SUSTAINABLE DEVELOPMENT GOALS

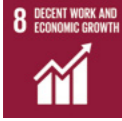
SSE is committed to supporting the UN Sustainable Development Goals (SDGs) and recognises that they are not only for governments to achieve, but for business and society as a whole to contribute to as well.

Countries' domestic revenues – including tax revenue – will play a key role in supporting the SDGs. Paying a fair share of tax is important for the countries SSE operates in and the principles of responsible taxation are of vital importance to the developing world too. SSE is committed to paying its fair share of tax. It has gained the Fair Tax Mark accreditation for four consecutive years and its total tax contribution was £939.9m and €79.5m in the UK and Ireland respectively in 2017/18, see page 20.

In 2017/18, SSE conducted a materiality assessment of its business operations against the individual targets that comprise the 17 SDGs. This involved a detailed review of why each target is important to SSE and how SSE is contributing to meeting those targets. Although SSE contributes to the majority of the 17 SDGs, five are highly material for SSE, with a further three assessed as material. These five highly material goals with the highly material individual targets within each are detailed below.

HIGHLY MATERIAL SDGS	SDG TARGET	WHY THESE ARE IMPORTANT TO SSE	HOW SSE CONTRIBUTED IN 2017/18
<p>13 CLIMATE ACTION</p> <p>Take urgent action to combat climate change and its impacts</p>	<p>13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p> <p>13.2 Integrate climate change measures into national policies, strategies and planning</p>	<p>SSE's electricity generation activities are a significant source of carbon emissions in the UK and Ireland. It therefore has a key role in supporting these countries move towards low-carbon generation by 2050.</p> <p>One of the most material risks of climate adaptation is on SSE's Networks business where extreme weather events pose risk to the resilience of the network.</p>	<ul style="list-style-type: none"> SSE met its 2020 carbon intensity for target early for the second consecutive year. SSE has now set a new, longer term ambition for the carbon intensity of the electricity it generates to 2030 (see pages 24 to 26). SSE launched the largest ever Green Bond by a UK company (see page 28). SSE modelled the resilience of its business against three core future energy scenarios in 2017/18 (see page 25). SSE generated 9,428GWh of renewable energy including pumped storage in 2017/18. SSE has committed to meeting the Taskforce on Climate-related Financial Disclosures recommendations by 2021. SSE responds to the CDP Climate Change Programme.
<p>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</p> <p>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>	<p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> <p>9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p>	<p>With the transition towards low-carbon economies, it is increasingly important that the UK and Ireland's infrastructure has sufficient capacity to deliver 'greener' energy in innovative and reliable ways. Developing and upgrading the energy infrastructure in the UK and Ireland is an essential part of SSE providing the energy people need, and in supporting the low-carbon transition in each country.</p>	<ul style="list-style-type: none"> SSE's investment and capital expenditure totalled £1.5bn. Around 70% of this was in networks and renewables. SSE also announced that it expects its capital and investment expenditure will total around £6bn over the next five years. SSE brought over 500MW of renewable energy capacity into operation in 2017/18 and has around a further 500MW currently in construction. At 31 March 2018, SSE had over 850,000 smart meters on supply (see page 15).

HIGHLY MATERIAL SDGS	SDG TARGET	WHY THESE ARE IMPORTANT TO SSE	HOW SSE CONTRIBUTED IN 2017/18
 <p>Affordable, reliable and sustainable energy for all</p>	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services	SSE provides an essential service, and in doing so must ensure it does this in a way that meets the needs of its most vulnerable customers.	<ul style="list-style-type: none"> SSE is one of the largest renewable energy operators across the UK and Ireland. It expects to increase its installed capacity of renewable energy to over 4.2GW (including pumped storage) by 2020 (see page 28). To ensure best value for customers, central to SSE's strategy is efficient and disciplined investment in developing energy and related infrastructure assets needed by energy and utility customers.
	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	The main challenge facing SSE's business therefore remains the 'energy trilemma' – the challenge of decarbonising energy, whilst ensuring security of supply and affordability (see pages 14 to 19).	<ul style="list-style-type: none"> Both SSE's Retail and Networks businesses have achieved the British Standard for inclusive service provision (BS18477) (see pages 14 to 17). SSE has a number of initiatives to support customers with the cost of energy (see pages 14 to 19). SSE supports domestic and business customers to improve energy efficiency (see pages 14 to 19).
	7.3 By 2030, double the global rate of improvement in energy efficiency		
	7.A By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology		

 <p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>	8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries	SSE's business depends on a diverse portfolio of projects and a continued investment in both new and upgraded technologies. Strong national and local economies in the countries SSE operates in are important for good business growth and a healthy investment environment.	<ul style="list-style-type: none"> The safety of people working on its behalf is SSE's number one priority. SSE's TRIR for contractors and employees combined fell from 0.22 per 100,000 hours worked in 2016/17 to 0.20 in 2017/18 (see pages 44 to 45). SSE has been ranked the top company in the FTSE 350 for inclusive jobs growth by the Good Economy. See pages 32 to 35 for SSE's responsible employment ethos. SSE contributed £8.6bn and €806m to UK and Irish GDP respectively, and supported 103,250 jobs across these countries. SSE pays the real Living Wage to its employees in the UK and Ireland. Since April 2014, it has been rolling the Living Wage out through its supply chain. SSE's Open4Business portal awarded £12.9m to local suppliers and contractors (see pages 38 to 40). In 2017/18, SSE began implementing its new Inclusion Strategy for 2017 to 2020 (see pages 32 to 35). SSE's Human Rights Policy specifically respects the rights of its employees to join a trade union. 65% of SSE employees are covered by the negotiating agreements of the Joint Negotiating and Consultative Committee.
	8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	SSE believes in creating an inclusive and diverse workforce, which better reflects the society it operates in, and results in a higher quality of decision-making and improved company performance and productivity. SSE seeks to create long, sustainable careers and believes all its employees, including those in its supply chain, should be treated with respect and paid fairly for the work they do.	
	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access		
	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value		
	8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment		

HIGHLY MATERIAL SDGS	SDG TARGET	WHY THESE ARE IMPORTANT TO SSE	HOW SSE CONTRIBUTED IN 2017/18
 <p>Ensure sustainable consumption and production patterns</p>	12.2 By 2030, achieve the sustainable management and efficient use of natural resources	SSE's vision is to be a leading provider of energy and related services in a low-carbon world. It develops, owns and operates a diverse and sustainable portfolio of energy assets. This portfolio will focus on networks and renewables, with complementary flexible thermal generation.	<ul style="list-style-type: none"> SSE has an ongoing target to reduce average water use per person in non-operational buildings by 2.5% every year. In 2017/18, SSE surpassed this target (see page 27). SSE has invested £11.8m since 2011/12 on energy efficiency and renewable technologies in its buildings and depots. During 2017/18, investments included new cooling systems at one of SSE's call centre sites, resulting in an emissions reduction of over 350tCO₂. SSE set a new carbon target for non-operational buildings: to reduce carbon emissions by 5% every three years up to 2030. SSE committed to work towards buying renewable energy (that is certified) for its own use by 2020. SSE joined the Powering Past Coal Alliance, which brings together governments, businesses and organisations working to phase out traditional coal power by 2030. SSE's strategy is to shift from a portfolio weighted towards coal and gas, to one weighted towards renewables with complementary flexible thermal generation.
	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	SSE uses and relies on a number of natural resources during construction and operational activities. It must therefore use these resources efficiently to minimise waste and negative environmental impacts, and maximise positive impacts where possible.	

MATERIAL SDGS	WHY IT'S IMPORTANT TO SSE AND HOW SSE CONTRIBUTED IN 2017/18
 <p>Achieve gender equality and empower all women and girls</p>	The energy industry is a traditionally male-dominated sector. While SSE's proportion of female employees is higher than the sector average, at 31% it still has a lot of work to do to attract more women into its business and ensure many of the roles women come into have good earning and progression potential. SSE's In, On and Up strategy is aimed at promoting gender diversity within the company and closing SSE's gender pay gap, which it published well ahead of UK Government requirements again in 2018. SSE has also set three new gender balance ambitions for its most senior levels in the organisation. In 2018, SSE was also one of just six UK companies to be included in the inaugural Bloomberg Gender-Equality Index and was ranked the top utility in the FTSE Women on Boards Leadership Index Series (see pages 36 to 37).
 <p>Reduce inequality within and among countries</p>	Inequality has a negative impact on inclusive economic growth. As a British and Irish company, SSE has a vested interest in the long-term success of these countries, and believes this will be best achieved with economic growth that shares social value and is geographically balanced across both urban and rural areas. SSE's operations reach some of the most remote areas, meaning economic value can be shared with those outside of major cities (see pages 20 to 21). The company has also begun implementing its new Inclusion Strategy for 2017 to 2020 which aims to ensure equal opportunities are offered to everyone (see pages 32 to 37). Paying the Living Wage to employees in the UK and Ireland is core to SSE's approach of reducing inequality, ensuring all employees are paid a wage they can live on rather than survive on. Since April 2014, it has been rolling the Living Wage out through its supply chain. In early 2018, SSE was ranked number one in the FTSE350 for inclusive job growth in Britain.
 <p>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</p>	SSE recognises that the natural environment has an essential role in sustaining society, and works to manage its impacts on biodiversity and the natural world in a responsible and sustainable way. SSE published its Biodiversity Report 2017 which details the measures SSE is taking to protect, restore and enhance biodiversity (see page 27). SSE's distribution business has also developed an innovative Sustainability Cost-Benefit Analysis methodology for different methods of upgrading submarine electricity cables, assessing the impacts on society, the environment and the economy (see page 30). One of the environmental impacts looked at is change in seabed natural capital value.

RESPONSIBLE SERVICE PROVIDER

SSE has around 8 million Retail customers across the UK and Ireland, from domestic to business energy customers. It also serves around 3.7 million customers through its Networks business across the north of Scotland and central southern England. SSE seeks to do the right thing for its energy customers, and keeps a strong operational focus on meeting their changing needs. This is especially important in light of the planned SSE Energy Services transaction which, subject to regulatory approval, will see demerging of SSE's GB household retail business and merging it with npower.

DOMESTIC CUSTOMERS

SSE is one of the largest energy suppliers operating in the competitive energy markets in Great Britain and Ireland. It provides energy and energy related services to around 7 million domestic customers through SSE Retail (Great Britain) and SSE Airtricity (island of Ireland). It also provides other related products and services, including telephone, broadband and boiler care, to 0.45 million household customers. The scale of change in the household energy supply and services market in Great Britain is especially notable, with a rapidly evolving competitive landscape and fast-changing expectations of customers, regulators and other stakeholders.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
RETAIL CUSTOMER COMPLAINTS TO THIRD PARTIES (GB)¹	Number	1,616	1,322
USWITCH OVERALL CUSTOMER SATISFACTION RATING²	%	71	76
SATISFACTION AMONGST DOMESTIC CUSTOMERS WITH SERVICE PROVIDED BY SSE AIRTRICITY (ROI) (GAS/ELECTRICITY)³	%	n/a	92/88
CUSTOMERS WHO HAVE RECEIVED ASSISTANCE FROM SSE THROUGH WARM HOMES DISCOUNT SCHEME (WHD) IN GB	Number	352,677	359,505 ⁴

1 Ombudsman: Energy Services and Citizens Advice.

2 The uSwitch independent survey asks energy customers to rate energy suppliers in a number of areas, including customer service, online service and value for money.

3 From the Commission for Energy Regulation (CER) consumer survey reports. Results for 2017/18 will be available later in 2018. 2015/16 results for comparison: 85/89.

4 The Warm Homes Discount scheme usually runs between 1 June and 31 March annually. The 2016/17 scheme was delayed while awaiting new regulations, and was open between 23 July 2016 to 31 May 2017.

ENERGY PRICES

SSE seeks to keep energy prices as low as possible for as long as possible. In April 2017, SSE implemented its first price increase for three and a half years and increased electricity prices for household customers in GB by an average of 14.9%, with gas prices held at previous levels (equating to a 6.9% increase for a dual fuel customer). At the same time, SSE established a one-off £5m fund to provide financial assistance to vulnerable customers, prioritising those using electricity to heat their homes. In May 2018, SSE Energy Services took the difficult decision to raise standard electricity and gas prices for household customers in GB. The change will increase a typical dual fuel bill by an average of 6.7%, effective from

11 July 2018. These price rises reflect the increasing cost of supplying energy and the cost of delivering vital government programmes and upgrading Britain's energy infrastructure.

In NI, SSE Airtricity increased household electricity prices by 7.5% from 1 October 2017 while in ROI electricity prices increased by 5.6% from 1 November 2017. These were the first such increases in both markets since 2013 and were a result of increases in the cost of supply including wholesale and regulated networks costs.

On 1 April 2018, SSE Airtricity increased its regulated natural gas prices in NI by 7.8% for home and small business customers. This increase was examined and approved by the NI Utility Regulator.

SSE supports customers with the cost of their energy bills in a number of ways, including: providing energy efficiency advice, and rolling out the government mandated schemes which help customers with the cost of energy bills or energy efficiency, such as the Warm Homes Discount (WHD) and Energy Company Obligation (ECO) schemes.

TAKING STEPS TO REDUCE CUSTOMERS ON STANDARD VARIABLE TARIFFS

SSE has listened carefully to the public and political debate around the role of Standard Variable Tariffs (SVTs) in the GB energy market. Many customers do actively choose a variable product, but aspects of them have become subject to negative feedback from stakeholders, and SSE shares the UK

Government's aspiration for greater customer engagement around this product. SSE proactively communicates with all customers coming to the end of their fixed term tariffs to ensure they are aware of this change and to prompt them to consider which energy tariff is most suitable for their needs, but believes that there is more that could be done.

In November 2017, SSE broke from current industry-wide practice around SVTs and announced that in early 2018/19 it will no longer automatically roll customers onto SVTs once they have come to the end of their fixed term contracts. Instead, SSE intends to move customers onto an equivalent or cheaper fixed term tariff, which would fix prices for 12 months with no exit fees. SSE is also exploring the possibility of no longer selling SVTs at all unless a customer specifically requests it – though this would be subject to further discussion with the energy regulator, Ofgem. SSE anticipates that these changes, along with continued efforts to engage customers with proactive communications, will accelerate the reduction in the number of SSE customers on SVTs.

SMART METER ROLL-OUT

The UK's smart meter roll-out represents an opportunity to transform the relationship between customers, their energy supplier and the energy they consume. SSE remains committed to delivering on its obligations under the roll-out in a way that is safe, minimises costs, and maximises benefits for customers by engaging with them about their energy use and how smart meters can reduce their energy use and save them money. Over 2017/18, SSE connected 474,850 domestic smart meters in customers' homes, bringing SSE's total smart meters on supply to more than 850,000.

Despite ongoing challenges associated with the availability of key enabling technology, generating demand from customers and timing the ramp-up of its workforce, SSE delivered against its binding targets agreed with Ofgem for 2017. Given the degree of complexity and up-front investment costs involved, SSE has consistently argued that the roll-out of smart meters and associated targets should be kept under review so that pragmatic, informed decisions can be made that lead to the highest possible net benefits to customers from the programme as a whole.

DELIVERING EXCELLENT SERVICE FOR CUSTOMERS

Energy is an essential service and customers put their trust in SSE to provide them with a reliable supply and rightly expect first class service. In 2017/18, SSE signed up to the UK Energy Switch Guarantee and the Energy UK Billing Code. These commitments have helped maintain a strong performance in the Citizens Advice energy supplier rating, including SSE once again being identified as having the lowest levels of complaints to third parties amongst the major energy suppliers in GB. In 2017, SSE set a new company record in the Citizens Advice Energy Supplier Performance report for complaint handling.

Understanding customer needs is an essential part of delivering excellent service. In 2017/18, SSE senior managers met regularly with customers in SSE's Customer Forums and the company has engaged with over 60,000 consumers through a programme of research which includes its 3,000-strong online Customer Connect community.

SSE Airtricity has also continued to deliver value to existing and new home energy customers, while enabling further investment in improved services such as digitised offerings, including the introduction of a new video-chat customer channel. SSE Airtricity was named Best for Customer Service in February 2018 for the second year running by leading Irish internet comparison site Bonkers.ie.

INCLUSIVE SERVICE PROVISION FOR RETAIL CUSTOMERS

SSE remains mindful of its responsibilities in respect of supporting customers in vulnerable circumstances. It works hard to drive improvements in its services and deliver fair treatment to Retail customers. It also offers vital support through SSE's partnerships with SignVideo, Language Line and StepChange Debt Charity.

One of SSE's key commitments for 2017/18 was attaining the British Standard for inclusive service provision for its Retail business, which is widely regarded as the 'gold standard' in recognising and adapting service to customer vulnerability in all its forms. SSE achieved the Standard in March 2018, making it one of the first

major energy suppliers to achieve the verification.

Work towards achieving the Standard involved undertaking an 18-month review and improving processes in its complaints, credit management and sales functions. As a result, SSE has the ability to take an objective view of a Retail customer's personal circumstances and provide a service that suits their individual needs.

Improvements made, include: extending the opening times of phones lines making it easier for customers to get in contact; earlier escalation of complaints to ensure the root causes of common themed complaints are addressed; and appointing a new Director of Customer Experience, responsible for ensuring SSE provides the best possible experience for all customers.

In Ireland, during 2017/18 SSE Airtricity launched 'Train the Trainer' workshops facilitated by the Alzheimer's Association of Ireland, which focused on helping customer service employees communicate with vulnerable customers with dementia. The learnings from these initial workshops will now be included as standard in SSE Airtricity training for employees involved in door-to-door sales and for those interacting with customers over the phone.

MORE THAN
850,000
SMART METERS ON SUPPLY



DILEMMA: DOMESTIC GAS AND ELECTRICITY (TARIFF CAP) BILL

In March 2018, the UK Government confirmed that the Domestic Gas and Electricity (Tariff Cap) Bill would be introduced to Parliament. If the Bill receives Royal Assent, it will cap standard energy prices until at least 2020. SSE shares the Government's aim of ensuring all customers receive a fair deal for their energy and excellent customer service. However, it believes that competition, not price caps, will most benefit customers in the long-term.

SSE is working constructively with government, Ofgem and wider stakeholders to help ensure the methodology used to set the level of the cap is workable. SSE believes that existing methodology used by Ofgem to set price caps for smaller groups of customers (such as prepayment meter customers) does not accurately reflect the costs of supplying energy in a responsible and sustainable way. Since the prepayment meter cap was introduced, a significant decrease in switching rates for these customers has also been seen. If a market-wide price cap has the same effect on a larger scale, the cap could become self-perpetuating, discouraging switching and actively work against effective competition.

An absolute price cap is a significant market intervention and, if introduced, has the potential to undermine progress which has already been seen in the GB energy market, such as increasing competitiveness, progress in the smart meter roll-out and switching times being drastically cut. It is vital steps are taken to ensure customers are protected from any unintended consequences that may arise from the price cap, including stifling competition and deterring potential new entrants and investment.

DISTRIBUTION NETWORKS CUSTOMERS

Scottish and Southern Electricity Networks (SSEN) is responsible for maintaining the electricity distribution networks supplying 3.7 million homes and businesses across the north of Scotland and central southern England. A fundamental responsibility of SSEN is to 'keep the lights on' for its customers, and it must do this in a responsible way that ensures it meets the needs of all its customers.

PROVIDING LEADING CUSTOMER SERVICE

SSEN has implemented significant improvements to its customer services operations over 2017/18. To benchmark performance against leading customer service providers, it has become a member of the Institute of Customer Service and continues to look across a range of sectors to help it achieve its ambition to be recognised for providing leading customer service.

SSEN has been developing its services to become more customer-focused and inclusive, including evolving its welfare services and enhancing marketing and communication channels to enable greater customer feedback. It has also worked to develop partnerships with many charities and organisations including the NHS, Home Energy Scotland and Dementia Friends in a bid to constantly improve and tailor its customer services.

SSEN also remains fully committed to supporting its customers who require extra help. Between 2016/17 and 2017/18, it significantly increased the number of customers on its Priority Services Register (PSR) from over 487,000 to around 574,000. SSEN continues to look at innovative ways of reaching these customers, from its vulnerability mapping tool, to working with external partners and trusted intermediaries. A key challenge continues to be identifying customers who are eligible for support through its PSR.

INCLUSIVE SERVICE FOR NETWORKS CUSTOMERS

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. In 2017/18, SSEN took further steps to ensure its customer service and support is truly inclusive and accessible for everyone, hosting the inaugural meetings of its external and internal Inclusive Service Panels.

The panels are chaired by a leading expert in inclusion and diversity and are scheduled to meet at least three times every year. The internal panel consists of 16 colleagues, while the external panel has four members, each of whom brings a vast range of work-life experiences including mental health, physical disability, equality, occupational health, religious diversity, and the LGBT community. By learning from the panel members' expertise, experiences, backgrounds and knowledge, SSEN is checking all aspects of its business to ensure that it not only continues to do the right thing for all its customers, but also continues to develop its commitment to delivering a truly inclusive culture within its organisation.

As part of ensuring it continues to provide an inclusive service, SSEN must also consider wider stakeholder needs and expectations in its decision-making. SSEN has established an independent Stakeholder Advisory Panel working alongside its Board, and during 2017/18, held major stakeholder engagement events for each of its three licenced electricity networks, which allowed feedback to be gathered around performance and will result in changes to SSEN's practices and priorities during 2018/19.

CASE STUDY: ENHANCING CUSTOMER COMMUNICATIONS

SSEN realises that when it comes to communicating with customers and understanding their needs, there is no 'one size fits all'. A key challenge for SSEN, is to ensure it shapes communications so it can speak to customers when and where they need, and in the format they want. In 2017/18, SSEN teamed up with London Sustainability Exchange (LSx) as part of its ongoing commitment to enhance customer communication. LSx is a "think and do" charity that works closely with culturally diverse communities to share tools and techniques, so they can develop their own solutions to issues such as fuel poverty and climate change. Their previous work with utility companies - helping connect organisations and individuals - led to SSEN setting up a workshop with LSx to explore how the distribution network operator could improve communications with different faiths and minority groups across its central southern England patch.

The LSx Faith and Utilities project is empowering community champions to reach out through faith networks to provide energy advice, from understanding bills to accessing grants and support schemes such as the PSR. As part of this project, LSx worked with SSEN employees to enhance customer communications. This allowed SSEN to explore opportunities for better engagement with communities, faiths and groups that may have been traditionally harder for larger organisations to reach out to.

Held at SSEN's West London depot, a group of employees from a variety of roles including Customer Community Advisors, Engineering, Project Management and Social Inclusion worked with LSx to identify possible communication challenges and solutions, how potential language barriers could be broken down and how SSEN's mapping tools could help identify customers who might need additional help during power cuts or planned outages.

BUSINESS ENERGY

Modern businesses depend on energy and on a wide range of services for their day-to-day activities. Through Business Energy, SSE provides energy and energy-related services to customers across the UK and Ireland. Recognising that no one company is the same, Business Energy focuses on offering tailored services to meet individual client needs.

SSE Business Energy provides energy and related services to around 500,000 customers; a broad and diverse range of clients from micro-businesses to large multi-national corporates. It helps customers buy energy in the way that best suits their business, and backs this up with a solid portfolio of energy management and optimisation services.

ENCOURAGING SUSTAINABLE BUSINESS GROWTH

As well as providing tailored energy efficiency advice to its customers, SSE Business Energy offers a 100% renewable energy tariff – SSE Green. It supplies renewable electricity matched to Renewable Energy Guarantee of Origins (REGOs), certifying that the purchased electricity has been generated exclusively through a portfolio of wind and hydro assets. This allows organisations to report zero emissions for their purchased electricity. Between April 2017 and April 2018, the number of SSE Green customers increased by 173%.

With social conduct becoming increasingly important to the sustainability of businesses, SSE understands that customers value not just its service and products, but also the knowledge that it pays a fair share of tax, pays its employees a Living Wage, and is investing in reducing its carbon footprint. By actively sharing its experience and knowledge of taking a responsible approach to business, SSE can help its customers to be more sustainable, and create long-term value.

SSE Business Energy promotes the real Living Wage and the benefits of Fair Tax Mark accreditation to its customers. In the first initiative of its kind, in 2017, SSE Green customers were eligible to have the cost of Living Wage and Fair Tax Mark accreditation supported by SSE. This means SSE has been able to support its customers in their work to enhance the sustainability of their own businesses.



BUSINESS ENERGY IN IRELAND

Over 2017/18, SSE Ireland Business Energy supported over 268 commercial projects to a value of €3.4m, with 113GWh of primary energy equivalent (PEE) energy savings worth over €5m in cost savings. The types of support SSE Ireland Business Energy has lent to these projects range from project management, installation of energy efficiency technologies, assisting with grant applications to financial support. An example of support includes saving 4.5GWh of PEE for a biomedical company through the installation of a combined heat and power (CHP) plant and upgraded lighting to become more energy efficient.

CASE STUDY: HELPING BUSINESSES BIG AND SMALL GO GREEN

Through its SSE Green energy tariff, SSE Business Energy is supporting companies across the country to switch to greener energy and improve their carbon footprint – from sole traders to some of the largest companies in the UK.

Perthshire-based, small business owner Robin Baker switched to SSE's Green energy tariff to improve his architect firm's carbon footprint while also giving his business a competitive edge. The architect has always had to consider the environmental impact of his designs, and by choosing SSE Green he could lower his firm's carbon footprint with a product that supported the general ethos of the way the company does business.

On a national scale, Whitbread is the UK's largest hospitality company, owning brands such as Premier Inn and Costa Coffee. Whitbread switched to SSE Green in 2017 to improve the carbon footprint of its business. SSE Green is an integral part of the company's sustainability journey and in helping it meet its 2020 carbon reduction target.

ENTERPRISE

SSE Enterprise delivers smart energy and telecoms solutions to a broad client base of business customers and public sector organisations across the UK and Ireland. To do this, SSE Enterprise has developed the capacity to build, own, operate and maintain assets. It is a diverse business comprising Contracting, Rail, Telecoms and Utilities. With public investment in infrastructure expected to have doubled in the decade to 2023, there are significant opportunities for SSE Enterprise to continue to grow and benefit from synergies across these markets, through its four businesses.



SSE Enterprise Contracting is one of the UK's largest mechanical and electrical contractors, offering a wide range of services from heating and air conditioning to power infrastructure and facilities management. It manages over one million street lamps throughout Britain and has installed over 650 electric vehicle charging points across London.



SSE Enterprise Rail is responsible for servicing parts of the rail network across the UK, maintaining and improving over 1,000 train stations. It has a unique service offering through its ability to be a local service provider, whilst retaining the capability to bid for work on major infrastructure projects, by drawing on the experience of SSE Group.



SSE Enterprise Utilities installs, operates and maintains cable and pipe networks delivering electricity, gas, and heat and cooling to existing and new industrial, commercial and residential developments across Britain. It is currently developing new energy models built around distributed generation, which can optimise energy demand and supply for customers.



SSE Enterprise Telecoms offers businesses bespoke connectivity solutions. It operates 13,700km of private telecoms network stretching across the UK and provides connectivity to over 80 commercial data centres. SSE Enterprise continues to accelerate new network development to help bring major UK data centres "on net" and expand its commercial footprint throughout the UK.

CASE STUDY: INNOVATIVE URBAN SOLUTIONS

SSE Enterprise has been addressing infrastructure challenges across London through a diverse range of projects.

Supporting the city to green its transport, SSE Enterprise Contracting has installed over 650 electric vehicle charging points across London, and a major electric bus charging facility at Waterloo Bus Depot, assisting the deployment of London's zero-emission, single deck bus fleet. In February 2018, an SSE Enterprise-led consortium won funding to research how electric buses can use smart technology to support the power network.

To deliver resilient services for customers, SSE Enterprise Telecoms has partnered with Thames Water to deploy fibre in London's waste water system. Using the existing infrastructure, the network can be installed up to ten times faster, with reduced disruption and delivery cost.

With decarbonisation critical, SSE Enterprise Utilities has been designing low-carbon utility networks at the Riverlight development in Vauxhall. Using a mix of ground source heat pumps, gas fired boilers and combined heat and power (CHP), to significantly reduce the development's carbon footprint.

DILEMMA: BALANCING BUSINESS OBJECTIVES

SSE owns and operates a diverse range of businesses which, at times, can have competing priorities. One of the most critical dilemmas across the Group is its response to ensuring the correct infrastructure exists to support the UK Government's drive to transition to low-emission vehicle use.

New electric vehicle (EV) charging infrastructure has the potential to put pressure on the electricity network, both at a national level and on the local grid system. With the UK's electricity networks already at capacity in many areas, meeting demand for new EV infrastructure is a difficult challenge for network operators like SSEN. On the other hand, installing EV infrastructure is a key part of SSE Enterprise's business.

Recognising the challenge of grid capacity, SSE Enterprise is finding ways of innovating in this area to limit the impact to local networks. SSE Enterprise played a pivotal role in the deployment of London's first large-scale, zero-emission, single deck bus fleet – the largest of its kind in Europe. To accommodate the fleet and 43 charging points, SSE Enterprise designed intricate electrical infrastructure and worked with partners Go-Ahead and BYD to develop a managed charging program to limit the depot's impact on the grid. The buses at the Waterloo depot predominantly charge overnight, when demand is low.

As the number of EVs across the UK and Ireland continues to grow, SSE Enterprise must find more ways of meeting this demand through innovative and bespoke solutions. Working with clients and partners will be essential to delivering the EV agenda in a sustainable and cost effective manner.

» Read more about SSEN's response to EVs on page 30.

RESPONSIBLE SOCIETY MEMBER

A good business should deliver more than just financial results – it should create wider benefits which help sustain a healthy and balanced economy and society, an environment in which long-term business success is most likely to be achieved. SSE understands the deeply interconnected relationship between its business and the society it serves, and is part of. It relies on society to operate successfully and, in return, SSE fulfils its social contract by creating and sharing value with society.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
CONTRIBUTION TO GDP (UK/IRELAND)¹	£bn/€m	8.6/806	9.3/779
JOBS SUPPORTED (UK/IRELAND)²	Number	99,000/4,520	103,720/4,720
EMPLOYEE PRODUCTIVITY COMPARED TO NATIONAL AVERAGES (UK/IRELAND)³	Number:1	2.6:1/2.3:1	3.1:1/2.4:1
TAXES PAID (UK/IRELAND)	£m/€m	484.1/22.6	385/16.5
INVESTMENT IN COMMUNITIES⁴	£m	6.5	6.9

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

2 Measured as headcount, from PwC analysis.

3 Based on GVA per capita and data provided by the UK's Office for National Statistics (ONS) and Ireland's Central Statistics Office (CSO), from PwC analysis.

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

CONTRIBUTING TO GDP AND JOBS

SSE's contribution to GDP goes far beyond the profit it makes. SSE is one of the few FTSE companies to report its wider contribution to the economies it operates in each year alongside its financial results. In 2017/18, SSE earned just over £1.8bn in operating profit yet contributed £8.6bn to the UK economy, of which £1.8bn was contributed to the Scottish economy, and a further €806m to the Irish economy through its operations and supply chain spending. This means SSE was responsible for contributing 0.5% of total UK GDP, 1.4% of total Scottish GDP and 0.3% of total Irish GDP in 2017/18.

SSE has been calculating its economic contribution with professional services firm PwC since 2011/12. Over these seven years, SSE's annual economic contribution has remained relatively consistent, totalling £65.2bn in the UK, of which £11.1bn has been in Scotland, and €6.0bn in Ireland (in 2017/18 prices) over this period.

Many jobs across the UK and Ireland are also supported as a result of SSE's economic activity. In 2017/18, PwC estimated SSE

supported around 99,000 UK jobs as well as 4,520 jobs in Ireland.

Full disclosure of SSE's annual economic contribution from 2011/12 to 2017/18 in the UK and Ireland can be found on sse.com/beingresponsible.

LEADING FTSE ON FAIR TAX

The payment of taxes underpins good public services. SSE believes that paying a fair share of tax is an essential part of any business' social contract and to demonstrate meaningful support for the United Nations Sustainable Development Goals. In 2017/18 SSE achieved the Fair Tax Mark for the fourth consecutive year. This accreditation is independent verification that SSE pays the right amount of tax in the right place, at the right time.

SSE paid £484.1m in taxes to the UK Government and €22.6m to the Irish Government in 2017/18. Since becoming Fair Tax Mark accredited four years ago, SSE has paid £1.8bn in taxes to the UK Government and €74.4m to the Irish Government, helping support public services across these countries. In 2017/18,

SSE also collected a further £455.8m in tax on behalf of the UK Government and €56.9m on behalf of the Irish Government through its operations, bringing its total tax contribution in that year to £939.9m in the UK and €79.5m in Ireland.

Recognising the technical nature of company tax affairs, SSE's 'Talking Tax' report on sse.com/beingresponsible provides accessible disclosure of SSE's approach to tax, its policies and processes, with full breakdown of SSE's payment of taxes into different categories by jurisdiction. It does this because it recognises that the apparent tax avoidance of some corporations is contributing to a culture of distrust between the public and big businesses, which is damaging to business sustainability.

PRESERVING SSE'S HERITAGE FOR FUTURE GENERATIONS

SSE's heritage is rooted in the hydro-electric revolution in the north of Scotland that began in the 1940s and the rapid development of electricity networks in central southern England in the 1950s and beyond. The electricity pioneers within SSE's predecessor companies made a

hugely important contribution to the social and economic heritage of those parts of the UK. Preserving that story and enabling public access to the archives and collection of artifacts is important to SSE.

SSE's Pitlochry Dam Visitor Centre, a £4m purpose-built visitor centre promoting the heritage of hydro-electricity, opened in January 2017. In its first year of operation it welcomed around 140,000 visitors, well in excess of the 88,000 originally anticipated. And in Christchurch, the location of a former power station of significant built-heritage value, SSE opened the doors in early 2018 to local children and stakeholders to view the building and the collection of electrical artifacts it stores. In Pitlochry, SSE's archive of company documents from the 20th century is also open by appointment to historical researchers and interested public.

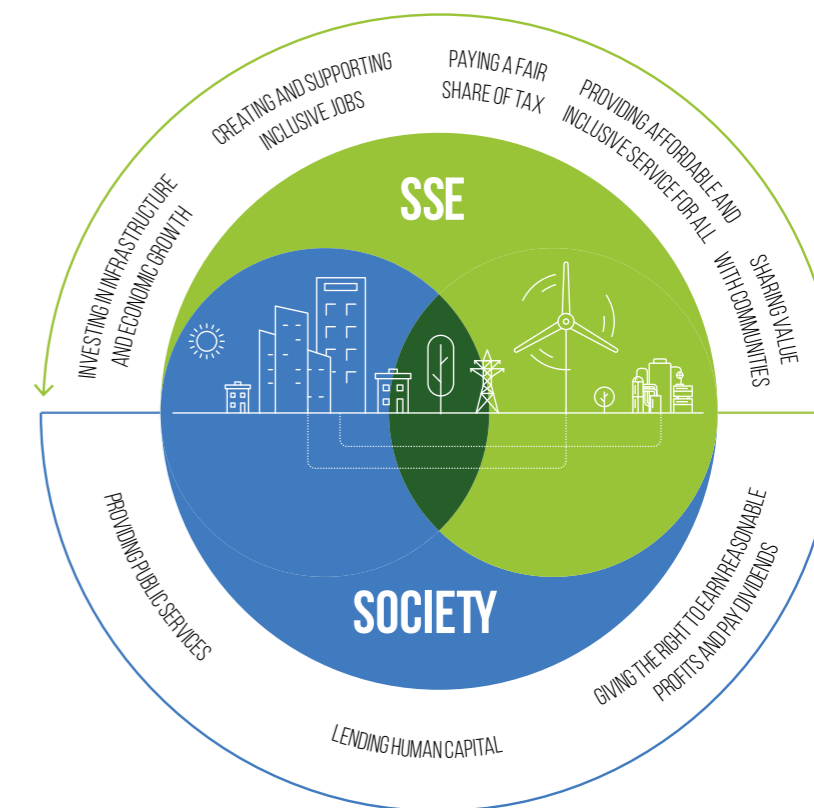
SUPPORTING COMMUNITIES

SSE is a large private funder of community projects across the UK, and one of the top five Irish companies providing financial support to voluntary and community organisations across the island of Ireland⁵. In 2017/18, SSE's community investment totalled over £6.5m across these countries. This contribution includes SSE's Community Investment Funds, the SSEN Resilient Communities Fund, charitable donations and the financial value of SSE's employee volunteering.

COMMUNITY INVESTMENT FUNDS

SSE provides funds to the communities near its renewable developments in the UK and Ireland. In 2017/18 these funds provided £5.12m and €667,000 in the UK and Ireland respectively to help support over 700 projects which promote resilient and thriving communities.

SSE is committed to ensuring its funds provide a lasting legacy for the communities they support, which is why it takes both a local and regional approach to funding. It does this through its Sustainable Development Fund which provides funding for transformational projects in the wider regions, in addition to SSE's local community funds. SSE is also one of the few wind farm developers to administer its community funds in-house. This enables it to remain directly connected to the communities for the lifetime of the funds, supporting communities develop strong investment strategies and helping local decision-making panels to invest funds wisely.



SSE recognises that due to the nature of the funds, many of the communities that benefit from the funds are located in very remote places and, as such, have a wide range of different requirements for their local area. Over 2017/18, SSE undertook extensive consultation with communities near its new Galway Wind Park⁶, Ireland's largest onshore wind farm, so that local people played a key role in determining the structure of the fund. Unlike all other SSE community funds, the fund at Galway Wind Park will be split into three elements – a Local Community Fund, a Major Projects Fund and a Scholarship Fund – with the Local Community Fund launching in March 2018.

Further information about SSE's community funds and the processes in place to distribute value fairly can be found within SSE's annual community investment reviews which are published on sse.com/beingresponsible.

RESILIENT COMMUNITIES FUND

SSEN has confirmed continued support for its grant-making Resilient Communities Fund until at least 2023, using 33% of the incentive it receives from the industry regulator Ofgem. Following stakeholder consultation, in 2017 the fund was enhanced to include support for building community capacity to cope with an

emergency incident or event, and to prioritise the resilience of vulnerable people. In 2017/18, the fund invested £509,702 across 77 different projects in SSEN's network region.

VOLUNTEERING AND MATCHED FUNDING

SSE values the importance of employees giving back to their local communities, and offers them the opportunity to volunteer a working day each year through its 'Be the Difference' programme. In 2017/18, SSE employees volunteered 2,387 days, supporting over 850 projects across the UK and Ireland, and SSE was also named as the first employer in Scotland to achieve the UK quality standard Investing in Volunteers for Employers (liVE). The liVE award assessed all aspects of SSE's volunteering programme, with assessors noting the commitment to the programme shown at all levels of the company.

SSE also matched employee fundraising up to £150 in the UK and €200 in Ireland in 2017/18. In 2017/18 it provided £44,661 in charitable donations through its matched funding initiative.

5 Business in the Community Ireland analysis.

6 Galway Wind Park Phase 1 (64MW) is owned and financed by SSE while Phase 2 (105MW) is a 50/50 joint venture between SSE and Coillte.



CASE STUDY: WORKING RESPONSIBLY IN IRELAND

In November 2017, SSE Ireland was certified with the Business Working Responsibly Mark, the only accreditation for Corporate Responsibility and Sustainability in Ireland, which was created by Business in the Community Ireland (BITCI). The Mark assesses evidence of best-practice in leadership, policies, practices, performance, and impact, across areas including governance, workplace issues, innovation and business operations, environmental practices, supply chain management and engagement with the local communities. It is based on ISO 26000, the international standard for social responsibility, and is independently audited by the National Standards Authority of Ireland.

SSE Ireland is one of just 29 Irish companies that have been certified to the standard of the Business Working Responsibly Mark. As a result of gaining the Mark, SSE Ireland is now a key member of BITCI's Leaders' Group on Sustainability, a coalition of businesses committed to addressing sustainability priorities and opportunities for Ireland. Three key sustainability challenges for Ireland were identified through the Leaders' Group, and SSE Ireland sits in the sub-group for two of these challenges, Low-carbon Economy and Social Cohesion. See page 26 for information about SSE Ireland's contribution to the Low-carbon Economy and page 35 for SSE's contribution to Social Cohesion.

DILEMMA: THE FUTURE OF COMMUNITY BENEFIT IN THE UK

With the majority of government subsidies for onshore wind no longer available, the industry must ensure it can deliver projects which are financially feasible in a subsidy-free environment. Wind farm developers are therefore reviewing the community benefit funds made available to the communities close to renewable energy projects.

SSE's current community benefit policy in the UK is to provide £5,000 per MW of installed capacity per year, which was considered sector-leading when introduced in 2012 and tied in with the Scottish Government's 2012 good practice principles for onshore wind community benefits. As a responsible developer and community member, SSE is committed to maintaining its leading responsible approach in this area. However, when operating within a changing policy landscape, it must also take account of its objectives to ensure value is created in a sustainable way for both the business and communities.

In its Energy Strategy published in 2017, the Scottish Government committed to reviewing its current guidelines for community benefit and shared ownership to better reflect lessons learned, and current and future investment conditions. To support the review process, a steering group has been established. SSE is an active member of this new steering group, which is made up of community members, developers, policy experts and government. The challenge is for these groups to work together to take account of the needs of all parties.

SSE will continue to work with communities and other stakeholders over 2018/19 to explore options around shared ownership and other models of community funding for its future developments. It believes that no one size fits all, and that a package of benefits bespoke to specific communities should be developed to ensure value continues to be created and shared with these groups in a sustainable way.

RESPONSIBLE OPERATOR

SSE owns and operates over 11,160MW of electricity generating capacity and is one of the largest renewable energy operators across the UK and Ireland. As the owner and operator of electricity networks in the north of Scotland and central southern England, Scottish and Southern Electricity Networks (SSEN) is at the forefront of network development and operation. This will enable more renewable electricity to connect to the electricity grid at the same time as preparing for changes in electricity demand due to increased electrification of both the transport and heat sectors.

SSE's carbon and water data has been independently assured by PwC LLP. The assurance statement and the criteria used for reporting, along with SSE's submissions to the CDP Climate Change and Water Programmes, can be found at sse.com/beingresponsible.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
CARBON INTENSITY OF ELECTRICITY GENERATED	gCO ₂ e/kWh	307	304
SCOPE 1 CARBON EMISSIONS¹	ktCO ₂ e	10,155 ^(A)	8,004 ^(A)
SCOPE 2 CARBON EMISSIONS²	ktCO ₂ e	832 ^(A)	1,034 ^(A)
SCOPE 3 CARBON EMISSIONS³	ktCO ₂ e	10,621 ^(A)	10,357 ^(A)
TOTAL CARBON EMISSIONS	ktCO ₂ e	21,609 ^(A)	19,395 ^(A)
TOTAL WATER CONSUMED	Billion m ³	0.008 ^(A)	0.005 ^(A)
TOTAL RENEWABLE GENERATION OUTPUT (INC. PUMPED STORAGE)	GWh	9,428	7,955
TOTAL GENERATION OUTPUT	GWh	33,098	26,296

1. Direct greenhouse gas emissions occurring from sources owned or controlled by the company.
 2. Indirect greenhouse gas emissions from the generation of purchased electricity consumed by the company.
 3. Indirect greenhouse gas emissions resulting from a company's activities but which occur from sources not owned or controlled by the company.
 (A) SSE's GHG data has been independently assured by PwC LLP. The assurance statement and the criteria used for reporting, along with SSE's submission to the CDP Climate Change Programme, can be found at sse.com/beingresponsible.

UK CLIMATE CHANGE ACT 2008

Aims to reduce GHG emissions by at least 80% of 1990 levels by 2050

IRELAND'S ENERGY WHITE PAPER

Targets an 80% to 95% reduction in greenhouse gases emitted from the energy sector compared with 1990 levels.

THE PARIS AGREEMENT

Aims to keep global temperatures to well below 2°C and aims to limit temperature changes to 1.5°C of pre-industrial levels.

A STRATEGY FOR SUPPORTING THE LOW-CARBON TRANSITION

At the heart of SSE's strategy is a commitment to contribute substantively to the transition to a low-carbon electricity system.

Both the UK and Ireland ratified the Paris Agreement in 2016, committing to undertake ambitious efforts to combat climate change and adapt to its impacts. In the UK, there is ongoing consensus to meet the ambitions of the 2008 Climate Change Act, exemplified by the work of the UK Committee on Climate Change (CCC) and by the content of the UK Government's Clean Growth Strategy. The

Ireland Energy White Paper reaffirmed the Irish Government's commitment to decarbonising the energy mix through specific actions to achieve its 2050 target.

Within this context, SSE has considered its operational portfolio and established a strategy consisting of three key actions which will support the transition to a low-carbon electricity system:

1. Investing significantly in renewable energy: SSE has the largest renewable energy capacity across the UK and Ireland at around 3.8GW (inc. pumped storage), over 500MW of which was connected in 2017/18, and its output from renewable sources increased from

7.9TWh to 9.4TWh between 2016/17 and 2017/18. SSE has invested over £3.5bn in renewables since 2010 and has committed to investing significantly in renewables over the next five years.

2. Moving from a portfolio weighted towards coal and gas, to one weighted towards renewables and complementary flexible thermal generation: SSE has joined the Powering Past Coal Alliance and pledged to phase out all coal-fired generation, in line with UK Government policy of phasing out unabated coal by 2025, but believes ongoing gas generation will still play an important role in enabling a flexible and reliable low-carbon electricity system. In 2017/18 coal-fired generation contributed around 4% of SSE's total generation output, renewable generation (inc. pumped storage) contributed 28%, and gas- and oil-fired generation contributed 66%, of which the vast majority came from Combined Cycle Gas Turbine (CCGT) generation.

3. Enabling more renewable generation to connect to the electricity network: SSEN plays an essential role in enabling the electricity generated by renewables to reach homes and businesses across GB. SSE has invested over £2.3bn in new electricity transmission infrastructure since the current price control period began in 2013. In 2017/18, around 400MW of new renewable generation capacity was connected.

CARBON EMISSIONS PERFORMANCE

In 2017/18, SSE's total carbon emissions (scope 1, 2 and 3) increased by 11% compared to the previous year. This was largely a result of a 27%

rise in scope 1 emissions, which contributed 47% of SSE's total carbon emissions, due to increased thermal generation output during 2017/18 resulting from the unusually cold weather across the country.

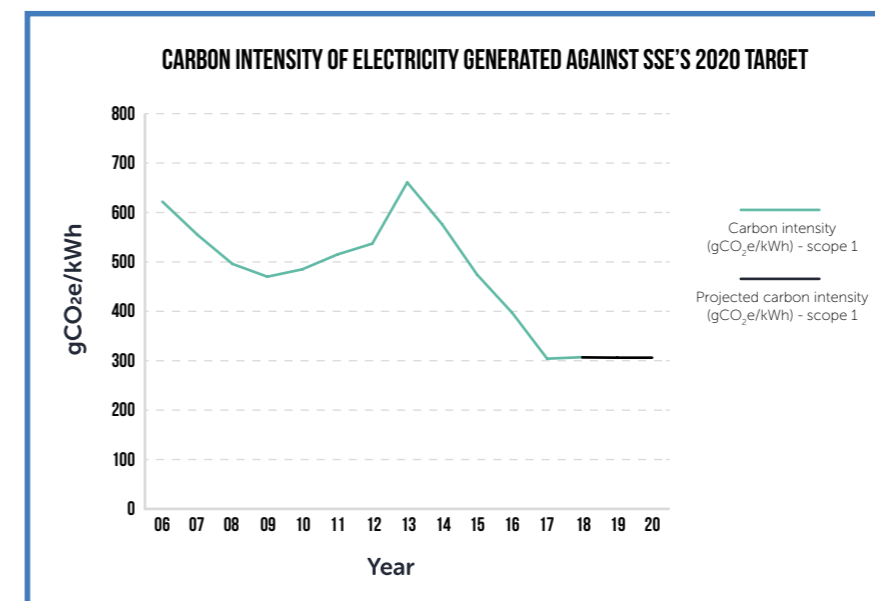
Scope 3 emissions, which contributed 49% of SSE's total carbon emissions, also increased by 2% over the period. This was a result of the rise in fuel purchased due to increases in thermal generation output, increasing upstream emissions associated with the extraction, refining and transport of raw fuels purchase.

Scope 2 emissions, which contributed only 4% of total carbon emissions, reduced by 20% mainly due to lower electricity losses on SSE's electricity networks and changes in carbon emission factors due to decarbonisation of the UK grid.

SSE has been responding to the CDP Climate Change Programme since 2008, and in 2017 was awarded a B for its performance.

CARBON INTENSITY OF SSE'S GENERATED ELECTRICITY

SSE's total generation output increased by 26% between 2016/17 and 2017/18. Therefore, despite the increase in scope 1 emissions, the carbon intensity of SSE's generated electricity increased only marginally from 304gCO₂e/kWh to 307gCO₂e/kWh over this period. This means that SSE's 2020 target to reduce the carbon intensity of its electricity generation by 50% compared to 2006 was met early for the second consecutive year.



DILEMMA: PATHWAY TOWARDS FULL TCFD DISCLOSURE

SSE has committed to meeting the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations by 2021. SSE believes these recommendations provide an important framework for companies to respond to investors' expectations on climate-related disclosure and in particular around financial disclosure and the use of scenario analysis.

The challenge for SSE, like most other companies, is that the recommendations require the development of new working practices. The TCFD framework requires a cross-functional approach, the internalisation of non-financial data by finance professionals, as well as the presentation of long-term trends which are highly uncertain. All of this is compounded by the fact that the methods and standards are still in development.

SSE believes that by publishing its *Post-Paris* report in the summer of 2017, it has started along this journey to full TCFD disclosure. The development of medium and long-term scenarios was a key feature of the *Post-Paris* report and is core to meeting the TCFD recommendations. However, it recognises more progress must be made, not least in presenting more financial information in its disclosures as well as being more open, comprehensive and insightful about its climate-related risks and opportunities.

The next steps SSE will take towards full TCFD compliance will include the development of its scenario analysis to include gas, and the completion of a gap analysis of current risk, governance and strategy against the TCFD framework. SSE will closely watch the developments by other companies and will listen to the views of stakeholders to develop its approach.

SETTING NEW CARBON INTENSITY AMBITIONS FOR 2030

SSE is now setting a new, longer term ambition for the carbon intensity of the electricity it generates. Meeting this ambition means that SSE's electricity generation carbon emissions are now forecast to be around 150gCO₂e/kWh by 2030, which represents a 75% cut based on its original 2006 baseline. While this target is consistent with the Paris Agreement, SSE anticipates its intensity will be above the average grid intensity of electricity generated in the UK in 2030 of between 50gCO₂e/kWh and 100gCO₂e/kWh which the CCC estimates is needed to meet UK carbon targets. SSE believes that the UK will be able to meet the CCC recommendation, since, while SSE's output may be above the UK average as a result of its mix of renewables and flexible thermal, other generators in the market, particularly nuclear ones, will have a carbon intensity significantly below the UK average.

↓ **50%**
BY 2030

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

SSE has also committed to establishing a low-carbon vision throughout its operations, products and services in Ireland, by signing up to Business in the Community Ireland's Low-carbon Pledge. The Low-carbon Pledge is the first dedicated public commitment generated by Irish business to lead on the transition to a low-carbon economy, by reducing Scope 1 and 2 carbon emissions intensity by 50% by 2030. The Pledge aims to help Ireland achieve its international commitments under the Paris Climate Agreement, and builds on Ireland's EU 2030 carbon emissions target to reduce carbon emissions by 30% relative to 2005 levels. SSE's commitment to the Pledge will also play an important role in supporting SSE plc meet its own 2030 carbon intensity ambition.

THE FUTURE OF FLEXIBLE THERMAL IN A LOW-CARBON WORLD

The UK government intends that electricity generated from unabated coal will be phased out of the UK electricity system by 2025. Although coal-fired generation still makes up a proportion of SSE's generation portfolio, SSE fully supports this decision and has joined the Powering Past Coal Alliance, a joint UK-Canada initiative launched in November 2017 at the UN Climate Change Conference, COP23. The Alliance brings together a diverse range of governments, businesses and organisations that are united in taking action to accelerate clean growth and climate protection through the phase out of traditional coal power by 2030.

The retirement of coal means that flexible gas-fired electricity generation has an important role to play in supporting the transition to a low-carbon UK electricity system. SSE's £350m investment in Keadby 2, a new combined cycle gas-fired generation station with world-leading efficiency, is expected to decrease carbon emissions for the overall GB electricity system by reducing the need for less efficient, more carbon-intensive, gas plant.

SSE also has 10 years' experience of working towards commercial demonstration of carbon capture and storage technology in the UK, which the UK Committee on Climate Change has highlighted the important role of in achieving carbon emissions targets in the longer term.

CLIMATE ADAPTATION

While the first response to climate change must be to take action to mitigate it, the second response must be to adapt to changes in weather patterns in order to protect assets, systems and people. This is reflected in SSE's approach to risk management and seeking future business opportunities.

SSE has identified that the material risk of climate adaptation is on its transmission and distribution business where extreme weather events pose risk to the resilience of the network. As a result, SSE continues to invest in maintenance and emergency response solutions, such as new technology that identifies faults on the lines, tree cutting along networks, resilience funds for local communities to support adaptation initiatives, and emergency response procedures to ensure the lights are kept on.

More detailed analysis of climate-related risks and low-carbon opportunities can be found in SSE's CDP Climate Change Programme response.

MANAGING WATER USE

SSE depends on water in a number of ways across its operations, from use in electricity generation to an amenity in its buildings. It must therefore manage water use sustainably to ensure minimal adverse impacts on this important resource. With water stewardship becoming an increasingly important issue to investors and other stakeholders, during 2017/18 SSE continued to enhance transparency around its approach to water management.

In 2017/18, SSE abstracted 24.0 billion m³ of water and consumed 0.008 billion m³. This compares to 22.7 billion m³ and 0.005 billion m³ in 2016/17. The rise in abstraction and consumption volumes was due to an increase in hydro and thermal generation output during 2017/18. Over 97%, 23.5 billion m³, of water abstracted was used in SSE's hydro generation operations and was therefore returned to the environment almost immediately.

SSE has a water efficiency and savings programme in its non-operational offices, data centres and depots, and now monitors the average water use per person per day in these non-operational buildings. SSE has an ongoing target to reduce average water use per person in non-operational buildings by 2.5% every year. In 2017/18, SSE surpassed this target with average water use of 20.33 litres per person per day, 6.4% lower than its goal of 21.71 litres. In 2017/18, SSE's total water consumption at its 20 largest non-operational sites was 89,891m³, a 2.6% reduction from 2016/17. The reduction in water consumption was driven largely by significant changes in SSE's property portfolio, with SSE rationalising its sites and moving to more efficient buildings.

RESPONSIBLE ENERGY USE

SSE's behaviour change programme, Better Off, aims to engage employees on energy efficiency activities, and SSE has invested £11.8m since 2011/12 on energy efficiency and renewable technologies in its buildings and depots. During 2017/18, investments included new cooling systems at one of SSE's call centre sites, resulting in an

emissions reduction of over 350tCO₂e, and building energy management systems across multiple sites. As part of SSE's new agile working arrangements, SSE has invested significantly in its property portfolio, consolidating multiple non-operational sites into modern buildings which use energy more efficiently.

Energy consumption increased by nearly 7% between 2016/17 and 2017/18 despite the implementation of energy efficiency measures. This was because of the greater demand for SSE's gas storage facilities at Hornsea following the unusually cold weather that occurred across the country.

ENVIRONMENTAL MANAGEMENT

As a large energy company, the breadth of SSE's activities naturally means it interacts with the environment in a variety of ways, presenting challenges that need to be actively managed. SSE's Biodiversity Report 2017 clearly sets out SSE's environmental governance, including its policy, training and biodiversity strategy. SSE is currently certified to ISO14001:2004 across key areas of its business. The certifications cover the main areas of direct environmental impact and risk from the business, for example SSE's renewables business and thermal generation sites.

SSE is subject to a number of environmental regulators and organisations in the countries it operates in. The primary focus remains meeting permit conditions associated with SSE's operations and minimising the negative impact of operations and projects in environmentally sensitive areas.

In 2017/18, SSE had no major, 11 serious and 44 minor environmental incidents (judged by an internal classification of environment related incidents, aligned with those used by SSE's principal regulators). There were no environmental prosecutions issued against SSE during 2017/18.

CASE STUDY: ENVIRONMENT IMPROVEMENT PLAN

SSE's carbon emissions are, by far, its most material environmental impact. However, it is recognised that improving environmental performance in other areas is a fundamental requirement for a responsible operator.

In March 2018, SSE committed to the following targets to improve its environmental performance:

- Carbon target for non-operational buildings:** to reduce carbon emissions from non-operational buildings by 5% every three years up to 2030;
- Water target for non-operational buildings:** to reduce water consumption every year by 2.5% in non-operational buildings; and
- Renewable energy:** to work towards buying renewable energy (that is certified) for SSE's own use by 2020.

In addition, SSE has also committed to: developing plans around single use plastics; implementing a waste management improvement programme; and introducing short- and long-term plans to manage air emissions from its fleet.

RESPONSIBLE DEVELOPER

SSE is a leading developer of energy assets across the UK and Ireland and, in the UK, a developer of the network infrastructure that enables energy generation to connect to the grid. SSE develops these projects in a sustainable way by balancing economic, social and environmental impacts. A decade on from the UK Climate Change Act 2008, the momentum to reduce carbon emissions continues to grow and offers SSE the opportunity to play a key role in the transition to a low-carbon world. SSE will use its core strengths to respond to the challenges and opportunities presented by a changing energy sector.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
SSE GENERATION CAPACITY IN CONSTRUCTION	GW	1.3 ¹	1.1
SSE GENERATION CAPACITY POTENTIAL PIPELINE	GW	Over 5	Over 6
SSE RENEWABLE GENERATION CAPACITY IN CONSTRUCTION	GW	0.5	1
SSE RENEWABLE GENERATION CAPACITY POTENTIAL PIPELINE	GW	Over 2.5	Over 2.5
RENEWABLE GENERATION CAPACITY CONNECTED TO SSEN'S ELECTRICITY TRANSMISSION NETWORK	MW	398	548
SSE GROUP CAPEX AND INVESTMENT (ADJUSTED)	£m	1,503.0	1,726.2

Capacities reflect SSEs share of joint ventures.

¹ Figure includes Keady 2, which was announced 25 May 2018.

CAPITAL AND INVESTMENT EXPENDITURE

Since 2008, SSE has invested £15bn to deliver and maintain a valuable and diverse range of assets, the majority of which support the low-carbon economies across the UK and Ireland. These assets include five economically-regulated energy networks, four types of renewable energy capacity, including pumped storage, and three main kinds of thermal generation. SSE is continuing to invest in and add to these assets and the infrastructure needed by energy customers across the UK and Ireland, and in doing so will create long-term value for SSE's stakeholders.

In 2017/18, SSE's capital and investment expenditure totalled £1.5bn, with around 70% of this being spent on electricity networks and renewable energy projects. Over the next five years, SSE expects its capital and investment expenditure to total around £6bn. Approximately 70% of this is again expected to be related to regulated electricity networks and renewable sources of energy, with a further £350m allocated for investment in Keady 2, a new highly efficient and flexible 840MW gas-fired power station in Lincolnshire.

FINANCING GREEN ENERGY PROJECTS

An ability to raise funds at competitive rates is fundamental to the sustainable financing of projects in a low-carbon economy. In September 2017, SSE issued the largest Green Bond by a UK company, and the first of its kind issued by a UK-headquartered energy company. The Bond was almost three times oversubscribed and had significant interest from green-only funds, whilst also representing the lowest coupon ever achieved by SSE.

The proceeds from SSE's eight-year €600m Green Bond have been allocated to refinancing part of SSE's £1.1bn portfolio of eligible projects of onshore wind farms in the UK and Ireland, as listed in SSE's Green Bond Framework. The main criteria for a project to be eligible were that it must contribute to a positive environmental impact, support SSE's commitment to the ongoing reduction of the carbon intensity of its electricity generation and finally, support Sustainable Development Goal 13 (take urgent action to combat climate change and its impacts). Further information can be found on pages 56 to 57.

INCREASING RENEWABLE CAPACITY

SSE is the leading renewable energy generator across the UK and Ireland. It develops, owns and operates a diverse and sustainable portfolio of renewable and thermal generation plant. By 2020, SSE's portfolio of renewables is expected to comprise over 4.2GW of capacity (currently around 3.8GW), capable of generating around 12TWh of electricity per annum in a typical year.

SSE's investment in renewable energy in the UK and Ireland totalled over £300m in 2017/18. Significant progress was made over the year increasing SSE's renewable energy portfolio, with the delivery of 534MW of onshore wind generation capacity. A further 463MW of wind farm capacity is currently in construction: Stronelaig onshore wind farm (228MW) and the joint venture Beatrice offshore wind farm (SSE share: 235MW). Both of these projects are due for completion in calendar year 2019. SSE's onshore wind farm pipeline consists of around 800MW of potential new build projects and extensions, including the joint venture Viking wind farm located on Shetland and Strathy South wind farm. SSE has interests in three further offshore wind prospects in

varying degrees of development: Dogger Bank and Seagreen in the UK and Arklow Bank in Ireland.

ADVOCATING FOR OFFSHORE

WIND IN IRELAND

Ireland has one of the strongest offshore wind resources in the world; yet is still to develop its own offshore wind industry. At a time when the Irish Government is looking at the policy choices that will determine the redesign of the State's Renewable Electricity Support Scheme (RESS), SSE has taken a leading role in advocating that Ireland would benefit economically and environmentally in the development of large-scale offshore wind energy projects to meet the country's future low-carbon power needs, and that policy mechanisms which stimulate this investment in offshore wind are needed. It has done this through its addresses to the Oireachtas Joint Committee on Communications, Climate Action and Environment, the Irish Renewable Energy Summit 2018 and the Ireland Power 2018 conference, as well as the publication of opinion articles in newspapers like the Irish Independent.

CONNECTING THE COUNTRY

SSEN is the custodian of the electricity distribution networks in the north of Scotland and central southern England and the electricity transmission network in the north of Scotland. It will continue to play a pivotal role in the transition to a low-carbon economy, providing the critical national infrastructure required to support the ongoing shift to a decarbonised energy system and electrification of transport.

Since 2013, SSEN's transmission business has invested around £2.3bn in building and reinforcing an expanded electricity network so that low-carbon electricity can get to the homes and businesses that need it. In 2017/18, it undertook a major investment programme totalling over £760m. This included ongoing construction of the Caithness-Moray electricity transmission link and the connection of projects including Aberdeen Offshore Windfarm (96MW) and SSE's Stronelaig wind farm (228MW), alongside continued upgrading of the electricity network.

Distribution networks are also key in the fight against climate change – connecting clean energy, supporting electrification of transport and facilitating change as local 'system operators' – and require significant modernisation and reform.

CASE STUDY:

TOWARDS A LOW-CARBON NETWORK

As SSEN's transmission business entered the second half of its current price control (RIIO-T1), it recognised that significant changes had taken place since the establishment of its first sustainability strategy. SSEN has therefore published a new Transmission Sustainability Strategy which was developed throughout 2017/18, outlining its ambitions and targets with the purpose of "enabling the transition to a low-carbon economy". This strategy was built on a solid foundation of analysis of government policy and industry trends, global sustainable development goals and informed by stakeholder engagement and expectations. SSEN held a period of open consultation in which key stakeholders and the wider public could provide input to refine the strategy.

The sustainability ambitions of this Transmission Sustainability Strategy are:

- **Mitigating climate change** – managing resources towards a Science Based Target
- **Connecting for society** – promoting affordability through collaboration and whole system solutions
- **Supporting thriving communities** – maximising the local social and economic benefits of investments
- **Growing careers** – adding value through good jobs and training
- **Optimising resources** – managing resource use to minimise waste
- **Promoting natural environment** – delivering a net positive environmental impact

Having established these sustainability ambitions, SSEN's transmission business is now working to develop and implement an action plan to deliver them.

SSEN's distribution businesses in the north of Scotland and central southern England are leading the industry through a number of high impact innovation and demonstration projects. In 2017/18, SSEN launched a consultation on Managed Electric Vehicle (EV) Charging, seeking views on proposed solutions to help avoid potential overloads on local electricity networks caused by sharp increases in the use of electric vehicles. The consultation forms part of SSEN's Smart EV project, undertaken alongside partners EA Technology and supported by GB distribution network operators. The project, funded by Ofgem's Network Innovation Allowance, set out to review and research charging solutions that will allow the transition to electric vehicles to take place with minimum disruption to customers and avoiding unnecessary network reinforcement.

The flexibility revolution that is beginning to emerge at the local distributed network level is exciting and will enable more local generation to connect. With smart technology, this can be done in a way that avoids whole-scale and costly renewal of the network. SSEN believes this reform of its network is core to tackling climate change, keeping costs down for customers and to the future success of its business.

FLEXIBLE THERMAL GENERATION

SSE owns and operates a complementary and diverse portfolio of renewable and thermal generation assets. Going forward, networks and renewables will be the core of SSE, with flexible thermal generation having a key complementary role. Renewable generation is determined by weather conditions, so when renewable output is low, SSE's thermal assets are able to respond quickly, providing the necessary back up to renewables during the transition to a low-carbon world.

SSE, in partnership with Siemens, is constructing a first-of-a-kind, high efficiency, gas-fired generation technology in the UK. Work began in Spring 2018 on the 840MW Keadby 2 Combined Cycle Gas Turbine (CCGT) plant. Once completed, the station will be the most efficient CCGT on the GB system, delivering large-scale capacity from the early 2020s onward. It will be able to provide the flexible generation needed to support the integration of large-scale renewables into the electricity grid.

Also in construction is Ferrybridge Multifuel 2 (FM2¹) which, when operational in 2019, will have a generation capacity of 70MW. FM2 will be able to generate low-carbon electricity using a range of fuel sources including waste-derived fuels from municipal solid waste, commercial and industrial waste and waste wood. It will use up to 675,000 tonnes of waste-derived fuels each year which may otherwise have been sent to landfill. The FM2 plant represents a £325 million investment by SSE, and is expected to create more than 300 construction jobs during the three-year construction period.

INSTALLING PROJECTS IN A SUSTAINABLE WAY

SSE continuously looks for innovative ways to ensure any adverse impacts from the construction and operation of its assets are minimised, and positive impacts are maximised. An example of this comes from the connection of Dorenell Wind Farm to SSEN's Blackhilllock Substation, when 140 new composite poles were used instead of steel lattice towers or traditional wooden poles. The durable composite poles have a higher strength to weight ratio and are visually less intrusive than other infrastructure options. Composite poles also have a longer lifespan than wooden poles and can be repurposed or recycled at the end of their useful life. SSEN used a specialist helicopter to install the poles, meaning no tracks were required and the process was completed more quickly than would otherwise be possible in locations which are difficult to access with a crane. SSEN is the first transmission network owner to use composite poles in the UK.

RETHINKING COST-BENEFIT ANALYSIS

Several of the submarine electricity cables connecting 59 Scottish islands with the mainland network are near the end of their operational life. SSEN plans to replace them to ensure a continued, reliable supply of electricity to these communities. With the introduction of Scotland's National Marine Plan in 2015, SSEN chose to rethink the way it installs or replaces cables within the marine environment. SSEN developed an innovative Sustainability Cost-Benefit Analysis (CBA) model, to consider and quantify a wide range of economic, social, environmental and wider engineering and financial impacts in the decision-making process. This is helping to determine which method of installation delivers best value overall. The Sustainability CBA draws on

extensive stakeholder engagement from the local fishing industry, communities and businesses. More information on the Sustainability CBA is available on news.ssen.co.uk/submarinecables/

QUANTIFYING PROJECT IMPACTS

At £2.6bn, the Beatrice Offshore Windfarm Limited (BOWL²) project is one of the largest ever private infrastructure investments in Scotland. In 2017, SSE and its BOWL joint venture partners worked with NEF Consulting to assess the project's socioeconomic contribution. It was found that the project is expected to contribute £1.13bn to the UK economy, including £530m to the Scottish economy. It was also estimated that for every £1 invested through the Beatrice Partnership Fund, £3.21 of value is expected to be created for communities. At a very local level, the report detailed how Wick harbour was chosen as the operational base for BOWL. The project made a multi-million-pound investment to restore historic buildings on the harbour front and transform them into BOWL's operational headquarters. Around 90 employees will be based in the buildings once complete. The full report can be found on sse.com/beingresponsible.

AWARD-WINNING PROJECTS

SSE regularly achieves standards which are recognised as industry leading for its infrastructure projects. In 2017/18 they included:

- The Green Construction Award and Green Business of the Year Award for Galway Wind Park at the 2018 Green Awards in Ireland (February 2018);
- The Green Apple Award for environmental best practice at Clyde wind farm (November 2017);
- The Greatest Contribution to Scotland Award for the Beauty-Denny transmission project at the 2017 Saltire Civil Engineering Awards (October 2017); and
- The Green Project of the Year Award for Galway Wind Park at the 2017 Irish Construction Industry Awards (May 2017).



DILEMMA: BUILDING THE CASE FOR ENHANCED NETWORK CONNECTIONS TO THE SCOTTISH ISLANDS

As the custodian of the electricity network – both transmission and distribution – in the north of Scotland, SSEN is responsible for over 100 subsea electricity cables that connect Scotland's island groups to the GB electricity grid and have existed, in one form or another, for over 50 years.

Many of the connections require upgrade and ongoing maintenance but in other cases there is a building demand for significant new investment to enable the connection of new large-scale renewable energy generators.

The three main island groups – the Western Isles, Shetland and Orkney – all have a case for new, large-scale transmission connections to the mainland.

The 'needs case' which must be produced for, and approved by, the energy regulator Ofgem in order for these projects to proceed, has to be based on generation contracted to connect to the network. Due to a number of factors over recent years, the contracted generation background has varied to the extent that it has not been possible to proceed with the three island links. However, there are many positive consequences of such investments, including firm and more secure cable connections to the national grid for islands, and the role island generation can play in meeting GB energy needs and renewable and climate change targets. Economic activity can also be generated from the growth of the energy industry on each of the island group.

The dilemma faced is to ensure the appropriate balance is struck between the needs of the renewable developers, the needs of islanders, the imperative to ensure the UK's electricity system decarbonises and, of course, the impact of costs on electricity consumers. There are many factors that must be considered – not least the government's intention to allow island onshore wind developers to participate in the 'Contracts for Difference' (CfD) auction, whereby new low-carbon electricity can receive support.

The next CfD auction is scheduled to take place in spring 2019, the results of which are likely to be known in autumn 2019. In the absence of certainty on the timing or outcome of those auctions, SSEN continues to work very closely with its stakeholders to develop new approaches to network connections and development that will ensure it is in a position to respond quickly in the event that any of the island connections receive the green light from Ofgem.

¹ FM2 is a 50:50 joint venture between SSE plc and Wheelabrator Technologies Inc. SSE share = 35MW.

² BOWL is a joint venture, owned by SSE (40%), Copenhagen Infrastructure Partners (CIP) (35%) and Red Rock Power Limited (25%). SSE share = 235MW.

RESPONSIBLE EMPLOYER

SSE is committed to promoting inclusive economic growth which sustains skilled jobs for people of all backgrounds, with positive outcomes for shareholders and society. Its ability to create and retain long-term value is dependent on the skills and talents of the people that work for it. Core to SSE's business is therefore a responsible and inclusive approach to employment and progression, underpinned by the understanding that SSE's workforce is what enables its success.

SUBSTANTIAL ADDITIONAL WORKFORCE DISCLOSURE CAN BE FOUND ON PAGES 79 TO 82 OF SSE'S ANNUAL REPORT 2018 AND FURTHER WORKFORCE METRICS CAN BE FOUND ON PAGES 52 AND 53.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
EMPLOYEES	Headcount¹ (%male/%female)	20,785 (68.9/31.1)	21,157 (68.6/31.4)
EXECUTIVE COMMITTEE AND DIRECT REPORTS²	Headcount³ (%male/%female)	47 (80.9/19.1)	55 (81.8/18.2)
BOARD OF DIRECTORS	Headcount³ (%male/%female)	10 (70/30)	9 (66.7/33.3)
CONTINGENT LABOUR FORCE SIZE⁴	Headcount	4,851	4,074
TOTAL HOURS WORKED⁵	Hours	38,780,846	39,534,659
EMPLOYEE RETENTION RATE⁶	%	86.3	85.7
LOST DAYS DUE TO SICKNESS	Days	215,738	204,122
EMPLOYEE AVERAGE AGE⁷	Years	40.5	40
MEAN/MEDIAN LENGTH OF SERVICE	Years	9.5/7.5	9.3/7.2
AVERAGE EMPLOYEE EARNINGS⁸	£	43,144	40,723
RATIO OF CEO EARNINGS TO AVERAGE EMPLOYEE EARNINGS⁹	n:1	62:1	72:1
EMPLOYEE ENGAGEMENT SURVEY SCORE¹⁰	%	73	-
AVERAGE TRAINING HOURS PER FTE	Hours	22	21
INVESTMENT IN LEARNING AND DEVELOPMENT¹¹	£m	9.8	9.5
INVESTMENT IN PIPELINE PROGRAMMES¹²	£m	15.4	9.4
TOTAL SSE PLC (UK) MEDIAN GENDER PAY GAP	%	19.6	19.3

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

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

3 As at 31 March in each financial year.

4 A contingent worker describes external personnel where the business determines that it cannot fulfil the requirement internally. A contingent worker can be a Consultant, Contractor or Temporary Agency Worker.

5 Based on standard contractual hours over a 52 week period (excludes Overtime and Standby).

6 Excludes end of fixed term contracts and internal transfers.

7 Based on average of all ages as at 31 March in each financial year.

8 Average employee earnings are based on staffing costs calculated on the same basis as Note 8.1 of the accounts in SSE's Annual Report 2018 (page 167), excluding social security costs.

9 See page 131 of SSE's Annual Report 2018 for more detail and explanation.

10 SSE undertakes its employee 'Great Place to Work' (GPTW) survey every two years. The 2015/16 employee engagement score was 77%.

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

12 Total cost of apprentice, engineering graduate and Technical Skills Trainee programmes, including salary costs.

SSE'S RESPONSIBLE EMPLOYER ETHOS

PROGRESS EMPLOYEES FROM WITHIN

SSE believes in creating long, sustainable careers where everyone has the opportunity to progress within the organisation. In 2017/18, 1,316 vacancies across the company were filled internally, and SSE invested a total of £25.2m in pipeline programmes and employee learning and development, with an average of 22 hours of training per full-time equivalent employee.

PREFERENCE FOR CARRYING OUT WORK IN-HOUSE

SSE has a clear preference to deliver core work in-house. SSE will however partner with external providers for work that is time-limited or peak activity, and will make use of specialist contractors in areas such as IT. In 2017/18, SSE had a contingent labour force of 4,851 people, many of who were employed to assist with upgrading technological facilities.

FOCUS ON THE UK AND IRELAND

SSE operates within the UK and Ireland, often in some of the most remote areas of each country. SSE believes that, where feasible, recruitment should be from the communities it serves. In 2017/18, SSE directly employed 20,785 people and further supported more than 80,000 wider jobs throughout the UK and Ireland as a result of its activities.

CREATE AN INCLUSIVE CULTURE

SSE believes that creating an inclusive workplace will result in a more diverse company, which in turn supports better decisions, actions and performance. SSE worked with inclusion and diversity specialists Equal Approach in 2017/18 to assess current practice and implement an Inclusion Strategy for 2017-2020.

LEADING FTSE350 FOR INCLUSIVE JOBS GROWTH

SSE is a large employer across the UK and Ireland. It understands that geographically balanced, inclusive job growth is crucial to sustainable economic stability and success in these countries. Its strategic approach is to offer quality jobs with good earning potential, skills development and long-term security.

Employment in areas which have poor economic conditions and limited employment opportunities, often in rural areas, creates an important multiplier effect for regional economic growth. SSE plays an important role in creating multi-regional economic prosperity through its operations, and to maintaining it through its responsible approach to employment.

In early 2018, SSE was ranked number 1 on The Good Economy Job Ratings Index 2017 by social advisory firm The Good Economy. This rating is an independent assessment of FTSE 350 companies' contribution to inclusive job growth in Britain, and acknowledges that some economic growth has more social value than others.

EQUALITY IN THE WORKPLACE

The UK's Equality Act 2010 legally protects people from discrimination in the workplace and in wider society. SSE seeks to go beyond protecting people from discrimination by also focusing on delivering equality of opportunity for people, regardless of their characteristics as set out in the Act. The people working on SSE's behalf are one of its key strengths, and SSE wishes to ensure it is an inclusive employer that attracts people from all kinds of backgrounds, so it has the most talented and committed workforce possible to create value for shareholders and society in the years ahead.

The composition of job applicants and the career progression of employees are monitored closely to ensure equality of opportunity at all levels. SSE's grievance policy makes it clear that allegations of discrimination or harassment will be treated in confidence and investigated in accordance with the relevant procedure. For more information on SSE's ethical business conduct and actions to encourage employees to 'Speak Up' against wrongdoing, see pages 44 to 47.

Where appropriate, steps will be taken to identify and remove unjustified barriers and to meet the special needs

of disadvantaged or under-represented groups. The physical features of SSE premises are regularly assessed to consider whether they might place anyone with a disability at a substantial disadvantage, with steps taken to improve access if necessary. In 2018/19, SSE will be undertaking research in its Networks business to assess how the job design of certain operational and back office roles could be modified to be more attractive to candidates with visible and non-visible disabilities.

INCLUSION STRATEGY 2017-2020

A truly inclusive workplace culture goes beyond just seeking to improve the diversity of specific characteristics such as gender, race, disability or age. Inclusion in its widest sense means creating an environment that is open and encouraging of all types of difference, including physical differences, social backgrounds and ways of thinking. SSE believes an inclusive culture unlocks the potential of every employee.

In 2017, SSE worked with inclusion specialists Equal Approach to calculate the financial return from investing in gender diversity initiatives, finding there was a £4.52 return for every £1 spent. More importantly though, the analysis

DILEMMA: MANAGING CHANGE

SSE undertakes an employee 'Great Place to Work' (GPTW) survey every two years, with a shorter 'pulse' survey occurring on the alternate years. These surveys allow employees to provide honest and anonymous feedback on workplace experiences directly to SSE senior leaders and management.

The SSE employee response rate was 82% in its June 2017 GPTW survey, with an overall engagement score of 73%. While this engagement score is in line with the 75% average for businesses of SSE's size, it was a 4% decrease from SSE's 2015 survey. SSE's 2017 survey was undertaken during a period of organisational change and restructuring, and the results provided important feedback on this area, with just 34% of employees saying change is managed effectively at SSE. SSE has a lot of work to do in this area and the insights are particularly instructive given the potential changes to its workforce arising from the planned SSE Energy Services transaction. The feedback has informed communication with employees around the future structure of SSE's business, and SSE hopes these changes will be reflected in future GPTW surveys. The results of the latest 'pulse' survey will be available in summer 2018.

To improve transparency and accountability, in October 2017 SSE published a short report of its 2017 GPTW results on sse.com/beingresponsible, detailing actions taken as a result of the survey insights.

also showed that a wider Inclusion Strategy could deliver a £15 return for every £1 invested by 2020. SSE therefore established a new Inclusion Strategy for 2017-2020. More information can be found in SSE's *Valuing Difference* report which was published in September 2017, and is available at sse.com/beingresponsible.

Equal Approach continues to provide SSE with guidance and insights on its approach to inclusion while implementing this new strategy, which is focused on making all internal processes across the whole employee lifecycle fair and inclusive. SSE has now concluded year one of its Inclusion Strategy 2017-2020, and will publish an update of progress against its £15 'return on inclusion' target later in 2018.

FAIR RECRUITMENT

All SSE hiring managers are required to complete inclusive hiring training and, in 2017/18, SSE introduced mandatory inclusion and diversity training for all employees. SSE is also reviewing the platforms it uses to recruit employees, and exploring options to use portals that specifically enable SSE to access an inclusive and diverse talent pool.

A very small percentage of roles at SSE are still filled internally without a formal recruitment procedure. From 1 August 2018, processes will change so that there is a fair and transparent inclusive approach to recruitment for all job opportunities both internally and externally.

TRAINING AND SKILLS

Training and skills development for employees is key to SSE's long-term approach to employment, see SSE's Annual Report 2018 for further detail. It is therefore essential that training is conducted in an inclusive way. In 2017/18, 'mystery shopper' assessments were undertaken of several SSE training courses to understand how inclusive they were. This included simulating difficult situations within the training sessions to see how the trainers responded. Insights from these assessments have been fed back to SSE's Learning and Development team, with inclusivity awareness training provided to trainers where necessary.

FEEDBACK FROM LEAVERS

A core step in becoming more inclusive

is understanding why employees leave the company. SSE therefore commissioned Equal Approach to carry out 300 independent and confidential interviews with people who have recently stopped working for SSE. As of 31 March 2018, 203 exit interviews had been carried out by Equal Approach. The insights gained from these interviews are instructing SSE on what future actions should be taken to address common themes raised. As well as understanding where changes are required, the exit interviews have highlighted the benefits for SSE of formalising its approach to maintaining contact with those who have left SSE and would be welcomed back. SSE therefore plans to create an alumni for good leavers in 2018/19.

EMPLOYEE BENEFITS AND WELLBEING

Following the enhanced family-friendly benefits introduced in April 2017, including sector-leading parental pay, SSE introduced further improved benefits for all employees. This includes: greater agile working across the business; 'Nudge for SSE', an external financial education tool to help employees better understand and manage their personal finances; 'SSE Advantage' which offers savings and cashback deals; employee voluntary health checks, with over 10,000 employees taking advantage; and 'Back to Health', a pilot programme with Nuffield Health to provide additional support and specialist care for employees with anxiety, depression, stress or musculoskeletal problems. Further information on SSE's efforts to improve awareness and understanding around mental health can be found on page 45.

COMMITTED TO THE REAL LIVING WAGE

At the centre of to an inclusive and respectful culture at SSE is its longstanding commitment to the real Living Wage in the UK as set by the Living Wage Foundation, and in Ireland as set by the Irish Living Wage Technical Group. SSE believes that all employees, including contracted employees working on its sites, should earn a rate of pay which allows them to live a decent life. SSE's Living Wage clause has been in all relevant service and works contracts since April 2014, and was extended to go beyond the requirements of the Living Wage Foundation in 2017.

EXECUTIVE REMUNERATION

SSE aims to ensure its remuneration arrangements are clear, consistent and simple to enable effective stakeholder scrutiny. It believes that its remuneration policy offers fair reward for the leadership, expertise and strategic decision-making required in a challenging market, which is critical to SSE's long-term success. The extent of their responsibilities means Executive Directors are well paid, but the remuneration policy is designed to ensure, among other things, they are not overpaid.

As part of SSE's commitment to transparency around pay, SSE has again voluntarily disclosed how its CEO's earnings compare to those of all employees, expressed as a ratio, for the third year in a row. In 2017/18, SSE's CEO earnings ratio to average employee earnings was 62:1. Detailed information around Director and Executive pay can be found in SSE's Remuneration Committee Report and Annual Report on Remuneration on pages 120 to 137 of the Annual Report 2018.

73%
EMPLOYEE
ENGAGEMENT
SURVEY SCORE



CASE STUDY:

A NEW EMPLOYABILITY PROGRAMME IN IRELAND

SSE's *Barnardo's Works* employability programme is over 10 years old and, in that time, has helped around 270 long-term unemployed people aged 16-24 join or rejoin the workplace. In doing so, the programme encourages an inclusive recruitment process, increases diversity within SSE's teams and has a positive impact on local communities.

In 2017/18, SSE Ireland partnered with Business in the Community Ireland (BITCI) to introduce a best-in-class social inclusion initiative, *SSE Works*, based on the Barnardo's model. This pilot employability programme provided a six-month full-paid work placement to people not in education, employment or training, who experienced various long-term barriers to accessing the workplace.

Seven participants were selected by SSE and BITCI to join the pilot programme. Five completed it, with three going on to accept full-time permanent contracts with SSE Ireland and progressing onto various roles. Of those that aren't still with the company, one went onto full-time employment elsewhere and the remainder are engaging with other programmes. The *SSE Works* model provides a highly valuable precedent for SSE and other businesses: it has offered quality experiences of work and a career path for participants; it has opened up a new recruitment stream to the company; it has demonstrated commitment to the local community; and has provided a way of instilling pride in the company and a personal sense of fulfilment for existing employees. SSE Ireland and BITCI will use the learnings from the pilot programme with *SSE Works* continuing in 2018/19.

SSE'S UK GENDER PAY GAP

2018 is the third year where SSE has published its UK gender pay gap within its Sustainability Report in line with UK Government requirements¹. In 2016, SSE was the first FTSE company to publish its gender pay gap, using the UK Government draft regulations. It then published its gender pay gap in line with the final requirements from the UK Government in June 2017, well ahead of the 5 April 2018 deadline. SSE is firmly committed to providing open and detailed disclosure around its gender pay gap. Each year of SSE's gender pay gap reporting can be found online at sse.com/beingresponsible and full reporting by legal entity for 2018 can be found on page 54.

With women comprising just 31% of its workforce, SSE knows it must take sustained and innovative actions to encourage women in to its business, support women to stay on in the company and help women progress up in the organisation. SSE calls doing this its 'IN, ON, UP' strategy, and reports on progress made in each of these three areas. SSE is working closely with inclusion specialists Equal Approach to implement a new Inclusion Strategy which aims to make SSE a more inclusive workplace in every sense. SSE believes that greater diversity in the organisation will be a consequence of becoming more inclusive overall; and that this will reinforce its ability to create value for shareholders and society.

REPORTING SSE'S GENDER PAY GAP

WAGE PAYMENTS

SSE's mean UK gender pay gap decreased slightly for the second year in a row, to 21.5% at 5 April 2018. The median gap however increased by a small amount again for a second year, to 19.6% at 5 April 2018.

SSE believes that the median gender pay gap provides the most accurate reflection of gender pay differences in the company. Whilst the rise in the median gap is disappointing, short-term increases in SSE's gender pay gap are not unexpected; it results from a number of factors such as greater levels of women in entry-level positions which are yet to materialise into women progressing to middle and senior management positions. SSE is confident that the significant investment and scale of activities being taken to advance its approach to inclusion and diversity is building the foundations for real long-term change in the organisation.

ENSURING EQUAL PAY

The gender pay gap differs from Equal Pay, which is legally required under the Equal Pay Act 2010 and refers to women and men being paid the same for doing the same job. The gender pay gap reflects the types of roles that men and women are carrying out. SSE has robust processes in place to review pay levels and job gradings, and carries out an annual review of performance ratings by gender. This ensures SSE has a fair and consistent approach to pay and performance for people of all genders and backgrounds.

	5 April 2016	5 April 2017	5 April 2018
Median gender pay gap (%)	18.7	19.3	19.6
Mean gender pay gap (%)	22.4	22.0	21.5

UNDERSTANDING AND TAKING ACTION ON SSE'S GENDER PAY GAP

ENCOURAGING WOMEN IN TO SSE

SSE is an energy company, which means it suffers from the legacy of being in a historically male-dominated industry. A low proportion of women within the sector and in STEM education remains a significant challenge, with women comprising just 11% of engineering professionals and 24% of people studying core STEM subjects. Overcoming these challenges will require focus from government and businesses, as well as changing public perceptions around gender roles in the workplace and at home.

RECRUITING DIVERSE PIPELINES

Over 2017/18, SSE has built closer relationships with feeder colleges and universities, offering bespoke female events to encourage more women into its entry-level STEM roles. In 2016/17, five out of SSE's 26 graduate engineers were female. This increased to six out of a total of 19 in 2017/18. SSE has used its partnership with education charity Teach First to work with 10 schools in areas where SSE has struggled to hire apprentices – providing those young people with skills and insight into the STEM industry, whilst gaining a new pool of talent for the business to recruit from.

REVIEWING JOB ROLES

In 2017/18, SSE's Networks business requested a full inclusion review by Equal Approach for up to 10 new operational back office and front facing operational roles. This will take place in 2018/19, and should offer findings that help SSE understand the processes and technology changes which could help make these predominantly male roles more attractive for women as well as for people with disabilities.

SUPPORTING WOMEN TO STAY ON AT SSE

Around 31% of SSE's total workforce are women, but in 2017/18, 33% of the 2,853 people that left SSE were female. It is therefore crucial that SSE understands why women are leaving its business, and introduces measures which supports them to stay on in the company.

UNDERSTANDING LEAVING

SSE commissioned inclusion specialists Equal Approach to conduct independent interviews with leavers to capture leave reasons, and feedback on culture and inclusivity. 203 exit interviews were carried out in 2017/18, with around 100 more planned in 2018/19. These findings will help inform where action needs taken.

SECTOR-LEADING PARENTAL BENEFITS

On 1 April 2017, SSE introduced sector-leading parental benefits. Maternity and adoption pay increased from six weeks full-pay and 12 weeks half-pay, to 21 weeks full-pay. Paternity pay was increased from one to two weeks full-pay and provision was made to allow time off for parents who did not meet the length of service criteria for paternity leave.

SSE also introduced a gradual return to work scheme to support maternity and adoption leave returners, with these new parents offered to work 80% of their contracted hours but receive full pay and benefits for up to six months after returning. In 2018, SSE carried out a survey with employees who had used the new gradual return to work benefit. 93% said the benefit significantly improved their return to work experience and 89% said they were more likely to recommend SSE as a great place to work.

PROMOTING AGILE WORKING

In SSE's 2017 Great Place to Work survey, SSE employees able to "work differently" were on average 11% more engaged than those who did not have this option. Following the success of SSE's agile working pilot for 1,200 employees, the company has begun rolling out a Group-wide approach assisted by a significant investment in improved technology applications. The "Happy to talk flexible working" logo is also now included in all vacancy adverts where this is an option.

HELPING WOMEN PROGRESS UP AT SSE

From SSE's gender pay gap reporting, it's clear that substantial work must be done to increase the proportion of women at the highest levels of the company – as at 5 April 2018, just 17% of employees in the upper quartile of SSE (UK) were women.

DEVELOPING LEADERS

SSE continued to work with around 100 of its most senior women over 2017/18, offering development sessions in the areas of 'Presence and Impact' and 'Negotiating and Influencing'. A new six-month accredited mentoring programme is also being offered for Managing Directors and their direct reports to encourage more active mentoring relationships.

BENCHMARKING TALENT

SSE continues to benchmark talent by gender within the organisation to enable tracking of progress. The proportion of female 'High Potential Leaders' and 'Tomorrow's Talent' both increased between 2016/17 and 2017/18, from 16% to 18% and from 41% to 45% respectively, demonstrating success in building more diverse pipelines of talent at SSE.

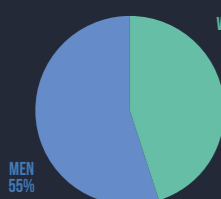
INFLUENCING WIDER SOCIETY

To deliver a sustainable shift in gender roles, societal perceptions around women in the workplace, and particularly in certain types of jobs, needs to change. SSE is continuing to play its part in changing these perceptions.

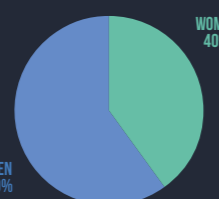
PARTNERSHIPS AND BENCHMARKS

SSE has partnerships with a number of leading organisations which share a goal of achieving greater gender diversity in the STEM industry. It also has continued its major sponsorship of the SSE Women's FA Cup to encourage more girls and women into sport, winning 'Best Sponsorship of Women's Activities' at the UK Sponsorship Awards. In 2017/18, SSE was one of just six companies in the UK to be included in the inaugural Bloomberg Gender-Equality Index, and was also ranked the top utility in the FTSE Women on Boards Leadership Index Series.

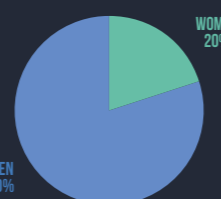
LOWER QUARTILE



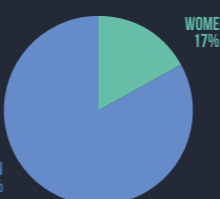
LOWER MIDDLE QUARTILE



UPPER MIDDLE QUARTILE



UPPER QUARTILE



BONUS PAYMENTS

On 5 April 2018, 35.4% of men and 14.7% of women in SSE (UK) received a bonus. The mean difference between male and female bonus payments reduced from 32.5% on 5 April 2017 to 28.3% on 5 April 2018. The median bonus difference reduced from 9.1% to 0.1% between 5 April 2017 and 5 April 2018.

These results imply significant progress has been made over the last year in closing the bonus gender pay gap. However, during 2017/18, 626 relevant

employees within SSE Contracting Ltd received a one-off bonus payment of £150 as part of pay negotiations. Due to the very high proportion of men within this business (just under 90%), 621 of these employees were men. The consequence is that, using the UK Government methodology, there was a mean bonus gender pay gap of -62.2% and a median bonus gender pay gap of -784% for SSE Contracting Ltd.

Excluding the 626 SSE Contracting Ltd employees who received the £150

bonus changes the mean bonus pay gap for SSE (UK) to 36.9% and the median bonus pay gap to 12.2%. It is therefore difficult to say conclusively whether SSE has made progress closing its bonus gender pay gaps in 2017/18. Data anomalies, such as that with SSE Contracting Ltd, highlight some of the issues which exist with current gender pay gap reporting. It also emphasises the importance of providing narrative alongside the numbers.

¹ Legislation on gender pay gap reporting is progressing in the Republic of Ireland. SSE has been involved an initial consultation on reporting requirements and is engaged with a variety of stakeholders on the issue.

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

RESPONSIBLE BUYER

SSE recognises the significance of a healthy, competitive supply chain to the day-to-day operations of its investment programme and that, when well-managed, supply chains can also add significant value to society. The careful management of risk is a key feature of the effective management of healthy supply chains. The poor management of social and environmental factors can represent material risks to SSE's business and as a result SSE aims to use its influence to encourage responsible business practices. SSE seeks to bring about long-term sustainable benefits in the way it works in a fair and ethical manner with suppliers and business partners.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
TOTAL RECORDABLE INJURY RATE (TRIR) – CONTRACTORS	Per 100,000 hours worked	0.44	0.51
ACCIDENT FREQUENCY RATE (AFR) – CONTRACTORS	Per 100,000 hours worked	0.21	0.30
VALUE OF OPEN4BUSINESS CONTRACTS	£m	12.9	36.9
TOTAL PROCUREMENT EXPENDITURE	£bn	c.2.9	c.3.0

IMPLEMENTATION OF CATEGORY MANAGEMENT

SSE has continued with the transformation of its Procurement and Commercial function, with the implementation of Category Management in 2017/18 being a key feature of this new approach. Category Management is the strategic management of third party spend, with the aim of bringing about long-term sustainable business benefits for SSE and the wider economy through minimising supply chain risk, driving innovation and delivering cost and value benefits.

SSE is now on a journey to embed Category Management across all categories to meet the business need and drive best value decision outcomes, including the identification and management of risk types within a category, with examples such as: safety, social responsibility, quality and regulatory risk.

RESPONSIBLE PROCUREMENT CHARTER

SSE seeks to be a responsible buyer of goods and services. The Responsible Procurement Charter outlines the standards and principles for working with SSE. To ensure that SSE's business

is conducted ethically, sustainably and within the law, SSE expects its suppliers to meet the principles outlined in the charter. This means complying with local laws and regulations and respecting internationally recognised human and labour rights. Social and environmental expectations are outlined in the charter, such as the requirement that any applicable contracted or subcontracted employee working in the UK receives the real Living Wage, and the expectation that suppliers measure, manage and reduce their carbon footprint. SSE's Responsible Procurement Charter can be found on sse.com/beingresponsible.

CONTRACTOR SAFETY

Established in 2016, SSE's '50by20' safety initiative aims to establish a step improvement in SSE's safety performance. The guiding principle of 'if it's not safe we don't do it' is as important for contractors working on SSE's sites, as it is for SSE's own employees. SSE works closely with its contractors to ensure that everyone working on an SSE site goes home safe.

The key target within the 50by20 campaign relating to SSE's supply chain

is to reduce the combined employee and contractor Total Recordable Injury Rate (TRIR) per 100,000 hours worked by 50% by 2021 compared to 2017. In order to achieve this significant improvement, SSE is working closely with its supply chain partners to improve safety performance in a number of areas, including the training of supervisors on construction sites, regular safety audits and the development of processes on the management of construction design. Projects have also been initiated to compare performance of different suppliers in order to share best practice and improve performance across the contracting pool.

SSE will continue to implement these identified improvements in how it works with contracting partners in 2018/19. Using best practice examples, these will inform how SSE best engages and manages contractors in ensuring a safe work environment where all life-changing injuries are avoided.

SKILLS ACCORD

While the key workforce challenge facing SSE as a direct employer is the predicted skills gap in the mid 2020s, this is a challenge facing the whole

energy sector. In a highly competitive environment it can be challenging for contractors to invest in training whilst remaining price competitive. Given the extent to which SSE relies on its supply chain – with around 9,000 active suppliers and around £3bn-a-year procurement spend – it is clearly in SSE's interest to support these suppliers to develop the skills their workforce needs in the future.

In 2017/18, SSE became one of five companies to develop an industry-wide Skills Accord. The Skills Accord is designed to help address the sector-wide pressure on supply chain companies to drive sustainable skills development while remaining competitive, by promoting sustained investment in the technical and operational skills the sector needs most via procurement practices.

SSE will carry out an annual review which will be published in 2018/19. The review will assess SSE's training activity contributing to the sector target and demonstrate its compliance against commitments.

ADDRESSING MODERN SLAVERY

SSE has zero tolerance of human rights abuses in any form and is particularly concerned about any risk of human trafficking or enslaved labour in its

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

There are a series of due diligence steps being undertaken both at an industry level and within SSE's own contracts with its suppliers to mitigate the risk of modern slavery, including the addition of a question set focusing on modern slavery into SSE's quality audit framework in 2018/19.

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

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

6.32.9BN

TOTAL PROCUREMENT SPEND IN 2017/18

DILEMMA: VISIBILITY OF SSE'S SUPPLY CHAIN WORKFORCE

Companies that actively seek to create value for both shareholders and societies understand that greater transparency and visibility of their supply chains is an important driver for improvement. While SSE has been actively working with stakeholders to improve transparency of its direct impacts, particularly in relation to workforce and human capital disclosure, its ability to disclose similar levels of information relating to its supply chain workforce is more limited. This relative weakness became apparent within SSE's submission to the pilot Workforce Disclosure Initiative survey in 2017. While SSE's understanding of its direct workforce was considered leading, it is recognised that extracting meaningful data from its supply chain is more difficult because of the nature of SSE's business.

SSE is involved in numerous capital projects at different stages during a given year – from pre-planning and design, to development, construction and operation. The number of workers within SSE's supply chain can therefore vary substantially from week to week. This makes it difficult to record the detailed information for SSE's supply chain workforce which is straightforward to capture for its direct employees, such as gender composition.

Nevertheless, SSE believes both it and its partners will benefit from greater transparency of supply chain workforce composition, performance, engagement and security. Therefore in 2018/19, SSE will continue to participate in the Workforce Disclosure Initiative, aiming to continuously improve its supply chain disclosure.

CASE STUDY: SUPPORTING LOCAL SUPPLY CHAINS AT STRONELAIRG WIND FARM

Where feasible, SSE aims to support local employment and a local supply chain when developing, constructing and operating its assets. This is in line with SSE's Responsible Procurement Charter, which specifically encourages its suppliers to employ a local supply chain when feasible and competitive. Open4Business (O4B) was created by SSE in 2012 as a way of providing local businesses with a simple and free way to view and bid for opportunities relating to SSE's projects. Since its launch, O4B has awarded £174.4m of contracts to suppliers local to its construction sites.

SSE's Stronelairg wind farm in the north of Scotland is one of the most recent SSE projects to advertise through the portal. Opportunities from plant hire to fences and signage were posted, with around £10m of contracts awarded and just under 90% of that value going to companies based in the Highland and Islands region.

In addition to opportunities provided by O4B, other local businesses have benefited from the Stronelairg project, with local shops and hotels seeing an increase in trade during the low-season from November to March. One such local business is the Lovat Hotel in Fort Augustus who attributed 40% of winter business to SSE and its sub-contractors using its accommodation and services.



PAYMENT PRACTICES AND PERFORMANCE

As a company with significant supply-chain expenditure, SSE has an important economic and social responsibility to ensure its suppliers are paid on time and in line with agreed terms. Within the UK economy, late payment to suppliers has been highlighted as a key concern – with some businesses experiencing cash flow problems and an inability to provide services due to not being paid on time.

The UK Government has introduced new duties on the UK's largest

companies to report on their payment practices, policies and performance on a six-monthly basis for financial years beginning on or after 6 April 2017. This means SSE has a legal obligation to publish this information for all eligible legal entities in line with the requirements for the first half of its 2019 financial year, 1 April 2018 to 30 September 2018, and onwards on a biannual basis.

SSE understands that public disclosure of information is an effective catalyst

for improving transparency and driving positive change within organisations, particularly when that information presents uncomfortable findings. Therefore, following on from the voluntary publication of SSE's gender pay gap ahead of government regulations, SSE has decided to publish its UK payment practices and performance information¹ early, ahead of its legal requirement to do so. SSE will continue to publish this information annually within its Sustainability Report.

REPORTING PRACTICE AND POLICIES

SSE signed up to the UK Government Prompt Payment Code, a voluntary set of commitments to help ensure a responsible approach to paying suppliers, in 2014. SSE is committed to the principles outlined within the Code and to the fair treatment of all suppliers, adopting an approach of providing suppliers with quick resolution of invoices and ensuring any queries or issues are managed effectively.

Basic principles for suppliers working with SSE are found within SSE's Responsible Procurement Charter on sse.com/beingresponsible. The Charter provides basic principles on topics including health and safety, modern slavery, the Living Wage, environmental issues and prompt payment. SSE's specific statement on prompt payment and what it means for suppliers can be found on sse.com/beingresponsible/responsiblebuyer and additional

information on SSE's procurement standards, including payment guidance for suppliers, is located on sse.com/potential-suppliers. This payment guidance outlines how suppliers can help SSE meet its commitments on prompt payment and contact details for suppliers with invoice queries.

REPORTING PERFORMANCE

Does SSE offer its suppliers e-invoicing?

SSE currently offers suppliers e-invoicing through Oracle iSupplier, with a third-party solution planned to be implemented in financial year 2018/19.

Is supply chain finance available to SSE suppliers?

SSE does not offer supply chain finance for its suppliers and does not currently have plans to implement this.

Do SSE's practices and policies cover deducting sums from payments as a charge for remaining on its supplier lists?

SSE does not deduct sums from payments as a charge for remaining on its supplier lists.

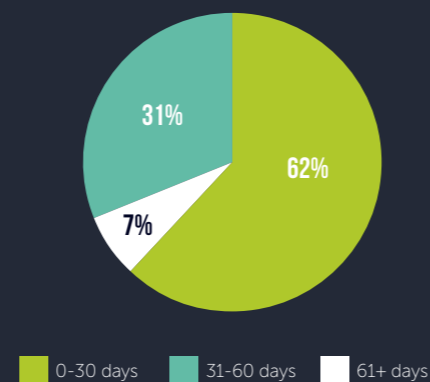
Is SSE a member of a payment code?

SSE has been a signatory to the Prompt Payment Code since 2014, and has put in measures to improve practices in line with the Code.

Average number of days taken to make payments in the reporting period, from the date of receipt of invoice or other notice **35 DAYS**

Percentage of payments due within the reporting period which were not paid within the agreed payment period **40%**

TIME TAKEN FOR PAYMENTS TO BE MADE



COMMITTED TO CONTINUED IMPROVEMENT

Efforts to meet the obligations of the Prompt Payment Code highlighted some opportunities for improvements within SSE's Procure to Pay processes. Over the past two years, SSE's Accounts Payable and Procurement departments have been working to align the way they operate and work more closely together, with further changes and improvements currently being implemented and planned for the future.

PAYMENTS MADE BY SSE IN 2017/18

c.9,000 ACTIVE SUPPLIERS

200,780 PURCHASE ORDERS RAISED

419,260 INVOICES PAID

c.£2.9bn PAID TO SUPPLIERS

STANDARDISING

As part of meeting the principles of the Prompt Payment Code, in 2017 SSE reduced its standard payment terms to net 30 days for the payment of invoices. The maximum term that SSE has agreed with suppliers in financial year 2017/18 is 60 days. Disputes are resolved on a case by case basis but SSE will introduce a formal dispute resolution process when it implements electronic invoicing later this year.

In 2016 SSE began the process of centralising its Accounts Payable department, a significant transition with payment operations moving from bases at three offices to just one single location. This change enabled the standardisation of payment systems and processes, resulting in more effective management.

SIMPLIFYING

As part of SSE's Procure to Pay Transformation Project which commenced in 2016, the company has simplified elements of its ordering process and plans to increase the use of supplier catalogues. By improving ordering practices, SSE expects to reduce the number of payments that are delayed due to invoice queries.

Some of SSE's purchasing systems already allow suppliers to submit invoices electronically, principally through Oracle iSupplier, and SSE is now working to implement a third-party solution which will enable it to offer electronic invoicing to all suppliers. This system is due to be in place in the second half of financial year 2018/19. SSE expects that by doing this, it will achieve significant reductions in the time taken to load invoices onto its systems and to give suppliers greater visibility of the status of these invoices.

SSE is also continuing to make significant technical improvements to the way in which invoices are processed for payment. There will be a simplification of processes, reducing the workload involved in administering payments, and the Accounts Payable department will also be able to intervene in a more proactive manner when there is an issue with an invoice. The combined effect of these changes is expected to increase the number of invoices that are paid when due.

EMBEDDING

SSE is firmly committed to responsible payment practices and to taking action so it continues to improve its payment performance. As well as delivering additional training to key employees, there will be a roll-out of communications across the business around payment procedures to help ensure payment processes are followed and payments are made on time. The planned SSE Energy Services transaction offers an opportunity to take advantage of the overall transformation of SSE's business to embed the right behaviours and approach for payments across the company.

DELIVERING RESULTS

SSE believes the actions it is taking to standardise, simplify and embed improved payment processes will deliver enhanced performance. SSE has therefore set a target to reduce its average payment time to 30 days by the end of financial year 2020/21.

WORKING TOWARDS EXCELLENCE

2008

UK Government creates the voluntary Prompt Payment Code

2014

SSE signs up to the Prompt Payment Code

2016

SSE centralises its Accounts Payable department to one location rather than three offices

2016

SSE commences its Procure to Pay Transformation Project

2017

SSE reduces its standard payment terms to net 30 days

2017

UK Government announces new duty to report on payment practices and performance

2018

SSE reports on its payment practices and performance ahead of regulations coming into force

2019

SSE will implement electronic invoicing for all suppliers

2019

SSE will introduce a formal dispute resolution process

2021

SSE has set a target to reduce average payment time to 30 days by 31 March 2021

¹ The figures presented in this report represent payments made by SSE's Accounts Payable department over financial year 2017/18.

DO NO HARM

With ever increasing scrutiny on corporate conduct, stakeholders rightly expect SSE to demonstrate how it is embedding a responsible business culture and ensuring no harm is done to people or places. For SSE, this goes beyond complying with legal requirements – it is about doing the right thing to keep people safe, ensure their wellbeing, and make sure people feel they can Speak Up when wrongdoing occurs.

PERFORMANCE SUMMARY

	UNIT	2017/18	2016/17
TOTAL RECORDABLE INJURY RATE – EMPLOYEES AND CONTRACTORS	Per 100,000 hours worked	0.20	0.22
ACCIDENT FREQUENCY RATE (AFR) – EMPLOYEES	Per 100,000 hours worked	0.07	0.05
ACCIDENT FREQUENCY RATE (AFR) – CONTRACTORS	Per 100,000 hours worked	0.21	0.30
ENVIRONMENTAL PROSECUTIONS AND CIVIL PENALTIES	Number	0	0
SPEAK UP CONTACTS MADE	Number	105	92
FORMAL GRIEVANCES RAISED	Number (rate per 100 employees)	143 (0.69)	153 (0.72)
FORMAL DISCIPLINARY PROCEDURES INSTIGATED	Number (rate per 100 employees)	234 (1.13)	254 (1.20)

SAFETY AS THE FIRST PRIORITY

The safety of the people who work on behalf of SSE is the company's first priority. In support of achieving its ultimate goal of injury-free working, SSE has adopted a mandate for people who work for and with SSE that is intended to emphasise that everyone has a licence to ensure safe working: *If it's not safe, we don't do it.* The adoption of this licence is being supported by an extensive and enduring commitment to employee engagement in all aspects of safety throughout SSE. The Chief Executive has Board-level responsibility for the safety of SSE's workforce, and the responsibility also extends to every person within the organisation.

In 2017/18, SSE continued to roll out its 50by20 safety campaign, working towards its targets of reducing its Total Recordable Injury Rate (TRIR), focusing on not having any life changing injuries, and encouraging everyone at SSE to

be committed to looking after their own mental and physical health and wellbeing.

MEASURING SAFETY PERFORMANCE

SSE targets the reduction of its Total Recordable Injury Rate (TRIR) for employees and contractors combined by 50% by 2020 compared to a 2017 baseline. SSE's combined TRIR per 100,000 hours worked for employees and employees of other companies working on SSE sites was 0.20 in a rolling 12-month period to 31 March 2018, decreasing from 0.22 over the same period in the previous year. The TRIR for both direct employees and contractors individually fell between 2016/17 and 2017/18, from 0.13 to 0.12 for direct employees and from 0.51 to 0.44 for contractors. In total, 104 employees and contractors were injured¹ working for SSE in 2017/18. The Accident Frequency rate per 100,000 hours worked for contractors also fell substantially, from 0.30 to 0.21, but increased slightly for direct employees from 0.05 to 0.07.

SSE's Class 1 Accountable (potential for major harm to people) Road Traffic Collisions (RTC) rose from 19 in 2016/17 to 23 in 2017/18. However, as a result of SSE's smart meter installation programme, the amount of driving also increased significantly in 2017/18 compared to in 2016/17. This means that while the total number of collisions rose, the number of combined RTC1 and RTC2 accountable collisions per million miles actually reduced by 20%, from 1.43 in 2016/17 to 1.14 in 2017/18. SSE has also reduced its number of 'Red' and 'Amber' (high risk) drivers by 45%. This was achieved through a combination of Top 20 High Risk Driver reporting and the introduction of Ultra (enhanced telemetry data reporting).

REFRAMING SSE'S SAFETY FAMILY

Reframing the way in which SSE communicates with its employees on safety matters was a key priority for SSE in 2017/18. SSE's *Safety Family* framework is the way SSE shares safety communications with its employees. This framework was completely revised following detailed focus groups and

consultations held with front line employees. This process enabled SSE to simplify the framework. It moved from containing 120 statements about safety behaviours at SSE to four key principles around common values. The language also shifted from imposing rules to focusing on how to work together:

- We take care of ourselves and each other.
- We take pride in our work and workplace.
- We plan, scan and adapt.
- We see it, sort it, report it.

Integral to SSE's Safety Family refresh has been the roll-out of 'Influencing Behaviours' workshops, which take a different approach to traditional safety training by encouraging employees to think about their habits and beliefs using psychological behavioural insights and techniques. In 2017/18, all SSEN employees and many SSEN contractors attended these sessions, and are now embarking on a second phase to further embed the principles. SSE's Wholesale, Retail, Enterprise and Corporate business areas have also been rolling out the training, and expect to complete by the end of November 2018.

HEALTH AND WELLBEING

MENTAL HEALTH

One in four people will experience a mental health issue at some point in their life. Recognising the impact on the wellbeing of its employees this can have, greater awareness and understanding around mental health was identified as a key target area. Mental health training, from a one-day course for people managers to a specific e-learning for any employee, has also been rolled-out across the SSE Group. By the end of 2017/18, around 2,700 managers had been trained on mental health and over 12,000 employees had completed the online module. SSE also now has 150 Mental Health First Aiders, who have had training and development to help them to deliver effective peer to peer support in the workplace.

In October 2017, SSE's Chief Executive and Financial Director signed the *Time to Change* pledge, to demonstrate SSE's commitment, to help change attitudes

and to encourage employees to talk about mental health.

PHYSICAL HEALTH

Alongside good mental health, SSE understands that a physically healthy workforce benefits everyone and leads to fewer accidents at work. In 2017/18, SSE introduced a new 'Know your numbers' campaign which encourages employees to regularly check key lifestyle measurements such as cholesterol and blood pressure. To make this possible, SSE installed health check kiosks at nine of its biggest sites and body analysis scales and blood pressure monitors for more than 75 of the smaller locations. Over 10,000 employees have taken part in voluntary health checks. Knowing this information can help employees make better choices towards a healthier lifestyle.

MORE THAN
12,000

EMPLOYEES HAVE COMPLETED ONLINE MENTAL HEALTH TRAINING

CASE STUDY: CREATING SUPPORTIVE PLACES TO TALK

A key aspect of SSE's focus on mental health and wellbeing has been breaking down barriers to create an open and supportive environment for employees to talk freely about their experiences. Initiatives such as encouraging employees to start meetings with 'mental health moments' are helping to do this, but SSE has also taken a bolder step to remove barriers to a traditionally taboo topic.

The world's first 'Menopause Café' opened in Perth in 2017, in the hope of giving more people an open and safe space to speak about the menopause. Following on from this, SSE was challenged to hold an event for employees to attend and talk freely about their experiences in a supportive environment. SSE employees attended an event at SSE's headquarters in Perth, at what became the world's first workplace 'Menopause Café'.

With many women working for longer and in more demanding roles, it is important that companies like SSE address the issue of menopause and ensure that employees can comfortably raise the subject at work.

¹ Total injuries defined as the total HSE Reportable Injuries, Lost Time Injuries, Medical Treatment Injuries, for employees and contractors.

REINFORCING A HEALTHY BUSINESS CULTURE

A healthy business culture is important to support value creation over the long-term. In undertaking its business activities, SSE seeks to do the right thing, and operate with transparency and integrity. Over the course of 2017/18, SSE made significant progress to advance its approach to reinforcing an ethical business culture.

GOVERNANCE OF ETHICS AND CULTURE

SSE has a robust governance structure in place to support business ethics and a series of policies which detail its commitments and standards in this area. SSE's Chief Executive has overall lead responsibility for business ethics, including at Board-level. The Executive Committee has responsibility for implementing the strategy, values and governance set by the SSE Board and decides on matters that are group-wide. SSE has a Group Governance, Culture and Controls Committee (GGCCC) which advises the Executive Committee on matters including business ethics

and culture. The GGCCC has oversight of SSE's Group Principal Risk relating to 'People and Culture'.

SSE has a number of policies to guide employees on ethical business conduct, including: SSE's Speak Up (Whistleblowing) Policy which outlines the procedures and processes for when and how to speak up about wrongdoing; SSE's Anti-Bribery and Corruption Policy which details definitions of corruption and bribery, as well as how to report any cases of suspected wrongdoing; and its 'Doing the right thing' guide to ethical business conduct which was launched in 2016/17 following guidance and feedback from the Institute of Business Ethics.

SSE recognises that rules alone are not sufficient to ensure wrongdoing is avoided – a combination of rules and values is needed to help embed a healthy business culture.

EMBEDDING CULTURE FROM THE TOP

SSE's approach is to set the tone of an ethical business culture from the top. Demonstrating commitment to the right values and behaviours at

this level reinforces the beliefs and behaviours of all employees. This is reinforced by a values-led approach to communications intended to build a sense of collective responsibility for doing the right thing.

Regular training is provided for SSE employees across a series of subject matters and in 2017/18 a new Ethics and Compliance Awareness Review Group was established to oversee the roll-out and implementation of a programme of ethics-related training interventions. SSE has tailored online training for anti-bribery, which all employees are required to complete.

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



LISTEN: CREATING A CULTURE FOR EMPLOYEES TO SPEAK UP



SSE's employees can report incidents of wrongdoing through both internal and external mechanisms. If employees are not comfortable raising incidents with their line managers, they can contact one of the five designated senior managers who have been trained to take calls for whistleblowing incidents. SSE also has an externally hosted 'Speak Up' phone line and email service, hosted by SafeCall, through which incidents can be reported. SSE put the SafeCall service in place to ensure that employees can be confident that there will be no recriminations if they report incidents of suspected wrongdoing. Whether speaking up through internal or external mechanisms, SSE's employees can remain anonymous if they choose.

ACT: RESPONDING WHEN WRONGDOING IS REPORTED



When incidents are reported, whether through internal or external mechanisms, they are referred to SSE's Group Security and Investigations team for investigation. All reports are treated in good faith and fully investigated. Investigations are undertaken sensitively and discretely, to understand whether the reports can be substantiated or not. During these investigations, interviews are undertaken and evidence is collated. Final reports of the investigations are submitted either internally for consideration of disciplinary action, or externally to law enforcement. 105 speak up contacts were made in calendar year 2017. By the end of that year, 82 either could not be proven or no further action was taken, four resulted in dismissals, six resulted in warnings issued, and 13 cases were still under review.

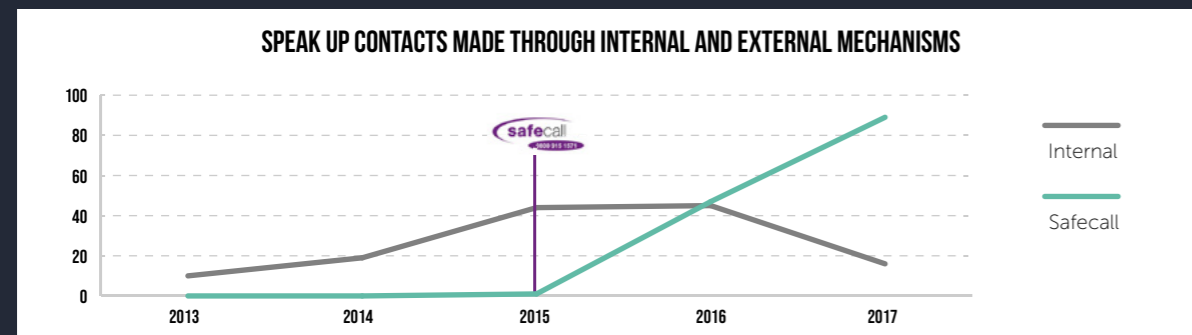
PROTECT: SUPPORTING EMPLOYEES WHO DO THE RIGHT THING



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

DILEMMA: INCREASED INSTANCES OF EMPLOYEES SPEAKING UP

In calendar year 2017, 16 Speak Up contacts were made internally and 89 were made through SafeCall, compared to 45 and 47 respectively in 2016. Almost a quarter of the contacts made in 2017 were in relation to dishonest behaviour and another fifth related to health and safety. These figures represent a significant increase in Speak Up contacts made since the SafeCall line was introduced in 2015, when 45 contacts were made in total. Whilst these figures show that wrongdoing does occur in SSE, SSE believes that, rather than an increase in unethical behaviour over recent years, the rise in the number of contacts made is a result of its extensive internal campaign to promote speaking up against wrongdoing in the organisation. As well as greater awareness generally, SSE believes these higher numbers represent employees developing increased confidence to do the right thing and report incidents. The trends in reported incidents reinforce the value of the externally hosted reporting channel and shows employees trust the system in place, often preferring it compared to reporting incidents through internal channels.



MEASURING SSE'S PERFORMANCE

The following section reports SSE's social, environmental and economic KPIs. For transparency, three years' worth of data is provided against each KPI where possible.

ENVIRONMENTAL

CONTRIBUTING TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:



	GRI STANDARD	UNIT	CHANGE*	2017/18	2016/17	2015/16
ENVIRONMENTAL MANAGEMENT						
Number of major incidents	307-1	Number	=	0	0	0
Number of serious incidents	307-1	Number	↑	11	8	11
Number of minor incidents	307-1	Number	↓	44	57	20
Environmental prosecutions and civil penalties	307-1	Number	=	0	0	0
CARBON EMISSIONS						
Scope 1 emissions (emissions from operations owned or controlled by the organisation) ¹	305-1	000s tonnes CO ₂ e	↑	10,155 ^(A)	8,004 ^(A)	11,021 ^(A)
Scope 2 emissions (emissions from the generation of purchased electricity, heating and cooling consumed by the organisation) ²	305-2	000s tonnes CO ₂ e	↓	832 ^(A)	1,034 ^(A)	1,138 ^(A)
Scope 3 emissions (emissions that occur outside of the organisation in support of its activities) ³	305-3	000s tonnes CO ₂ e	=	10,621 ^(A)	10,357 ^(A)	10,375 ^(A)
Total carbon emissions		000s tonnes CO ₂ e	↑	21,609 ^(A)	19,395 ^(A)	22,534 ^(A)
Carbon intensity of electricity generation	305-4	g CO ₂ e per kWh	=	307	304	397
EMISSIONS TO AIR						
SO ₂ - thermal generation	305-7	Tonnes	↑	1,791	1,564	6,704
NO _x - thermal generation	305-7	Tonnes	=	5,612	5,555	10,685
SF ₆ - thermal generation, transmission and distribution activities	305-7	KG	↑	518.6	394.5	434.1
ENERGY CONSUMPTION						
Carbon Reduction Commitment (CRC) performance (absolute)		Tonnes CO ₂ e	↓	17,675	19,923	20,276
CRC target achieved compared to base	302-4	% reduction	↑	31.0	21.0	19.0
Total electricity consumption in non-operation buildings	302-1	kWh	↑	128,741,306	120,960,005	102,485,611
Total gas consumption in non-operation buildings	302-1	kWh	↑	7,856,736	7,101,157	6,295,651
Total energy consumption in non-operation buildings	302-1	kWh	↑	136,598,042	128,061,162	108,781,263
WATER CONSUMPTION						
Total water abstracted	303-1	Million m ³	↑	24,044 ^(A)	22,658 ^(A)	28,856
Total water consumed	303-1	Million m ³	↑	7.6 ^(A)	5.0 ^(A)	8.1
Total water returned	306-1	Million m ³	↑	24,037 ^(A)	22,654 ^(A)	28,848
Total water abstracted and returned - hydro	303-1	Million m ³	↑	23,506	22,184	28,563
Total water consumed - buildings		Million m ³	=	0.089	0.092	0.078
Total water abstracted - thermal	303-1	Million m ³	↑	537.9	473.9	292.5
Total water consumed - thermal	303-1	Million m ³	↑	7.0	4.4	8.0
Total water returned - thermal	306-1	Million m ³	↑	530.9	469.5	284.6
BUSINESS TRAVEL						
Fuel used in operational plant and vehicles	302-1	Litres	=	14,383,371	14,349,772	14,231,632
Flights - distance travelled		km	↑	15,209,850	13,193,514	20,576,438
Train - distance travelled		km	↑	7,522,534	6,125,637	7,039,160
Company cars - distance travelled		km	↑	37,708,728	33,630,814	41,452,578

* Arrows denote a change of 5% or more between 2016/17 and 2017/18.

(A) SSE's GHG and water data has been independently assured by PwC LLP. The assurance statement and the criteria used for reporting, along with SSE's submission to the CDP Climate Change Programme, can be found at sse.com/beingresponsible.

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

² Scope 2 comprises electricity distribution losses and electricity consumption in non-operational buildings and substations - transmission and distribution.

³ Scope 3 comprises upstream emissions associated with the extraction, refining and transport of raw fuels purchased, SHE Transmission losses, gas sold and business travel.

ECONOMIC

**CONTRIBUTING TO THE UNITED NATIONS
SUSTAINABLE DEVELOPMENT GOALS:**


	GRI STANDARD	UNIT	CHANGE*	2017/18	2016/17	2015/16
FINANCIAL PERFORMANCE						
Adjusted profit before tax (PBT)	102-7	£m	↓	1,453.2	1,545.9	1,513.5
Adjusted earnings per share		Pence per share	=	121.1	125.7	119.5
Dividend per share		Pence per share	=	94.7	91.3	89.4
TAXATION						
Adjusted current tax charge	201-1	£m	↓	130.7	157.7	193.4
Payment of UK corporation tax	201-1	£m	↑	124.2	96.8	130.8
Total taxes paid in UK	201-1	£m	↑	484.1	385.0	453.9
Payment of Irish corporation tax	201-1	€m	↑	6.5	-0.9 ¹	0.04
Total taxes paid in Ireland	201-1	€m	↑	22.6	16.5	15.2
INVESTMENT AND SUPPLY CHAINS						
Total investment and capital expenditure (adjusted)	201-1	£m	↓	1,503.0	1,726.2	1,618.7
Renewable generation investment (adjusted)	203-1	£m	↓	301.7	366.4	291.8
Thermal generation investment (adjusted)	203-1	£m	↓	89.0	108.6	90.8
Networks investment (adjusted)	203-1	£m	=	760.3	789.7	831.7
Total procurement spend	102-9	£bn	=	c.2.9	c.3.0	c.2.7
Value of Open4Business contracts	204-1	£m	↓	12.9	36.9	22.8
ECONOMIC CONTRIBUTION						
Total economic contribution - UK GDP ²	201-1	£bn	↓	8.55	9.26	8.87
Total economic contribution - Scotland GDP ²	201-1	£m	=	1,819	1,899	1,555
Total economic contribution - Ireland GDP ²	201-1	€m	=	806	779	795
Total jobs supported - UK ³	203-2	Number	=	99,000	103,720	113,640
Total jobs supported - Ireland ³	203-2	Number	=	4,520	4,720	4,910
Total jobs supported - Scotland ³	203-2	Number	=	17,360	17,000	17,290
NETWORKS OPERATIONS						
Networks customers on Priority Services Register (PSR)		Number	↑	574,047	487,202 ⁴	451,490
Electricity distributed		TWh	=	39.2	39.3	39.5
Customer minutes lost - SHEPD	203-1	Average per customer	↓	55	60	55
Customer minutes lost - SEPD	203-1	Average per customer	↑	48	43	41
Customer interruptions - SHEPD	203-1	Per 100 customers	↓	57	68	66
Customer interruptions - SEPD	203-1	Per 100 customers	↑	55	48	47
Regulated Asset Value - Transmission, Distribution and SSE's share in SGN ⁵		£m	↑	8,304	7,679	7,957
Total renewable generation capacity connected to SSEN's electricity transmission network		MW	↓	398	548	320

* Arrows denote a change of 5% or more between 2016/17 and 2017/18.

1 In FY17, the ROI group received a net corporation tax refund of €0.9m. A refund of €1m was received in relation to FY14 as preliminary corporation tax was overpaid for that period. A preliminary tax payment of €0.1m was made in relation to FY17 due to the availability of capital allowances.

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

3 Measured as headcount, from analysis undertaken by PwC.

4 This number has been restated.

5 SSE's share in SGN reduced from 50% to 33% from 26 October 2016.

	GRI STANDARD	UNIT	CHANGE*	2017/18	2016/17	2015/16
ENERGY SUPPLY AND RETAIL OPERATIONS						
Total Retail customer accounts ⁶		Million	↓	8.03	8.47	8.61
Retail customer complaints to third parties (GB) ⁷		Number	↑	1,616	1,322	1,416
uSwitch overall customer satisfaction rating ⁸		%	↓	71	76	74
Satisfaction amongst domestic customers with service provided by SSE Airtricity (ROI)(gas/electricity) ⁹		%	N/A	n/a	92/88	85/89
Household/small business aged debt (GB, Ire)		£m	↑	85.8	80.2	103.2
SSE customers on Standard Variable Tariffs (GB)		%	=	c.68	c.70	c.90
Customers that have received assistance from SSE through Warm Homes Discount (WHD) scheme		Number	=	352,677	359,505 ¹⁰	325,194
Accumulative total of homes fitted with energy efficiency measures as part of Energy Company Obligation (ECO), since the scheme started in 2013 ¹¹		Number	↑	332,102	313,668	264,522
Smart meters on supply		Number	↑	>850,000	>500,000	>180,000
DIVERSITY OF ELECTRICITY GENERATION PORTFOLIO						
Total renewable generation output (inc. pumped storage)		GWh	↑	9,428	7,955	9,695
Total thermal generation output		GWh	↑	23,670	18,341	18,081
Total generation output (all plant)		GWh	↑	33,098	26,296	27,776
Renewable generation (inc. pumped storage) - proportion of total output		%	↓	28.4	30.3	34.9
Total renewable generation capacity (inc. pumped storage)		MW	↑	3,826	3,309	3,275
Total thermal generation capacity		MW	=	7,334	7,334	7,282
Total electricity generation capacity		MW	=	11,160	10,643	10,557
Renewable generation (inc. pumped storage) - proportion of total capacity		%	↑	34.2	31.1	31.0
SSE total generation capacity in construction		GW	↑	1.3	1.1	0.5
SSE total generation capacity potential pipeline		GW	↓	Over 5	Over 6	Over 4
SSE renewable generation capacity in construction		GW	↓	0.5	1	0.5
SSE renewable generation capacity potential pipeline		GW	=	Over 2.5	Over 2.5	Over 3

* Arrows denote a change of 5% or more between 2016/17 and 2017/18.

6 Includes domestic and business customers across the UK and Ireland.

7 Ombudsman: Energy Services and Citizens Advice.

8 The uSwitch independent survey asks energy customers to rate energy suppliers in a number of areas, including customer service, online service and value for money.

9 From the Commission for Energy Regulation (CER) consumer survey reports. Results for 2017/18 will be available later in 2018.

10 The WHD scheme usually runs between 1 June and 31 March annually. The 2016/17 scheme was delayed while awaiting new regulations, and was open between 23 July 2016 to 31 May 2017.

11 Historic figures may vary from previously reported figures, due to Energy Efficiency savings being verified and determined by the scheme administrator throughout the scheme. Until such time as savings are determined, the number of measures or properties treated in a scheme can change while verification checks are completed by the administrator.

SOCIAL

**CONTRIBUTING TO THE UNITED NATIONS
SUSTAINABLE DEVELOPMENT GOALS:**


	GRI STANDARD	UNIT	CHANGE*	2017/18	2016/17	2015/16
SAFETY						
Accident Frequency Rate - employees and contractors combined	403-2	Per 100,000 hours	↓	0.10	0.11	0.1
Accident Frequency Rate - employees/contractors	403-2	Per 100,000 hours	↑/↓	0.07/0.21	0.05/0.30	0.07/0.22
Total Recordable Injury Rate - employees and contractors combined	403-2	Per 100,000 hours	↓	0.20	0.22	0.23
Total Recordable Injury Rate - employees/contractors	403-2	Per 100,000 hours	↓/↓	0.12/0.44	0.13/0.51	0.15/0.56
Fatal incidents - employees/contractors	403-2	Number	=/↓	0/0	0/1	0/0
Accountable Road Traffic Collision (RTC) Class 1 (Potential for major harm to people and the environment)		Number	↑	23	19	29
Accountable RTC Class 1 and RTC Class 2 (Potential for serious harm to people and the environment)		Rate per million miles	↓	1.14	1.43	-
WORKFORCE COMPOSITION						
Total SSE employees ¹	102-7	Number	=	20,785	21,157	21,118
Contingent labour force size ²	102-8	Number	↑	4,851	4,074	-
Average age of employees ³	405-1	Years	=	40.5	40	40
Mean/median length of service		Years	=/=	9.52/7.52	9.27/7.17	9.43/7.22
Average employee earnings ⁴		£	↑	43,144	40,723	39,990
Employees with flexible working arrangements ⁵		%	=	11.9	11.5	11.4
Employees covered by Living Wage (UK only)		%	=	100	100	100
Employees covered by Minimum Wage		%	=	100	100	100
GENDER BALANCE						
Proportion of employees that are female	405-1	%	=	31.1	31.4	30.9
Diversity of Board of Directors	401-1	% female	↓	30.0	33.3	33.3
Total SSE plc (UK) median gender pay gap	405-2	%	=	19.6	19.3	18.7
Male/female employees earning over £40,000	405-2	%	=/↑	25.7/14.3	24.7/12.8	25.3/11.9
Executive Committee and Direct Reports to the Executive Committee (excluding administrative roles) ⁶	405-1	% female	↑	19.1	18.2	-
WORKFORCE STABILITY AND WELLBEING						
Total number of hours worked ⁷		Number	=	38,780,846	39,534,659	39,128,900
Employees on permanent/temporary/non-guaranteed or short hour contracts		%	=/↑/↓	95.3/4.4/0.2	96.3/3.4/0.3	-
Employee retention rate ⁸	401-1	%	=	86	86	89
Regrettable or voluntary turnover ⁹		Number (% of total turnover)	= (↑)	1,817 (63.7%)	1,751 (57.9%)	-
Lost days due to sickness	403-2	Number	↑	215,738	204,122	182,058
Employees covered by the negotiating arrangements under the Joint Negotiating and Consultative Committee	102-41	%	=	65	66	75
Ratio of CEO earnings to average employee earnings ¹⁰	102-38	Number:1	↓	62:1	72:1	42:1
Employee productivity - Direct contribution to GDP per capita (UK)		£	↓	148,120	172,000	129,700
Employee productivity compared to national averages - UK ¹¹		Number:1	↓	2.6:1	3.1:1	2.4:1

	GRI STANDARD	UNIT	CHANGE*	2017/18	2016/17	2015/16
Employee productivity compared to national averages - Scotland ¹²		Number:1	↓	2.9:1	3.4:1	2.7:1
Employee productivity compared to national averages - Ireland ¹³		Number:1	=	2.3:1	2.4:1	2.4:1
EMPLOYEE SKILLS AND CAPABILITIES						
Investment in learning and development ¹²	404-2	£m	=	9.8	9.5	-
Investment in pipeline programmes ¹³	404-2	£m	↑	15.4	9.4	12.7
Average training hours per full-time equivalent	404-2	Number	=	22	21	-
EMPLOYEE ENGAGEMENT						
Employee engagement survey participation ¹⁴		%	N/A	82	-	89
Employee engagement survey result ¹⁴		% engagement index	N/A	73	-	77
Employees participating in the share incentive plan		%	↓	58	75	64
Employees participating in the sharesave plan		%	=	42	43	41
BUSINESS ETHICS						
Speak up contacts made	102-17	Number	↑	105	92	45
Formal grievances raised		Number (Rate per 100 employees)	↓ (=)	143 (0.69)	153 (0.72)	73 (0.35)
Formal disciplinary procedures instigated		Number (Rate per 100 employees)	↓ (↓)	234 (1.13)	254 (1.20)	271 (1.29)
Human rights grievances filed through formal mechanisms	102-17	Number	=	0	0	0
COMMUNITY						
Employee days donated to charity		Number	↓	2,494	3,407	3,422
Employees involved in community volunteering		%	↓	11.4	16	17
Value of employee days donated to charity ¹⁵		£	↓	274,282	361,155	355,361
Community Investment Funds		£m	=	5.70	5.78	3.69
Investment in communities ¹⁶		£m	↓	6.51	6.93	4.83

* Arrows denote a change of 5% or more between 2016/17 and 2017/18.

1 Headcount as at 31 Mar in each financial year – figure includes all SSE UK and ROI employees, excludes contingent/agency staff.

2 A contingent worker describes external personnel where the business determines that it cannot fulfil the requirement internally. A contingent worker can be a Consultant, Contractor or Temporary Agency Worker.

3 Based on average of all ages as at 31 March in each financial year.

4 Average employee earnings are based on staffing costs calculated on the same basis as Note 8.1 of the accounts in SSE's Annual Report 2018 (page 167), excluding social security costs.

5 Defined as employees with working hours of <1.0 FTE. From 2017/18, SSE has begun asking employees via its annual employee survey whether they have the ability to 'work differently', which provides a wider definition of agile working. SSE intends to report employee responses to this question from 2018/19 onwards.

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

7 Based on standard contractual hours over a 52-week period (excludes Overtime and Standby).

8 Excludes end of fixed term contracts and internal transfers.

9 Based on turnover reason of 'Regretted' as at 31 March of each financial year.

10 See page 131 in SSE's Annual Report 2018 for further details.

11 Based on GVA per capita and data provided by the UK's Office for National Statistics (ONS) and Ireland's Central Statistics Office (CSO), from PwC analysis.

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

13 Total cost of apprentice, engineering graduate and Technical Skills Trainee programmes, including salary costs.

14 SSE undertakes its employee 'Great Place to Work' (GPTW) survey every two years.

15 Calculated using the median base salary for those financial years (2015/16: £27,000, 2016/17: £27,561, 2017/18: £28,594).

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

SSE'S UK GENDER PAY GAP AS AT 5 APRIL 2018

Read more on [pages 36 to 37](#).

SSE BUSINESS ENTITY WITH 250 OR MORE EMPLOYEES ¹	NUMBER OF RELEVANT EMPLOYEES IN ENTITY	PROPORTION OF MALE AND FEMALE EMPLOYEES IN BUSINESS ENTITY (M%/F%)	MEAN HOURLY PAY DIFFERENCE BETWEEN MALE AND FEMALE EMPLOYEES (%)	MEDIAN HOURLY PAY DIFFERENCE BETWEEN MALE AND FEMALE EMPLOYEES (%)	PROPORTION OF MEN/WOMEN IN LOWER QUARTILE PAY BAND (M%/F%)	PROPORTION OF MEN/WOMEN IN LOWER MIDDLE QUARTILE PAY BAND (M%/F%)	PROPORTION OF MEN/WOMEN IN UPPER MIDDLE QUARTILE PAY BAND (M%/F%)	PROPORTION OF MEN/WOMEN IN UPPER QUARTILE PAY BAND (M%/F%)	MEAN DIFFERENCE IN BONUS PAYMENT BETWEEN MALE AND FEMALE EMPLOYEES (%)	MEDIAN DIFFERENCE IN BONUS PAYMENT BETWEEN MALE AND FEMALE EMPLOYEES (%)	PROPORTION OF MEN/WOMEN RECEIVING BONUS PAY (M%/F%)
SSE Electricity Ltd	5,242	42.1/57.9	15.7	3.9	41.1/58.9	40.9/59.1	34.6/65.4	54.5/45.5	58.2	52.1	13.5/9.2
SSE Services plc	1,602	56.5/43.5	29.1	30.1	35.4/64.6	49.1/50.9	65.2/34.8	77.6/22.4	70.4	24.1	31.8/27.0
SSE Contracting Ltd	2,136	88.9/11.1	22.3	20.1	77.8/22.2	86.6/13.4	96.0/4.0	95.4/4.6	-62.2*	-784.0*	65.5/11.8
SSE Metering Ltd	2,927	84.7/15.3	2.7	11.5	83.5/16.5	75.8/24.2	94.8/5.2	86.5/13.5	15.6	7.4	25.8/9.2
SE Power Distribution plc	2,362	81.4/18.6	15.6	18.3	71.9/28.1	77.8/22.2	85.8/14.2	91.0/9.0	8.2	19.9	10.0/6.2
SSE Generation Ltd	690	86.8/13.2	23.3	24.9	80.8/19.2	79.1/20.9	91.9/8.1	96.5/3.5	54.6	20.3	79.8/80.2
SHE Power Distribution plc	1,375	83.3/16.7	16.6	17.9	75.4/24.6	79.2/20.8	88.2/11.8	89.7/10.3	53.9	25.5	17.9/10.4
SSE Energy Supply Ltd	719	44.9/55.1	10.0	0.0	47.5/52.5	42.9/57.1	37.1/62.9	52.8/47.2	60.9	41.9	18.9/8.8
SSE Home Services Ltd	511	79.5/20.5	23.9	25.0	42.1/57.9	89.0/11.0	97.6/2.4	92.8/7.2	-5.3	-27.3	77.3/1.9
SHE Transmission plc	454	82.4/17.6	26.8	31.7	63.2/36.8	79.6/20.4	92.0/8.0	94.7/5.3	29.7	22.3	47.6/40.0
SSE Renewables Holdings (UK) Ltd	287	65.9/34.1	29.6	33.1	50.0/50.0	70.8/29.2	59.2/40.8	83.3/16.7	43.6	17.9	76.2/58.2
SSE Telecommunications Ltd	338	78.4/21.6	29.2	34.2	53.6/46.4	77.4/22.6	90.5/9.5	94.0/6.0	51.1	26.7	24.5/13.7
TESGL Ltd	275	80.4/19.6	36.3	42.5	42.0/58.0	92.6/7.4	91.2/8.8	95.7/4.3	66.9	68.4	69.2/40.7
Total SSE plc (UK)	19,942	69.0/31.0	21.5	19.6	55.4/44.6	59.9/40.1	80.1/19.9	83.0/17.0	28.3	0.1	35.4/14.7

¹ SSE's business entities as at 5 April 2018 reflect changes made in the company structure on 1 April 2018. These changes were made as part of the proposed SSE Energy Services transaction.
* See pages 36 to 37 for more details.

SSE'S GREEN BOND REPORTING

SSE issued its first ever Green Bond in September 2017. A commitment was given to update investors each year and the information below represents SSE's first annual Green Bond update to investors. It covers the allocation of proceeds and environmental impact from SSE's Green Bond, in accordance with the Green Bond Framework published on SSE's website at sse.com/investors.

SSE's Tax and Treasury Committee, led by SSE's Finance Director, evaluated and selected eligible green projects for inclusion in its Green Bond Framework. These eligible projects were completed in the 24 months up to 31 August 2017 or were due to be completed in the near future. The main criteria for a project to be eligible within the Green Bond Framework was that it must make a positive environmental impact, support SSE's commitment to the ongoing reduction of the carbon intensity of its electricity generation and finally, support the United Nations Sustainable Development Goal 13 (to take urgent action to combat climate change and its impacts).

ALLOCATION OF PROCEEDS

The proceeds of the Green Bond have been allocated to refinancing part of SSE's £1.1bn portfolio of eligible projects of onshore wind farms in the UK and Ireland, as listed in SSE's Green Bond Framework. It is SSE's intention, where possible, to maintain a ratio of 1.2 to 1 of eligible green projects to total Green Bonds outstanding.

Table 1 includes the details of SSE's inaugural Green Bond, including the total value allocated to eligible green projects in Sterling. The proceeds from SSE's inaugural Green Bond were directly allocated to the refinancing of eligible green projects listed in the Green Bond Framework, and therefore fully employed at settlement. The allocation to specific eligible green projects is listed in Table 2, and has been independently verified by PwC LLP. The assurance statement and the criteria used for reporting can be found at sse.com/beingresponsible.

TABLE 1: SSE PLC'S INAUGURAL GREEN BOND DETAILS

ISSUER	SSE PLC
ISIN	XS1676952481
SIZE	€600,000,000
GBP:EUR 6 SEPTEMBER 2017	1.09404
LISTING	LONDON STOCK EXCHANGE
PRICING DATE	30 AUGUST 2017
SETTLEMENT DATE	6 SEPTEMBER 2017
MATURITY DATE	6 SEPTEMBER 2025
ALLOCATION TO ELIGIBLE PROJECTS	€600,000,000 (£548,426,017.30)

TABLE 2: ALLOCATION OF GREEN BOND PROCEEDS TO REFINANCING ELIGIBLE GREEN PROJECTS

ELIGIBLE GREEN PROJECT (ONSHORE WINDFARMS)	LIFE CAPEX SPEND UP TO 31 AUG 2017 (Million)	TOTAL FORECAST CAPEX SPEND (Million)	CAPACITY FULLY OPERATIONAL 31 AUG 2017 (MW)	CAPACITY IN CONSTRUCTION 31 AUG 2017 (MW)	DATE FULLY OPERATIONAL	ALLOCATION OF GREEN BOND PROCEEDS (Million)	PERCENTAGE ALLOCATION TO GREEN BOND**	QUALIFYING CAPACITY (MW)	OVERALL OUTPUT (GWh)***	QUALIFYING OUTPUT (GWh)	OVERALL CARBON SAVED (tCO ₂ e)***	QUALIFYING CARBON SAVED (tCO ₂ e)
Strathy North	£102.9	£102.9	67	-	Nov-15	£102.9	100%	67	114	114	40,113	40,113
Tievenameenta	£41.5	£41.2	34	-	Feb-17	£41.5	100%	34	61	61	21,340	21,340
Slieve Divena 2	£26.5	£27.4	19	-	Jun-17	£26.5	100%	19	34	34	11,953	11,953
Comhlach Gaoithe Teoranta (Galway Wind Park)	£81.9	£86.5	66	-	Jun-17	£81.9	100%	66	131	131	45,984	45,984
Dunmaglass	£174.4	£187.1	94	-	Aug-17	£174.4	100%	94	190	190	66,832	66,832
Clyde Extension	£130.2	£201.0	-	112*	Sep-17	£100.1	77%	86	208	160	73,147	56,237
Bhlaraidh	£103.5	£124.9	-	110	Oct-17	£21.1	20%	22	122	25	42,890	8,744
Leanamore	£14.6	£30.8	-	18	Feb-18	-	-	-	11	-	3,691	-
Stronelairg	£101.6	£296.6	-	228	Expected 2019	-	-	-	-	-	-	-
TOTAL	£777.1	£1,098.4	280	468		£548.4		389	870	715	305,950	251,202

* Reported MW and Capex to August 2017 reflects SSE's 65% equity ownership in Clyde Windfarm (Scotland) Limited as at 31 March 2018.

** Percentage allocation to green bond is calculated using the allocation of the green bond proceeds (million) against the life capex spend to 31 August 2017 (million).

*** Output for reporting period 31 August 2017 to 1 April 2018.

**FOR FURTHER INFORMATION
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