



Consolidated Segmental Statement (CSS)

For the year ended 31 March 2018



SSE Draft Consolidated Segmental Statement (CSS)

Year ending 31 March 2018	Unit	Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
		2018	2018		2018	2018	2018	2018	
Total Revenue	£M	1,524.2	836.2	2,360.4	2,402.5	2,279.1	1,408.1	225.0	6,314.7
Revenue from sales of electricity and gas	£M	1,065.4	775.0	1,840.4	2,388.2	2,278.8	1,407.9	225.0	6,299.9
Other Revenue	£M	458.8	61.2	520.0	14.3	0.3	0.2	0.0	14.8
Total Operating Costs	£M	1,402.1	223.9	1,626.0	2,257.8	2,209.8	1,254.9	231.0	5,953.5
Direct fuel costs	£M	697.6	0.0	697.6	867.5	972.1	633.3	135.5	2,608.4
Transportation Costs	£M	64.6	87.1	151.7	597.8	586.2	334.1	53.6	1,571.7
Env. & Social Obligation Costs	£M	224.7	0.0	224.7	424.9	535.6	18.3	0.0	978.8
Other Direct Costs	£M	254.1	-2.9	251.2	24.1	53.3	17.8	28.9	124.1
Indirect Costs	£M	161.1	139.7	300.8	343.5	62.6	251.4	13.0	670.5
EBITDA	£M	122.1	612.3	734.4	144.7	69.3	153.2	-6.0	361.2
DA	£M	33.9	162.2	196.1	22.5	0.3	15.0	0.0	37.8
EBIT	£M	88.2	450.1	538.3	122.2	69.0	138.2	-6.0	323.4
Volume	TWh, mTherms	20.9	7.9	28.8	14.8	20.1	1,208	294	
WACOF/E/G	£/MWh,p/th	44.10	0.00		58.75	48.39	52.4	46.0	
Customer numbers	000s				3,913	395	2,591	69	6,968

Please refer to the notes below to gain a full understanding of how the CSS numbers have been prepared.



Independent auditor's report to the directors of SSE plc

We have audited the accompanying statement (the "Consolidated Segmental Statement" or "CSS") of SSE plc as at 31 March 2018 in accordance with the terms of agreement dated 12 February 2015. The CSS has been prepared by the Directors of SSE plc based on the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together the "Licences") and the basis of preparation on pages 5 to 13.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 246 to 247 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £30 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the attached CSS of SSE plc as at 31 March 2018 is prepared, in all material respects, in accordance with:

- (i) the requirements of Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences; and
- (ii) the basis of preparation on pages 5 to 13.

Basis of accounting and restriction of distribution

Without modifying our opinion, we draw attention to pages 5 to 13 of the CSS, which describes the basis of preparation. The CSS is prepared in order for SSE plc and its Licensees to meet the Licence requirements rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 5 to 13. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting under UK GAAP or IFRS as relevant. As a result, the schedule may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the Directors of SSE plc, in accordance with the agreement between us, to assist the Directors in reporting the CSS to the Regulator Ofgem. We permit this report to be disclosed on the Company's website to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and SSE plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

The maintenance and integrity of the SSE plc website is the responsibility of SSE plc; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that might have occurred to the CSS since it was initially presented on the website.



BASIS OF PREPARATION AND DISCLOSURE NOTES

The Group's operating segments are those used internally by the Board to run the business and make strategic decisions. On 8 November 2017, SSE announced its intention to dispose of its GB domestic supply and energy related services business in a demerger with nPower. Following this announcement, the presentation of financial information to the Board changed, resulting in a change of the operating segments. During the review of operating segments triggered by the Retail transaction, it was also assessed that the Energy Portfolio Management activity should also be presented as a standalone segment to reflect its contribution to the Group. The types of products and services from which each reportable segment derives its revenues are:

Business Area	Reported Segments	Description
Networks	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England.
	Electricity Transmission	The economically regulated high voltage transmission of electricity from generating plant to the distribution network in the North of Scotland.
	Gas Distribution	SSE's share of Scotia Gas Networks, which operates two economically regulated gas distribution networks in Scotland and the South of England.
Retail	SSE Energy Services – Supply	The supply of electricity and gas to residential customers in GB
	SSE Energy Services – Energy Related Services	The provision of energy related goods and services to residential customers in GB including meter reading and installation, boiler maintenance and installation and domestic telecoms and broadband services.
	Business Energy	The supply of electricity and gas to business customers in GB
	Airtricity	The supply of electricity, gas and energy related services to residential and business customers in the Republic of Ireland and Northern Ireland.
	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including electrical contracting, private energy networks, lighting services and telecoms capacity and bandwidth.
Wholesale	Electricity Generation	The generation of power from renewable and thermal plant in the UK and Ireland.
	Energy Portfolio Management (EPM)	The optimisation of SSE's power and gas and other commodity requirements.
	Gas Storage	The operation of gas storage facilities in the UK.
	Gas Production	The production and processing of gas and oil from North Sea fields.



The Group's reportable operating segments for 'Retail' and 'Wholesale' are substantially aligned to the business segments reported in the Consolidated Segmental Statement (CSS). However, it should be recognised that there are differences between the two disclosures, primarily driven by the Licence requirements - these are described in the notes below and shown in the table reconciling the CSS to the financial statements.

The financial information presented in the CSS is based on operating activities of a GB electricity generation business (part of the reported "Electricity Generation" segment described above) and four GB energy supply businesses (part of the reported "SSE Energy Services – Supply" and "Business Energy" segments described above).

How the accounts are presented

The paragraphs that follow describe how SSE's generation, EPM and supply business interact with each other, defines the revenues, costs and profits of each business and describe in more detail the transfer pricing arrangements in place for the financial year ended 31 March 2018.

Summary

The Generation business sells power in respect of coal, gas and renewable generation and Renewable Obligation Certificates (ROCs) from wind and qualifying hydro to EPM. It also receives external income in respect of ancillary services and balancing market participation. It purchases its requirement for gas, coal, oil and carbon from EPM.

SSE Energy Services - Energy Supply sells electricity and gas to 6.5m domestic customers and Business Energy sells electricity and gas to 0.5m business customers in Great Britain. It procures power, gas, ROCs and LECs from EPM.

EPM acts as a trading intermediary for Generation and SSE's energy supply businesses. It acts as a route to market for Generation and as counterparty with the external market for the procurement of energy for SSE's energy supply businesses. *Note - EPM does not form part of the CSS but its turnover and EBIT is included in the table on page 12 which shows the reconciliation to the SSE Financial Statements.*

The forward hedging policies for Generation and SSE's energy supply businesses are determined by SSE's Risk and Trading Committees for the Wholesale and Retail divisions, whose responsibilities and roles are described on page 217 of SSE Financial Statements for the year ended March 2018.



Generation

Generation does not engage in the trading of energy; it receives its revenue selling power to EPM. Power is sold at arm's length at wholesale market prices prevailing at the time the generation output is committed in accordance with Generation hedging policies. Any difference or reconciliations are priced at the spot price on the day. Revenue includes the sale of ROCs generated from qualifying plant to EPM. Other revenues include ancillary services, capacity income, balancing market participation and other miscellaneous income. Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long term external purchase contracts and the impact of financial hedges. Transportation costs include Use of System charges and market participation costs. Environmental and social costs include carbon costs (EUETS and Carbon Price Floor). Other direct costs include PPA costs, site costs and management charges from EPM. Indirect costs include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (which are reported in the environmental and social obligations cost line in the CSS).

Generation as presented in the CSS includes revenue and operating profit for wholly owned thermal and renewable generation and also a proportion of turnover and operating profit in respect of Joint Ventures, Joint Operations and Associate generation companies¹. The principal Joint Ventures, Joint Operations and Associates included are Seabank Power Ltd, Marchwood Power Ltd, Multifuel Energy Ltd, Walney (UK) Offshore Windfarms Ltd and Greater Gabbard Offshore Winds Ltd. A full list can be found in note A3 of SSE's audited financial statements.

The depreciation shown in the CSS is the underlying amount and excludes exceptional generation asset impairments made at March 2018 (see paragraph at end of the CSS on exceptional items and certain re-measurements). Generation volumes are the volume of power that can actually be sold in the wholesale market.

The Generation profitability statements bear the risks and rewards for plant performance and renewable generation output, changes in market 'spark' and 'dark' (the marginal profit for generating electricity by gas and coal), changes in the power price achieved for renewable generation, changes in government and EU policy particularly surrounding emissions and in respect of renewable generation and the impact of weather.

The Generation profit and loss account above is presented split between Conventional and Renewable generation. Conventional generation is considered to be any generation where fuel is consumed to produce electricity and includes gas, coal and biomass/waste fuelled generation. Renewable generation is considered to be where no fuel is consumed to produce electricity and includes wind, hydro and pump storage powered generation.

¹ The tolling arrangements that SSE has with its joint venture companies Seabank Power Ltd and Marchwood Power Ltd provide SSE with contractual entitlement to 100% of the output of the power stations. Accordingly, SSE has reported its rights to those volumes within its Generation statistics and has also, as mandated by Ofgem, included 50% of the JV revenue in the CSS.



Revenues are the value of electricity and gas supplied to domestic and business customers in Great Britain during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end. Total sales volumes are based on national external settlements data. Revenue is expressed net of discounts, loyalty products and Warm Home Discount (WHD) and other social tariff costs. Retail volumes are expressed at customer meter point net of transmission and distribution losses. Other revenue includes other trading income.

The energy supply businesses do not engage in the trading of electricity and gas and procure all of their electricity and gas from EPM. The method by which EPM procures energy at an arm's length arrangement on behalf of SSE's energy supply businesses is governed by the forward hedging policy. The forward trades between SSE's energy supply businesses and EPM are priced at wholesale market prices at the time of execution and any differences in volume and reconciliation at the time of delivery is marked to the spot price on the day. Domestic WACOE (weighted average cost of electricity) also includes payments in respect of a legacy Power Purchase Agreement in place until 31 March 2018. Domestic WACOG (weighted average cost of gas) also includes the energy cost element of Reconciliation by Difference (RbD) and Unidentified Gas (Nexus). The WACOE and WACOG for non domestic electricity and gas supply also consist of trades marked to wholesale prices when committed at the point of sale for fixed price customer contracts or when a customer instructs SSE to purchase energy in respect of flexi-priced contracts. This transfer pricing methodology reflects how SSE actually acquired its energy.

Transportation (network) costs include: electricity transmission and distribution use of system costs; gas transportation; the transportation cost element of RbD; and market participation costs. Environmental and social costs relate to policies designed to modernise and decarbonise the energy system in Great Britain and include ROCs, Levy Exempt Certificates, Feed In Tariff, Energy Company Obligation (ECO), charges under the capacity mechanism and CfD schemes and charges in relation to 'assistance for areas with high electricity distribution costs' (AAHEDC). The cost of the liabilities for ROCs, Feed in Tariff and AAHEDC are allocated between the domestic and non-domestic electricity segments based on reported volume at customer meter.

Other direct costs include: settlement costs, wider Smart Metering costs, management charges from EPM and commissions paid to Third Party Intermediaries and Internet Comparison Sites.

Indirect costs include: sales and marketing, customer service, bad debts, commercial costs, central costs - including information technology, property, corporate, telecoms costs, metering asset and meter reading costs and operational Smart Metering costs (net of revenues). Where costs cannot be directly allocated to a particular customer segment (domestic/non domestic) or fuel (electricity/gas), they have been allocated using costing models based on activity, customer billing or customer numbers - whichever is the most appropriate. Depreciation charges relate to Smart Metering Systems and IT assets.

SSE's energy supply businesses' profit and loss account bear the risk and rewards arising from the volatility in demand for energy, caused by the weather, consumption per customer and customer churn. In addition they are exposed to swings in wholesale costs and the uncertainty surrounding government environmental and social schemes.



As well as acting as an intermediary for Generation and SSE's energy supply businesses, EPM also conducts some additional activities including risk managed trading of energy related commodities in GB and Ireland. The EBIT for EPM for the financial year ended March 2018 was a profit of £46m.



Business Functions

The business functions in SSE have already been described in this document. The column headed 'Not included in the CSS' principally relates to EPM.

Business function	Note	Generation	Supply	Not included in CSS
Operates and maintains generation assets		ü		
Responsible for scheduling decisions	1	P/L		F
Responsible for interactions with the Balancing Market	2	P/L		F
Responsible for determining hedging policy	3	ü	ü	
Responsible for implementing hedging policy / makes decisions to buy/sell energy	4	P/L	P/L	F
Interacts with wider market participants to buy/sell energy	5			ü
Holds unhedged positions (either short or long)		ü	ü	ü
Procures fuel for generation		P/L		F
Procures allowances for generation		P/L		F
Holds volume risk on positions sold (either internal or external)		ü	ü	
Matches own generation with own supply	6			ü
Forecasts total system demand	7	P/L	P/L	F
Forecasts wholesale price		P/L	P/L	F
Forecasts customer demand	8		P/L	F
Determines retail pricing and marketing strategies			ü	
Bears shape risk after initial hedge until market allows full hedge	9	P/L	P/L	F
Bears short term risk for variance between demand and forecast	10		ü	

Key:

P function and P&L impacting that area;

P/L profit/losses of function recorded in that area;

F function performed in that area.



Glossary and notes

1. "Scheduling decisions" means the decision to run individual generation units.
2. "Responsible for interactions with the Balancing Market" means interactions with the Balancing Mechanism in electricity.
3. Hedging policy is the responsibility of the Supply Risk and Trading Committee and the Wholesale Risk and Trading Committee which are sub committees of the SSE Executive Committee.
4. SSE EPM implements the hedging policy determined by the Risk and Trading Committees on behalf of Generation and Energy Supply.
5. "Interacts with wider market participants to buy/sell energy" means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under "Responsible for implementing hedging policy /makes decisions to buy/sell energy".
6. "Matches own generation with own supply" means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. The total electricity demand for Energy Supply (expressed at NBP) was 37.1TWh and the total Generation output was 22.5TWh (61%).
7. "Forecasts total system demand" means forecasting total system electricity demand or total system gas demand.
8. "Forecasts customer demand" means forecasting the total demand of own supply customers.
9. "Bears shape risk after initial hedge until market allows full hedge" means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
10. "Bears short term risk for variance between demand and forecast" means the business unit which bears financial risk associated with too little or too much supply for own customer demand.



Reconciliation of CSS to SSE Financial Statements 2017/18

There are some differences between SSE's financial statements and the CSS. There are items which are in the financial statements and not in the CSS, and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements. The table below shows the differences and reconciles the CSS to the adjusted revenue and adjusted earnings before interest and tax (EBIT) reported in the Segmental note in SSE's financial statements for the year ended March 2018 (see note 5 of SSE's audited financial statements):

Reconciliation of CSS to SSE Financial Statements	Revenue	EBIT	Note
Retail Segment	£m	£m	
SSE Energy Services – Energy Supply	3,810.6	260.4	
Business Energy	2,504.1	63.0	
CSS Supply TOTAL	6,314.7	323.4	
Metering income in SSE Financial Statement but not in CSS	40.0	0.0	1
Airtricity	1,036.8	33.0	2
SSE Energy Related Services - Energy Related Services	304.0	18.3	3
Enterprise	535.1	26.9	4
ESG	35.2	1.2	5
Total Retail Segment in SSE Financial Statement	8,265.8	402.8	

Reconciliation of CSS to SSE Financial Statements	Revenue	EBIT	Note
Wholesale Segment	£m	£m	
CSS Generation TOTAL	2,360.4	538.3	
CSS Non GB Generation	311.4	40.6	6
JVs/Associate revenue in CSS	-254.1	0.0	7
EPM	25,380.1	46.0	8
Gas Storage	317.6	(6.5)	9
Gas Production	252.0	34.0	10
Total Wholesale Segment in SSE Financial Statements	28,367.4	652.4	



Notes

1. Metering costs are reported net of revenues in the CSS but not in the financial statements;
2. Airtricity sells gas and electricity to customers in the Republic of Ireland and Northern Ireland;
3. SSE Energy Services - Energy Related Services consists of SSE's Metering, Home Services, Retail Telecoms and Energy Solutions businesses;
4. Enterprise relates to the provision of services in competitive markets for industrial and commercial customers;
5. ESG results are included within the Business Energy segment within the annual report but excluded from the CSS non-domestic reported figures;
6. Non GB Generation relates to SSE's Generation business in the Republic of Ireland and Northern Ireland;
7. SSE applies equity accounting for its investments in JVs and Associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The Ofgem mandated basis of preparation of the CSS requires that the proportionate share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and Associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary;
8. EPM optimises SSE's power, gas and other commodity requirements;
9. Gas Storage relates to the operation of gas storage facilities in the UK;
10. Gas Production relates to the production and processing of gas and oil from North Sea fields.

Exceptional items and certain re-measurement. SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, re-measurements arising from IAS 39 and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IAS 39. Therefore, exceptional items have been excluded from the CSS.