



Being Responsible

Annual review 2015

Meeting social, environmental
and economic responsibilities

At SSE, our purpose is to provide the energy people need in a reliable and sustainable way.

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About this review

The reporting of SSE's sustainability impacts (financial and non-financial) is integrated throughout its [2015 Annual Report](#). Details of the significant social, environmental and economic impacts of each of SSE's businesses is included in the relevant business overview section and further detail is provided in the dedicated Sustainability overview section.

SSE also wants to make more detailed information about its sustainability impacts, and its responsible approach, accessible and transparent to all stakeholders. This annual review is designed to meet that objective. It provides an overview of key policies and actions associated with SSE's approach to managing its material sustainability impacts with a particular focus on those achieved in the 2014/15 financial year. The end of the report also includes three years of data for over 50 key reporting areas.

This review is a snapshot of the broad range of activity that is driving SSE's approach to being a responsible company. Further insight and ongoing information is available at sse.com/beingresponsible. Links to the relevant pages on sse.com are provided within each key section of this review.

About SSE

SSE is the UK's broadest-based energy company. It is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in other energy-related services.

Wholesale

Energy production, generation and storage

SSE provides energy and related services for customers in wholesale energy markets in Great Britain and Ireland. It delivers this through Energy Portfolio Management and Electricity Generation, Gas Production and Gas Storage. Amongst other things, it is the leading generator of electricity from renewable sources across the UK and Ireland.

Networks

Transmission and distribution of energy

SSE has an ownership interest in energy networks businesses: electricity transmission in the north of Scotland; electricity distribution in the north of Scotland and southern central England; and in gas distribution in Scotland and southern England. These 'regionally-defined' businesses are subject to economic regulation by Ofgem.

Retail

Supply of energy and related services to consumer

SSE supplies electricity, gas and related services such as telecoms, in markets in Great Britain and Ireland. It is focused on attracting and retaining customers through excellent service and a brand people trust. It also incorporates **SSE Enterprise**, which brings together key SSE services for industrial, commercial and public sector customers.



Monar Dam, West Highlands, Scotland

Foreword

SSE is an energy company. We provide people with a vital service that they need and we believe that means we have a responsibility to reach for higher business standards as a result.

That's why we've been taking steps to achieve enhanced social, economic and environmental impact through our core business activities. Quite simply, we want to be a force for good. But to demonstrate we are serious about all these things, we seek to be open, transparent and accountable, disclosing the detail behind what we do and creating new knowledge that can inform and instruct how we behave in the future.

This Being Responsible review is designed to do exactly that. To put in one place all the data and information customers, employees, investors and other stakeholders may require in order to understand SSE's business ethos and its contribution, beyond the bottom line, to the wider world.

While reporting is crucial and we believe it has an important function in holding companies to account, our objective is not to report for reporting's sake. I am very clear, the actions and the values that underpin those actions are what matter most. This report simply allows our stakeholders to understand and judge the actions and the consistency of our value based approach over the past year.

2014/15 was a challenging year commercially, and while I am satisfied with our financial performance, I am confident that our performance in the long run has been enhanced as a result of the progress we have made in becoming a more responsible company. Last year, we implemented the Living Wage in our supply chain, meaning that from April 2014, all new service and works contracts include an obligation to pay people working regularly on SSE sites a Living Wage. This is good for the individual, but, it is good for SSE too. Increased retention, lower absenteeism and improved morale, all contribute to increased productivity.

And in October 2014, SSE became the first company in the FTSE 100 to be accredited by the Fair Tax Mark. To meet the standards set, SSE published a tax policy that explicitly ruled out the use of tax havens and artificial profit shifting arrangements. We have also disclosed a lot more detail regarding our tax calculations. We believe this is good for business because it helps rebuild trust with the customers and communities we serve. Importantly, it provides reassurance to our investors that tightening international tax rules are very unlikely to pose a risk to SSE's future earnings.

Beyond the flagship initiatives around the Living Wage and Fair Tax Mark, SSE made good progress in disclosing its economic and wider social impacts. For the first time, we published our economic contribution to the UK and Irish economies alongside our annual report – the first for any company in the FTSE. And we have quantified the economic value of SSE's Human Capital, demonstrating that SSE's people, are indeed our most important 'asset'.

I don't think it's too much to say that responsible companies should go 'beyond the bottom line'. For SSE, it's not about making a profit, it's about earning a profit, and simultaneously delivering a social and economic contribution for the common good. 2014/15 took us one step closer to meeting that objective and I look forward to SSE taking further steps in the year ahead.

Alistair Phillips-Davies
Chief Executive



Being responsible

SSE has an essential purpose at its core - providing the energy people need. This purpose brings significant challenges and responsibilities. SSE has a responsibility to customers, employees, communities and shareholders to ensure this need is met in a sustainable way, both now and for the long term.

Sustainability has been a guiding value in SSE for many years. It helps establish the right standards for how the business is run and is a driver of SSE's broader strategic aims. This value is defined as:

Our actions and decisions are ethical, responsible and balanced, helping to achieve environmental, social and economic well-being for current and future generations.

SSE's 'Responsible House'



What matters to SSE

Providing energy brings challenges; SSE aims to meet them responsibly.

The most material challenges that SSE must respond to in a sustainable way are:

- playing its part in maintaining and developing a sustainable energy system that keeps the lights on for everybody;
- decarbonising electricity generation and ensuring the environmental impact of producing energy is minimised; and
- ensuring energy costs remain affordable for consumers.

These challenges are fully integrated into SSE's strategy and business operating model and full detail on how it is responding to them can be found in [SSE's 2015 Annual Report](#).



Being responsible in all that we do

SSE also recognises that its impact extends well beyond this trilemma of issues and this is why it also seeks to make a positive difference to people's lives by being responsible in all that it does.

To help people see more clearly how a sustainable approach is at the core of what SSE does, it has developed the 'Responsible House'.

The roof is SSE's long established core purpose, supported by its Sustainability value – one of SSE's six core values.

The aim is for SSE to make a positive difference to people's lives by being responsible in all that it does. Nine core areas (bricks) have been identified which best demonstrate SSE's commitment to acting in a responsible way and to describe how it is doing this.

The foundation is what SSE considers its first responsibility – Do No Harm. This is the minimum that a responsible company that wants a sustainable future needs to deliver. It covers a commitment to working safely and ensuring its operations cause no harm to the immediate environment. Everything else SSE does in seeking to be a responsible company is built on this foundation.

2014/15 highlights

Responsible Service Provider

Doing more to provide essential services reliably and affordably

Energy price freeze extended to July 2016

Freezing energy prices until at least July 2016 is the longest unconditional energy price commitment ever made to household customers in Great Britain.

Dementia training

100 people in SSE's customer service team received specialist training in supporting customers with dementia.

Working hard to keep the lights on 24 hours a day

During 2014/15, SSE's electricity distribution customers experienced fewer interruptions to their electricity supply and, where interruptions occurred, had on average a 13% reduction in the total time spent without power.

Responsible Employer

Creating sustainable employment and a great place to work

Ground-breaking Human Capital report published

A report published by SSE and PwC in March 2015 established that the value of SSE's Human Capital was £3.4bn.

SSE remains a Living Wage employer

All SSE's employees receive at least the Living Wage.

£11.7m invested in new apprenticeships in 2014/15

146 new apprentices began their career with SSE in 2014/15. In total SSE has invested over £64m in its apprenticeship scheme since 2007.

Responsible Profits

Earning profits that serve a purpose

First FTSE 100 company to be accredited with the Fair Tax Mark

In 2014/15 total taxes paid by SSE were £506.2m (including corporation taxes, employment taxes, business rates and environmental taxes).

An £8.8bn contribution to the UK economy in 2014/15

Over the past three years SSE has contributed over £27bn to the UK economy and supported on average 110,000 jobs each year.

An essential component of UK savings and pension funds

Around 90% of the top fund managers in the UK receive dividends from SSE.

Responsible Operator

Producing and delivering safe and secure energy in the best way we can

'A' rated by CDP

CDP has given SSE an 'A' rating for its performance in managing its response to climate change and included SSE in the 2014 Climate Performance Leadership Index.

Reducing carbon emissions

SSE has committed to reduce the carbon intensity of its generation by 50% (compared to 2006 levels) by 2020. It achieved an 18% reduction in intensity in 2014/15.

UK and Ireland's largest generator of renewable electricity

SSE produced more renewable electricity than any other company in the UK and Ireland in 2014/15 (8,466 MWh), from the most diverse range of sources.

Responsible Community Member

An active contributor to the communities we are part of

Investing in communities

In 2014/15 SSE's community benefit schemes in the UK and Ireland contributed almost £4m to local communities near its developments and over £18m has been invested in the last 10 years.

5,000 days donated to UK and Irish charities

Employees participating in SSE's 'Be the Difference' volunteering programme during 2014/15, donated a total of over 5,000 days to local charities, community groups and sports clubs across the UK and Ireland.

Responsible Investment

Focusing on the long term and accounting for all our impacts

Investing around £4m per day in new energy infrastructure

In total, over the last five years SSE has invested more than it has made in profit.

Over £230m invested in renewable energy in 2014/15

SSE has invested over £2.6bn in renewable energy in the last five years, adding over 1,150MW of new renewable capacity in the UK and Ireland.

Accounting4Sustainability

SSE has had a leading role in the development of the A4S guide to embedding sustainability into the decision making process for capex investment.

Responsible Developer

Going further than we have to, for the benefit of local stakeholders

Keadby wind farm sustainability impact report

SSE published its first sustainability impact report covering the environmental, social and economic impact of England's largest wind farm.

Meeting the needs of the local community

In partnership with the North Sutherland Community Forestry Trust, SSE delivered over 100 tonnes (volume) of winter firewood to 83% of the community neighbouring its Strathy North wind farm development.

Promoting biodiversity

SSE's electricity transmission business has developed standardised Species Protection Plans for all its construction projects. In 2014/15 SSE published its first Biodiversity report to reinforce the proactive steps it takes to promote and enhance biodiversity.

Responsible Buyer

Procuring what we need in the right way

Maximising impact on local economies

SSE's award winning Open4Business online portals have awarded over £60m in contracts to local businesses in the last two years.

Driving the Living Wage through a £2bn annual supply chain

Every relevant contract tendered since April 2014 has included a requirement for suppliers to pay the Living Wage to their employees working regularly on SSE sites.

Setting high standards

SSE's Responsible Procurement Charter aims to ensure all its suppliers act ethically, sustainably and within the law.

Responsible Governance

Transparent about doing what is right

Code of Business Practice

SSE's code of business practice makes clear to everyone working in SSE the importance of doing the right thing.

New risk management framework

SSE has reviewed and published the 10 principal risks that it must manage in a responsible way in order to deliver long term value.

A well governed company

SSE complies fully with the provisions of the UK Corporate Governance Code 2012; with the exception of the provision covering the award of its external audit contract which it explains fully in its Audit Committee report.

Responsible Service Provider

SSE seeks to be a responsible provider of energy to homes and businesses throughout the UK and Ireland and to do so reliably, affordably, efficiently and in a way that recognises individual customer needs.

SSE does this through the **supply** of energy by its Retail business to over 8.5 million households and businesses across Great Britain and Ireland; and through the **delivery** of electricity by its Networks business to over 3.7 million homes and businesses connected to its electricity distribution networks in the north of Scotland and central southern England.

When **supplying** energy, SSE focuses on the affordability of the energy it supplies, works with its customers to reduce inefficient consumption and is sensitive to the differing needs of customers, particularly those who may be vulnerable. When **delivering** electricity it must do so in a reliable and cost efficient way, be quick to respond to power disruptions and pay particular attention to customers who may be vulnerable.

Keeping energy prices low for as long as possible

SSE seeks to offer all its customers peace of mind about their future energy costs at a time when the affordability of energy remains a serious concern. In March 2014, SSE became the only energy supplier in Great Britain to offer an unconditional commitment not to increase standard household energy prices until 2016, and in January 2015 extended this promise until at least July 2016. This is

the longest price commitment of its nature the GB energy market has ever seen. By July 2016, SSE's standard household prices will not have gone up for more than two and a half years; and prices will have been cut at least twice in that period.

The costs of operating the electricity distribution networks in the UK are passed directly onto consumers and represent a significant part of the non-energy costs on a customer's bill. These costs are regulated by Ofgem through an eight year price control framework. The latest framework began in April 2015 and, as part of this, SSE's Networks business has committed to reduce the cost to the customer by 15%, whilst continuing to invest in improving the reliability of its network – which already exceeds 99%.

Inclusive service provision

SSE's reputation as an industry leading customer service provider was further enhanced in 2014/15. New 'continuous improvement hubs' within Customer Service, alongside new systems to reduce call waiting and identify customers who require additional support, have helped to further embed SSE's ethos of treating customers like family.

Three independent reports recognised the progress being made:

- In June 2014, SSE was named best major energy supplier for customer satisfaction in the National Consumer Satisfaction Index UK, for the fourth year in a row;
- In September 2014, Ofgem published its Complaints to Energy Companies report, which found SSE was the only major supplier to improve its performance;
- Citizens Advice reported that SSE, once again, was the best performing major energy supplier for complaints in the Energy Supplier Performance Report.

There is an imperative from the energy regulator, Ofgem, to ensure all energy customers are treated fairly. Inclusive service provision is therefore an important theme for SSE and in 2014/15, a number of developments occurred:

- Dementia awareness training for over 100 key customer service employees;
- Enhanced disability and equality training for employees;
- Withdrawing the charge for the removal of a prepayment meter, subject to a successful credit check.

More information on SSE's approach to meeting its responsibility to treat customers fairly can be found on pages 50 – 53 of [SSE's 2015 Annual Report](#).

Understanding dementia

In 2014/15, SSE established a partnership with the Dementia Services Development Centre (DSDC) at the University of Stirling. With 850,000 people in the UK living with dementia, developing a deeper understanding of the challenges facing customer with dementia was considered an important response to improving SSE's ability to serve all its customers, regardless of their personal circumstances.

SSE have funded a book for people with dementia and those caring for them, designed to provide help and advice on managing heating and lighting efficiently and show how both can make a positive impact on the well-being of people with dementia living in their own home. The book is part of a wider programme of support that SSE now provides – including the roll-out of a new dementia awareness training programme for customer facing staff, backed up by the guide.

"Research tells us that heat and light is very important for people with dementia and can help them live longer and safer at home, which is the overall aim. This book explains the effect dementia has on people's lives and those who care for them, and offer tips on small changes that can have a positive and lasting impact."

"SSE is breaking new ground here, and it is not only good for customers but will help their own staff whose families are affected by dementia. It shows businesses can really help the community."

Professor June Andrews, Director of the Dementia Services Development Centre



Helping businesses reduce their energy consumption

In 2014/15, SSE established a new business division, [SSE Enterprise](#), which brought together the services SSE offers to industrial, commercial and public sector customers. A priority of this new business is helping businesses achieve energy savings and more sustainable operations.

Lighting accounts for a major part of energy bills in almost every business. SSE Enterprise provided a lighting solution to the Millennium Stadium in Cardiff that was robust, economical and energy efficient. It installed 15,000 bespoke LED lights – delivering 66% more light and a 49% saving in energy costs. These bulbs also last much longer than typical 'low energy' compact fluorescents, and save time, hassle and cost in maintenance.



Tackling fuel poverty

SSE is concerned that fuel poverty continues to be a feature of the energy market in the UK and believes it has a responsibility to help alleviate the problem. There are three contributing factors to whether a household is considered to be in fuel poverty: household income, the amount of energy consumed and the price of energy per unit.

Through the Warm Homes Discount scheme SSE supports customers in need of additional financial support in a number of ways. A £140 rebate is available to particularly vulnerable groups, and a Priority Assistance Fund provides debt relief, free energy efficient appliances and bespoke payment arrangements. In 2014/15 over 330,000 customers received assistance from SSE, with a value of over £51.3 million.

Helping customers use energy more efficiently is the most sustainable way to keep bills low over the longer term. The Energy Company Obligation (ECO) is a government mandated three year scheme which requires energy suppliers to install energy efficiency measures in customers' homes. SSE met all of its targets, ahead of the 31 March 2015 deadline, meaning that in the first two years of ECO, SSE ensured the installation of 250,00 energy efficiency measures. These measures will provide estimated lifetime bill savings for vulnerable customers of £860 million and has led to a reduction in carbon emissions that is the equivalent of 4.59 MtCO₂.

With over 50% of people in poverty in the UK in work, increasing wage rates will have a material impact on the number of households classified as fuel poor. SSE was a co-signatory to a letter from business leaders in September 2014 urging the UK government to bring about a faster rising national minimum wage.

Throughout 2014/15 SSE remained the only energy company to be an accredited Living Wage employer, not only guaranteeing its own employees a Living Wage but implementing Living Wage complaint contacts for contracted employees working regularly on SSE sites.

Reconnecting with customers

The electricity network managed by SSE's power distribution business (SSEPD) is over 99% reliable, but exceptional events that damage the power networks can still cause widespread disruption to customer electricity supplies. How SSEPD responds in these circumstances is a large part of its commitment to being a responsible service provider.

Following extensive consultation in the first half of 2014, SSEPD's 'Reconnecting with Customers' initiative has been implemented throughout 2014/15 and has resulted in faster electricity supply restoration, enhanced customer welfare support and clearer communications during storm events.



Protecting the most vulnerable during power cuts

Power cuts can be a very frightening time for some customers, especially for those who rely on electricity for medical equipment, the elderly and infirm and those with very young babies.

As a responsible service provider, SSEPD has sought to significantly improve the communication with these customers during such events, at the same time as providing a more comprehensive response for particularly vulnerable customers.

Vulnerable customers registered on SSEPD's Priority Services Register are contacted proactively before a planned power cut to offer support and practical help. If the power cut is unplanned, these customers become a top priority for reconnection, where possible. The emergency response teams will also make contact proactively to keep them informed with progress in restoring their supply and to establish if other forms of support could be provided in the interim.

SSEPD has also developed partnerships with organisations – locally and nationally – including the Red Cross, housing associations, academic institutions, local authorities, the NHS and Age UK so it can help with solutions that support vulnerable customers in the communities served.

In January 2015, SSEPD's network in Scotland experienced a severe weather event. Engineers endured atrocious weather conditions to repair the network as they battled winds of more than 100mph, blizzards, lightning and ice. Over 120,000 customers lost their power during this event.

Alongside the mobilisation of engineering and technical resources, SSEPD set in place an extensive welfare program three days before the storm. Call centre staff proactively contacted vulnerable customers who required a priority service. Alternative accommodation was secured for those deemed to be at risk during a power cut. To help other customers without power, SSEPD mobilised a fleet of catering and welfare vans to areas worst hit. Twenty thousand free hot meals and 30,000 hot and cold drinks were provided at more than 31 locations, through mobile catering facilities and also by hiring local restaurants, hotels and food businesses.

Responsible Operator

Being the operator of a broad range of energy assets involves working on challenging sites, responding to issues of concern such as climate change and managing wider environmental impacts connected with the use of resources. SSE aims to take a responsible approach to addressing each of these issues so that people are safe, environmental challenges are tackled and resources are used effectively.

Responding to the challenge of climate change

SSE knows it has an important role to play in helping address the potential impacts of climate change and in particular helping the UK move towards a less carbon-intensive energy system.

Removing carbon from electricity generation in an affordable way is essential to mitigate the worst affects of climate change. That is why SSE has committed to reducing the carbon intensity of its electricity generation by 50% by 2020, using 2006 performance as its baseline, and is on target to achieve this. SSE is already the largest generator of renewable energy in the UK and Ireland, having invested almost £4bn in the last seven years.

SSE's performance in managing climate change impacts and the proactive approach it is taking to identifying and managing the potential risks associated with climate change, led CDP to award SSE an 'A' rating in 2014 and include SSE in its inaugural global Climate Performance Leadership Index.

SSE's longer term support for a less carbon intensive energy system is significantly influenced by the legal and regulatory frameworks being developed and implemented by the UK Government and European Commission.

SSE is involved in these debates and has a role to play in the process of bringing about positive change. Through direct contact and in partnership with others, SSE has called on European Governments to bring forward tangible actions in line with legally-binding long term greenhouse gas targets to help minimise the risks that climate change could have on the economy and wider society.

SSE has made clear that an important part of this process is for the EU to restore the EUETS as the central driver of carbon abatement.

More generally, the potential risks and opportunities that these policy changes represent are well understood by SSE and are a significant part of its risk management and strategic decision making processes.

'A'
Rating



34% Reduction in total CO₂ emissions in 2014/15

8,466MWh

Renewable generation output – SSE continues to be the largest generator of renewable electricity in the UK and Ireland.

SSE's Safety Family

Safety is SSE's first core value and priority, and it is the foundation of SSE's approach to being a responsible business. The safety value is defined as:

We believe all accidents are preventable, so we do everything safely and responsibly or not at all.

SSE's fundamental principle is that safety risks are best managed by those who create and work with the risk and that everyone has their part to play in supporting these people.

To meet this challenge every employee, every supervisor and every manager

needs to fulfil their responsibilities for their safety and the safety of others. This concept is encapsulated in SSE's 'Safety Family' programme.



The Safety Family programme was introduced in early 2011, and is a unique, discussion-based behavioural change

programme that is designed to equip and empower individuals to bring about changed working practices. Over the past four years all 20,000 SSE employees have been introduced to the programme and had the opportunity to fully engage with it.

During 2014/15 the Safety Family Programme has particularly focused on equipping Supervisors with the skills to coach and communicate with their teams on safety issues. In the last year, over 1,800 supervisors have benefited from this bespoke active learning programme.

For SSE's 2014/15 safety performance see page 59 of the [2015 Annual Report](#).

Using resources responsibly

Carbon reporting

In 2014/15 SSE achieved a 34% reduction in its total carbon emissions (scope 1,2 and 3). Overall scope one gross carbon emissions from its operations were reduced by 36%, largely as a result of significantly lower year-on-year output from SSE's coal-fired generation plant. Although SSE's overall generation output was also lower, the significant drop in coal-fired emissions meant that the carbon intensity of SSE's generation fell 17.7% to 474.1 gCO₂e/kWh – its lowest level since 2009.

Full details of SSE's CO₂ emissions are in the table on page 11.

Following significant coal-fired generation plant closures at the end of March 2014, SSE's renewable generation capacity (3,394MW) now exceeds its coal-fired generation capacity (3,009MW). SSE's renewable generation assets (including hydro pumped storage) generated 8,655MWh of electricity in 2014/15, over 31% of SSE's entire generation output, displacing the equivalent of over five million tCO₂e.

For a full commentary on SSE's generation output and performance, see pages 28 to 37 of [SSE's 2015 Annual Report](#).

Controlling emissions

SSE is reducing air emissions as a result of the change in its energy generation mix (moving from coal to gas), the increased use of renewable energy and the use of operating practices and technologies that reduce or remove air pollutants. In 2014/15 SSE's thermal generation sites emitted 9,977 tonnes of sulphur dioxide and 16,871 tonnes of oxides of nitrogen.

This compares to 24,233 tonnes of sulphur dioxide and 29,969 tonnes of oxides of nitrogen in 2013/14. SSE plans to lower emissions further through continued investment in improvements in combustion processes and renewable energy.

Managing water use

Water availability is becoming a significant issue for SSE's stakeholders. SSE uses water for four main purposes:

- to cool its generation plants;
- as process water for a variety of operations;
- as a source of energy in hydro generation schemes; and
- for amenities in offices and buildings.

At thermal generation plants the majority of the water is used for cooling. The better the cooling that can be achieved the higher the thermal efficiency of the plant, resulting in a wide range of environmental

benefits, including reduced emissions to air and reduced production of waste and secondary materials per unit electricity produced. To ensure water is returned to the source in the same (or better) condition as it was taken, it is monitored and managed in accordance with the requirements of the site specific environmental permits.

Issues associated with water availability for cooling purposes are likely to increase in significance in future. Against a background of ensuring sustainable water management, Defra and the Welsh Government are undertaking a review of abstraction arrangements in England and Wales with a view to reform. SSE will continue to engage constructively with this process.



At hydro generation sites water is taken from rivers and lochs and returned to the water environment after being run through the turbines to generate electricity. There is negligible consumption of water in this process. To ensure water quality is not affected and potential impacts on biodiversity are mitigated, SSE undertakes a range of activities to manage the water environment. This includes providing compensation flows below dams and intakes; delivering shorter periods of higher flows (freshets) to encourage movement of migratory fish species; operating fish passes; and controlling the timing of engineering and other works so they do not occur during sensitive life stages of species.

In total in 2014/15, SSE abstracted 27.11bn m³ (27.91bn m³ for 2013/14) of water for

all its activities. The vast majority, 27.09bn m³, was returned to the environment.

The majority of this water, 27.03bn m³ (27.57bn m³ for 2013/14), is used by SSE's hydro operations (such as Erich Dam below) and all this water is returned to the environment.

In 2014/15 SSE's thermal operations (prior year in brackets):

- abstracted 82.16 million m³ (345.14 million m³);
- consumed 19.36 million m³ (15.88 million m³);
- returned 62.80 million m³ to the environment (329.26 million m³).

Responsible energy use

Although not material in comparison to the energy used and carbon emitted by SSE's generation assets, SSE also has a responsibility to reduce the energy it uses, and the carbon emissions associated with this, during the course of its other day to day activities. For the past five years SSE has spent over £1m on energy efficiency technologies in its buildings and depots to reduce energy consumption. It has also implemented a behavioural change programme to engage employees in energy efficiency activities in their everyday working lives. These initiatives have enabled SSE to reduce its energy use by over 10% since 2012, against a target of 15% reduction by 2017. This is the equivalent of 2,343 tonnes CO₂e. In 2014/15 SSE's carbon emissions from its buildings was 22,788 tonnes CO₂e.

SSE also actively manages the impact of travel by its employees:

- It aims to keep the average CO₂ intensity of its vehicle fleet below 120kg/km - currently 117kg/km.
- It encourages rail travel over air travel.
- Operates no/low fly months in August and December.
- Encourages and facilitates car sharing for those travelling to its major sites and limits parking options for non car-sharing vehicles.

Waste management

SSE has strong waste management controls within each of its businesses. During 2014/15, SSE has undertaken a complete review of its waste streams across the entire SSE Group.

It is currently completing a re-mapping exercise to identify what waste is produced, how it is managed and the actions being taken to reduce, reuse and recycle this waste. This activity will provide the basis for implementing a group-wide co-ordinated waste minimisation programme across SSE and will supply the data for transparent and robust reporting in this area in future years.

Environmental management

The breadth of SSE's operations means that it is subject to a number of environmental regulations.

As a result it seeks to work constructively with a range of environmental regulators, including the Environment Agency, DEFRA and the Scottish Environment Protection Agency (SEPA).

SSE uses an internal classification system to monitor and report environmental incidents for both SSE and its contractors.

The system used – major, serious, minor – applies to pollution incidents, and compliance with permits and other regulatory requirements. The criteria used is broadly aligned to the permit compliance and incident classification systems used by SSE's principal regulators.

Note: For internal consistency SSE applies the SEPA classification scheme across all Environmental Regulator jurisdictions

Environmental incidents that SSE classifies as Major include:

- Category 1 events, Environmental Limit Condition (ELC) Significant Breaches, and Major non-compliance with Environmental Management Condition (EMC), all as categorised by SEPA
- Oil spills to land exceeding 10,000 litres
- Oil spills to water exceeding 100 litres
- Breach of planning permission conditions resulting in enforcement action

Environmental incidents that SSE classifies as Serious include:

- Category 2 events, Environmental Limit Condition (ELC) Gross Breaches, and Repeated Minor Breach of

Environmental Management Condition (EMC), all as categorised by SEPA

- Oil spills to land exceeding 100 litres
- Oil spills to water exceeding 10 litres
- Incidents involving hazardous/special waste
- Incidents affecting protected species or their habitats

Environmental incidents that SSE classifies as Minor include:

- Category 3 events, Environmental Limit Condition (ELC) Minor Breaches, and Minor non-compliance of Environmental Management Condition (EMC), all as categorised by SEPA
- Isolated waste management incidents
- Other incidents reported to regulators voluntarily or as required by permit conditions

In 2014/15 there were no major environmental incidents, 4 serious and 31 minor for SSE.

For SSE's contractors the comparable numbers were no major, 5 serious and 24 minor environmental incidents.

SSE's serious incidents in 2014/15 included one prohibition notice, which related to the operation of its anaerobic digestion facility in Rogerstone, North Wales, which was removed once corrective action was completed; and for SSE's Aldbrough gas storage site, the regulator issued a civil penalty (£3,000) for deviating from verification protocols specified within EUETS regulations.

Biodiversity

There is a growing realisation of the importance of biodiversity in sustaining society, and also that society must manage its impact on biodiversity in an efficient, responsible and sustainable way. SSE seeks

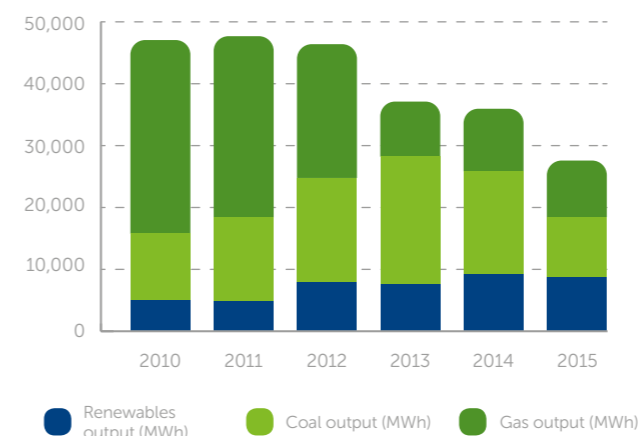
to build partnerships with those who are interested in protecting and enhancing biodiversity; assess its impact on key biodiversity issues; and make decisions which take account of these impacts.

In December 2014, SSE published its first biodiversity report which sets out the principles that underpin its approach to biodiversity and shows the positive actions it is taking to protect, restore and enhance biodiversity.

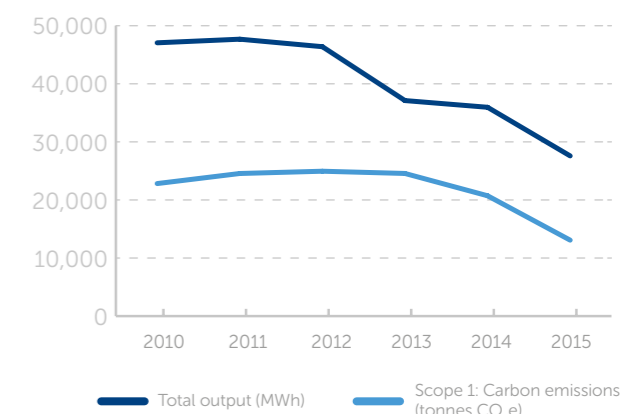


Managing biodiversity is also an important part of SSE's responsible approach to developing major new assets and more detail on this is provided within the 'Responsible Developer' section of this review.

Generation mix (renewables, coal and gas)



Annual generation output and carbon emissions



	Year	2015	2014	2013	2012	2011	2010
Generation output	Renewables output (MWh)	8,655	9,271	7,585	7,987	4,781	5,058
	Coal output (MWh)	9,788	16,576	20,627	16,786	13,600	10,700
	Gas output (MWh)	9,413	10,110	8,902	21,617	29,300	31,300
	Total output (MWh)	27,586	35,958	37,114	46,390	47,681	47,058
Carbon emissions	Scope 1 Generation only: Carbon emissions (tonnes CO ₂ e)	13,000	20,664	24,495	24,886	24,486	22,762
	Scope 1: Carbon emissions (tonnes CO₂e)	13,079	20,722	24,560	24,946	24,554	22,819
Net carbon intensity	Net carbon intensity (kg/CO ₂ e per kWh)	474.1	576.3	661.8	537.7	515.0	484.9

Corriemoillie

At Corriemoillie we needed to do work on a 132kV tower that is also a nesting site for osprey.

To protect these sensitive birds, and to prevent safety and operational issues, we worked with SNH, our in house environmental advisor and specialist osprey advisor to agree how to undertake the construction work during the nesting season.

To address this, we designed a new basket for the ospreys and bolted it to another tower during the winter months, and replaced the original nest material in the basket of the new nest site.

The project was successful as 'the nest platform is working perfectly with the two birds rearing two chicks successfully and the nest is much safer' said Roy Dennis, OBE and SSE's specialist osprey advisor.



Total carbon emissions	Total CO ₂ e	
	2015	2014
Generation ¹	13,000	20,664
Other scope 1	79	58
Scope 1 total	13,079	20,722
Distribution network losses	1,178	1,099
Other scope 2	66	64
Scope 2 total	1,244	1,163
Scope 3 New additions (well to tank fuel purchased)	2,407	3,487
Scope 3 total	2,426	3,505
Total emissions	16,749	25,389
Intensity ratios		
Emissions relative to MW output (kg CO ₂ e/MWh)	474	576

1. The figure for generation emissions adjusts the figure from SSE-owned generation (in GB and Ireland) to include energy bought in under power purchase agreements. The figure corresponds to the contracted position set out in the annual report.

2. Scope 1 comprises generation, operational vehicles, sulphur hexafluoride, fuel combustion, gas consumption in buildings.

3. Scope 2 comprises distribution losses, electricity consumption in buildings and substations.

4. Emissions intensity relative to MW is calculated against generation emissions only, rather than total emissions.

5. GHG emissions from SGN's and SHETL's activities are excluded (SGN reports these separately and SHETL is operated by National Grid Company)

6. The figures have been assured to the CEMARS standard by Achilles Group Limited, consistent with ISO14064-1 and the Greenhouse Gas Protocol.

Responsible Developer

SSE is investing around £4m per day in essential new energy infrastructure for the UK and Ireland. This in itself is having a substantial positive impact but SSE also recognises it has a responsibility to develop and build these projects in the right way. This means going beyond what a developer is simply required to do and striving to deliver positive impacts on the economies, communities and environment surrounding SSE's developments.

A long term focus

SSE's approach to developing major energy infrastructure projects reflects both its heritage and its long term focus.

SSE is the custodian of an energy legacy arising from over 70 years of association with communities across the UK and Ireland.

The assets SSE is developing are long term, primarily new lower-carbon generation capacity and electricity networks with greater capacity and resilience, with almost all having an expected operational life of at least 25 years. Not only does SSE develop and build these assets, it usually operates them as well.

All of this means that SSE considers it essential to develop its projects in a responsible way, that enables SSE to establish long term relationships with the stakeholders involved with the development and with the communities that will live alongside them.

In practice, this ambition is delivered by focusing on six key areas of impact:

- designing projects that, where appropriate, do more than just comply with statutory planning guidelines;
- an inclusive approach to stakeholder engagement at all stages of a project's life;
- active management of biodiversity and environmental impacts;
- a responsible approach to construction;
- seeking to maximise positive local economic impact through local employment and local contracts; and
- making a long term contribution to local communities.

An inclusive approach to development

SSE's commitment to engaging proactively with stakeholders starts at the earliest possible opportunity and continues right the way through to operation and beyond. At a very early stage in a project's development,

SSE undertakes a detailed mapping exercise to identify the cross section of stakeholders that could potentially be impacted. A variety of communication and engagement methods are then used to listen and obtain views.

These go well beyond that required by typical planning regimes and include print, video, social media, face-to-face, drop-in sessions, open days, advertisements and more formal official channels.

This consultation activity helps inform decisions taken throughout the development of the project including; the design of the project, the sourcing of resources, contract tendering, construction timetables, traffic management and delivery routes.

Where projects are controversial SSE's works hard with stakeholders to understand their concerns and to develop options to address these issues or mitigate their impact.

Managing biodiversity and environmental impact

Many of SSE's major developments will make significant positive contributions to wider environmental and climate change challenges, however these projects can also have an impact on biodiversity locally and at an ecosystem scale. SSE endeavours to mitigate these impacts by adopting methods that take account of the environment at the point of project initiation, during project design, during construction and during operation of the asset.

This approach starts with the selection of new infrastructure sites and routes and can involve reusing or extending existing sites and infrastructure, integrating other functions into the project brief and factoring in future growth requirements – all of which can help to reduce land use and limit potential longer term environmental impact.

The majority of SSE's larger projects also undergo a full Environmental Impact Assessment (EIA) as part of the project development and consenting process, which takes account of SSE's wider engagement with and feedback from, a range of expert stakeholders. SSE is also committed to undertaking voluntary and targeted environmental assessments where the project does not fall within the legislative thresholds for formal EIA but has the potential to impact on the environment.

During construction of major projects, detailed mitigation measures are implemented, often under the guidance of a professional ecologist. These include implementation of relevant Species Protection Plans, agreed with environmental consultees such as Scottish Natural Heritage. SSE is working towards the creation of standardised SPP's for all of its projects and has already established these within its electricity transmission business.

For some projects an ongoing Habitat Management Plan is initiated during construction and continues once an asset becomes operational. This aims to offset any potential negative impact of the development by introducing positive environmental impact measures. These measures may ultimately deliver net positive biodiversity enhancements and, through projects such as restoring degraded peat-land, restore lost habitats and increase important carbon stores.

SSE published its first [Biodiversity Report](#) in December 2014.

Griffin wind farm

Griffin is located on the site of a former monoculture forestry plantation that was cleared to construct the wind farm. The Habitat Management Plan aims to enhance the site as a habitat for raptors and black grouse. This is achieved through opening up new foraging terrain and breeding habitat by removing commercial tree species, planting riparian woodland and regenerating heathland by heather management and ditch blocking.

Monitoring of the habitat and ornithological use of the site is extensive and will help to inform and guide future management at Griffin and other sites, by enabling us to better understand the impact of different land management techniques at a species and habitat scale.

We regularly record black grouse, hen harrier, red kite, kestrel and merlin on site. We have also installed Pine Marten boxes throughout the site.

Responsible construction

Beyond managing environmental impacts during construction, SSE also works to minimise the impact of its activities on the local community and seeks to consistently act as a responsible member of the community it is part of.

Community liaison groups are an important part of this process and allow SSE to work with the community to manage actions with potentially significant impact such as turbine deliveries, construction traffic routes and operating timetables. These groups also act as a forum for proposing and resolving ongoing issues.

SSE also believes that regular, local, face-to-face contact is an important part of really understanding the issues and concerns of its neighbours. Project managers and community liaison managers are therefore

proactive in meeting community members and strive to ensure there is always a visible presence in the area. As well as helping resolve smaller ongoing issues, this kind of contact often reveals simple ways for SSE to make a contribution to the community that meets a specific need.

For example, through a partnership with the North Sutherland Community Forestry Trust, SSE was able to use wood being removed from its Strathy North wind farm development in north Sutherland, Scotland to deliver over 100tonnes (volume) of winter firewood to 100 households (83%) living in the remote and dispersed Strathy and Armadale community neighbouring the project.

Local impact – jobs and contracts

SSE seeks to maximise the positive local economic impact of its projects delivered through local employment and the awarding of local contracts. An important mechanism for doing this is its innovative Open4Business portal. See the Responsible Buyer section for more information.

SSE's major projects create hundreds of new job opportunities during their development and construction and as a responsible developer SSE seeks to maximise the number of local people who benefit from these. During construction of SSE's new gas-fired power station at Great Island, Co.Wexford in Ireland (commissioned in April 2015), over 1,200 contractors were employed on-site. Around 80% of these were local to Co. Wexford and the South East of Ireland.

This also includes creating new long-term jobs and skills that benefit the local economy long after the project is complete. One important area is the creation of new apprenticeship opportunities. SSE invested over £11m in its apprenticeship scheme in 2014/15 including roles directly connected with its major project developments.

Long term contribution

SSE's investment in long-term assets which it will then operate for decades to come, means it has a responsibility to continue contributing to the communities and local economy it is part of well beyond the end of a project's development. In many cases this contribution continues through local contracts, jobs and indirect support, but for SSE's renewable developments it also takes the form of a direct investment in the local communities SSE is part of.

In 2014/15, SSE's community investment programme provided almost £4m of support to community projects near its renewable developments in the UK and Ireland. For more information see the Responsible Community Member section.

Keadby wind farm Sustainability Impact Report

In 2014, SSE carried out its first full [sustainability impact study](#) to evaluate the economic, environmental and social impacts in the UK from constructing England's largest onshore wind farm, near Keadby.

The analysis found that SSE's £100m investment in Keadby contributed over £43m to UK GDP, with more than 720 person-years of employment supported in the UK.

It also established that there will be a net positive CO₂ impact from Keadby over the wind farm's 25 year life, displacing 718,800 equivalent tonnes of CO₂ from being released into the atmosphere in addition to offsetting the CO₂ used during wind farm construction.

Keadby will also continue to contribute to local communities over its lifetime, granting £8.5m to support local projects through the community benefit and sustainable development schemes connected to the project.



Responsible employer

SSE's long-term success depends on being able to retain, develop and attract employees with the skills and commitment necessary to meet the needs of customers and achieve other business goals. It aims to do this by being a responsible employer that recognises the contribution an engaged workforce makes to its achieving its business goals and to society as a whole.

Valuable people

SSE wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

That is why SSE has clear priorities for how it:

- engages with the people who work for SSE and recognises the different needs they have;
- creates sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;
- invests for the future to ensure each individual can perform to the best of their ability; and
- ensures it is constantly seeking to do the right things, particularly in how people are treated throughout the company.

SSE has a very particular ethos regarding its people. It follows an in-house operational model which means: it prefers to directly employ the people it needs, does not out-source core work and does not offshore core work outside of the UK or Ireland; it invests in the long term value of employees

and seeks to grow its own talent; and seeks to limit redundancy through the use of redeployment and retraining.

This approach is deeply embedded within the culture of SSE and plays an important role in the value SSE's employees create.

Engaging employees

SSE's long-established teamwork value is the primary driver of positive employee engagement throughout its range of businesses:

We support and value our colleagues and enjoy working together as a team in an open and honest way.

A great place to work

SSE's annual company-wide, externally facilitated employee engagement survey had an exceptional 92% response rate in 2014 and the results showed that SSE has an employee engagement index of 73% – the benchmark level for UK private sector companies. Safety is SSE's number one value and this is clearly recognised by SSE's employees, with 94% believing that SSE takes safety seriously.

72% of employees believe they work in a business unit committed to working

efficiently. This is a 12% increase from last year and demonstrates SSE's focus on continually driving improved efficiency and its employees' commitment to support this.

SSE shares the detailed survey results with all employees and develops and implements detailed business by business action plans based on the findings of the survey.

Partnering with employee representatives

SSE has a positive partnership approach with four recognised trade unions across a number of different collective bargaining tables. This includes a well-established Joint Negotiating and Consultative Committee (JNCC) which involves lay and full-time representatives from four recognised trade unions. The JNCC is supported by Joint Business Committees which seek to deal with key employment issues within each of SSE's main business groups.

All SSE's employees are able to seek membership of trade unions. The company understands the importance of involvement and open communication and works with employee representatives to enable employees to understand the business and their crucial role in contributing towards its success.

Meeting employees different needs

SSE aims to support its employees through its employee benefit packages but recognises the different needs across its workforce.

SSE is proud to be one of the UK's largest Living Wage employers – guaranteeing that all employees will receive at least the Living Wage rate, which is independently set to ensure people can cover the basic cost of living in the UK. SSE believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK. SSE chairs the Leadership Group of the Scottish Living Wage Accreditation Initiative which has seen a significant increase in the number of Living Wage employers in Scotland, from 20 in April 2014 to nearly 200 in April 2015.

In keeping with SSE's commitment to creating sustainable jobs for the long term, it has taken proactive measures to help employees plan and save for their financial future. It has proactively enrolled all new employees into its pension schemes since 2005. Employee pension contributions attract contributions from the Company and also offer free life cover. These proactive measures have resulted in 97% of employees choosing to look after their future by saving in one of SSE pension schemes.

SSE offers a range of benefits which help employees share in the ongoing success of SSE. These include both an employee Share Incentive Plan and a Sharesave Scheme.

Employee participation in these schemes is now 52% and 41% respectively. SSE's full range of employee benefits reflects the differing needs and interests of its employees.

Particular focus is given to contributing positively towards employees' well-being. Employees have the opportunity to buy additional holidays, medical cover, gym memberships, as well as discounts on products and services for the home and family life. Recognising that employees can require advice and support for a range of personal and professional reasons, a free comprehensive employee assistance programme is also available.

Opportunities for flexible working

SSE has a wide variety of flexible working arrangements in place across all of its businesses. This includes over 1900 employees (85% women: 15% men) working some form of part-time hours to meet their personal circumstances. In addition, SSE's career break policy has enabled employees to take time out to spend with their family, travel, study and work within their communities with the peace of mind that they have employment to return to.

Understanding SSE's Human Capital

Insight from: John Stewart, HR Director

Many companies claim that their people are their greatest asset. During 2014/15 SSE became the first major company in the UK, and one of less than a handful globally, to quantify the economic value of the people it employs.

SSE's ethos regarding its people is very deliberate. There may no longer be jobs for life, but I like to think we are creating a modern notion of sustainable employment.

We have always believed that this approach was good for business but through our [Human Capital report](#) we have sought to quantify and demonstrate this.

SSE now knows the value of the 'Human Capital' it employed on 1 April 2014 was £3.40bn. It has also identified some of the key drivers of this value over time, including the value that can be created from investing in this asset.

An individual's human capital is the economic value of their productive capacity. It is made up of two key components: innate ability and talent, and learned knowledge, skills and other attributes.

An organisation's human capital is the sum of the current and future economic valuation of the human capital embodied within all the individuals that make up its total workforce.



Human capital should not be thought of as an asset a company owns, rather it's the people SSE 'borrows' from society which allows our business to operate and to grow.

But this doesn't mean we have no responsibility to invest in our employees. On the contrary, the responsibility is even greater because it's not just the company that benefits from that investment – society and the individual do too.

Calculating SSE's Human Capital has not been an exercise in clever accounting. This new knowledge helps demonstrate the business case for SSE's people strategy. It endorses the concept of 'human capital', evidences the value of creating sustainable employment, and will continue to shape SSE's Human Resource strategies in the future.



The value of SSE's Human Capital

£3.4bn

Employee engagement index

73%

Investment in skills for the future

£11m

Paying the Living Wage is the right thing to do

SSE is one of the UK's largest Living Wage employers and that means its employees – and increasingly its contracted employees – earn an hourly rate that exceeds the national minimum wage. The Living Wage is set by the Living Wage Foundation on an annual basis and is calculated according to the basic cost of living in the UK.

SSE's motivation for paying the Living Wage is simple. It is a matter of basic fairness that people should get a wage they can live off. SSE believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK.

It also makes sound business sense, with clear evidence that it improves retention, reduces recruitment costs, and increases the productivity and motivation of all employees – not just those who have benefitted from the policy.

When SSE first made this commitment in 2013 it became the UK's largest Living Wage employer. Since then SSE has worked closely with the Living Wage Foundation to encourage many other large organisations to take this step. But at the start of 2015, SSE remained the only major energy supplier in the UK to have made this pledge.

SSE is now rolling out the commitment to pay the Living Wage across its £2bn-a-year supply chain. As of 1 April 2014, all eligible contracts tendered include a Living Wage clause.



Responsible Employer continued...

Investing for the future
Tackling skills shortages

Around 50% of the energy industry's skilled workforce is expected to retire by 2023. To ensure it has the right mix of skilled employees for the future, SSE offers a range of structured development programmes suited to the development needs of school leavers, apprentices, trainee engineers and graduates.

The focus of each programme is to ensure that those participating gain skills which create sustainable career opportunities that can be used for their future benefit and for the benefit of SSE. Every trainee who starts on a programme with SSE is guaranteed a full time position with the company on successful completion of their programme.

Over £11m was invested in these programmes in 2014/15 and currently, 550 individuals are progressing through them. A total of £64m has been invested since 2007. SSE will expand these programmes for 2015/16, with the creation of around 200 new opportunities and the planned introduction of new training programmes.

The value of SSE growing its own in this way is evidenced by the very high retention rates it achieves. Retention rates for the Apprentice and Technical Staff Trainee (TST) programmes are above 90%, against a national average of 76%. The Graduate programme has a retention rate of 78% which is 14% above the national average, and in 2014/15 SSE

received an award from the Institute of Engineering Technology in recognition of running an accredited and sustainable Graduate programme for the last ten years.

The impact of SSE's Apprentice and TST programmes was assessed in SSE's ground-breaking Human Capital report. This found that for every £1 SSE invests in its TST programme, £7.65 of economic value is created and shared between wider society, SSE and the individual. For its Apprenticeship programme the impact is £4.29 for each £1 invested.

SSE also supports the Barnardo's Works programme, which aims to give long-term unemployed young people the opportunity to gain comprehensive waged-work opportunities, training and industry-related qualifications. Since it began in 2008, a total of 105 young people have taken part in the programme with SSE.

Giving everyone the best opportunity to succeed

SSE is committed to providing the support any employee needs to develop their competences and skills, and through this their contribution to SSE. It has extensive in-house training capabilities, including three technical and general training centres located in Berkshire, Rhondda Cynon Taf and Perthshire. These centres are equipped to run a range of technical, customer service, and management training programmes which enable people to train in the type of work environment in which they will work,



in a realistic, controlled and safe way. These programmes are supplemented by user-driven e-learning programmes which also cover specialist topics such as diversity, risk management, anti-bribery and corruption policies, and business separation.

During 2014/15, over 45,000 training interventions were delivered, split over the following four areas:

Where necessary, SSE also invests in external training programmes. In 2014/15 a total of £1.1m was invested in almost 5,000 training interventions; on top of the £11m investment made in targeted development programmes. Typically these interventions support the development of specialist and professional skills or provide SSE with completely new skill sets – such as the specialist disability awareness training delivered to over 100 employees across all of our major Customer Service Centres during 2014/15.

Doing the right thing
Ethical working

SSE seeks to act honestly and with integrity in its dealings within the Company, and with customers, investors, regulators and business partners. SSE sets very high standards of behaviour and employees are given clear guidance on best ethical practice through a regularly updated 'Doing the right thing' code of business practice. This outlines SSE's policy on such things as equality, bribery, anti competitive behaviour and the company's whistleblowing policy. SSE also keeps employees and managers updated with key changes to employment policy and legislative requirements through the use of e-learning which, for example, has been used to train all managers on the Bribery Act provisions.

Human rights

Like other companies operating in the UK, SSE is governed by the Human Rights Act 1998, the aim of which is to give 'further effect' in UK law to the rights contained in the European Convention of Human Rights. The Republic of Ireland, the only other state in which SSE employs people and carries out operations and investments, is also party to the ECHR. SSE's approach is to comply with the spirit and letter of human rights legislation and responsibility for doing so rests with its Executive Committee.

Equal opportunities

SSE has in place a comprehensive range of policies to safeguard the interests of employees and potential employees. Like many responsible organisations it has an actively-managed equal opportunities policy, in keeping with the spirit, as well as the letter, of the law in the United Kingdom and elsewhere. This is designed to ensure fair and equal treatment of employees and potential employees across the seven protected characteristics, as defined in the Equality Act 2010. It seeks to develop these policies and practices over time, in line with the emergence of new guidance and evidence of responsible practices.

Promoting diversity and inclusion

SSE recognises the positive business benefits that arise from different views, perspectives and ways of working, from a mix of people from different personal and cultural backgrounds. Encouraging more difference in SSE assures broader debate, leading to better decisions, which results in better delivery and performance. It is business critical that SSE actively encourages greater diversity, but to be successful SSE must also ensure it is inclusive in how this diversity is recognised, encouraged, developed and supported.

Progress in 2014/15

SSE has a long standing commitment to promoting greater diversity, but its statistics indicate that there is much progress yet to be made:

- Of the available workforce in the UK and Ireland 51% are women, yet only 30% of the people employed in SSE are women.
- Of the senior management team, 30% are women.
- There are 66 direct reports to SSE's Executive Directors and Managing Directors. 20 women and 46 men.
- A large proportion of the available workforce in the UK and Ireland is over 35, but the majority of SSE's new recruits are under 35.
- A large proportion of SSE's energy supply customers are over 50, but SSE's customer service teams are predominantly under 30.

During 2014/15 SSE committed significant resources to researching, and better understanding, the challenges it faces on diversity and inclusion. This included extensive in-house survey work on attitudes and views on diversity, more detailed data gathering, internal research through business forums, interviewing many of SSE's 'generation Y' employees and working with external facilitators to benchmark SSE's approach and performance.

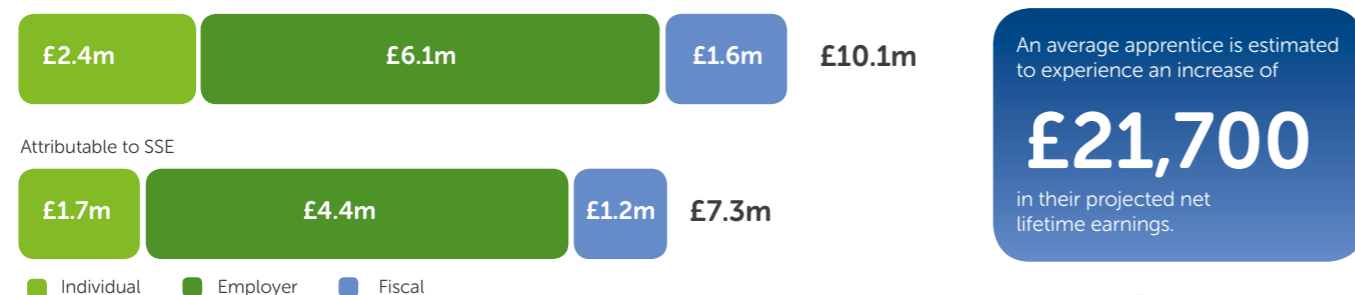
Priority areas for action

Ensuring that SSE delivers improved levels of diversity and inclusion is the responsibility of SSE's Executive Committee. In response to the review and analysis undertaken in 2014 a new strategy and plan of action was agreed in March 2015.

Over the next year SSE will focus on the following key initiatives:

- Setting new targets – SSE will adopt a series of new targets in each business to help ensure greater diversity in terms of age, gender and ethnicity. Targets will be ambitious but achievable and will apply to key areas including management, graduates and apprentices. For example, only 10% of SSE's current female workforce are in positions that pay £40,000 FTE (full time equivalent) or more. SSE has set an overall target to increase this to 25% by 2025.
- Creating a more flexible workplace – diverse working groups within each business area will review and establish how flexible working arrangements can be more widely promoted in each business area.
- Addressing this issue at entry level – helping encourage greater take-up of key subject areas, skills and technical competencies, at all levels of education, to ensure there is a broader and more diverse talent pool for SSE's recruitment and development programmes to draw from.
- Ensuring all recruitment is fair – establishing new external recruitment and internal appointment processes to ensure, amongst other things, that the shortlist for every job in SSE is gender diverse. SSE also intends to pilot the practice of 'blind' CV's, where CVs given to recruiting managers do not include names, gender or age.

Total economic impact of the 2014 Apprenticeship programme*



SSE's workforce: Key statistics	Total employees	Geographic split	Gender split (%male/female)	Average age	Annual retention rate	Total recruitment
2014/15	19,965	UK-97% ROI-3%	70/30	40	87%	2,319
2013/14	19,894	UK-96% ROI-4%	70/30	41	91%	2,157

Responsible Community Member

SSE's first commitment to local communities is to undertake its activities in a responsible way. But in locations where SSE is a significant Operator, Developer or Employer, like any other responsible member of the community, SSE seeks to be an active contributor to these communities and make a positive difference as a result.



Being the difference

With around 20,000 employees throughout the UK and Ireland, SSE continues to make a positive impact across a wide range of local communities. SSE employees are empowered to 'Be the difference' for the causes, charities and communities they care about. They do this through two main channels – Volunteering and Fundraising.

Volunteering

SSE's employee volunteering programme enables employees to take a day off work to support community initiatives that are important to them. Over the last five years, employees throughout SSE have supported over 2,600 community projects and contributed 27,884 days of volunteering support.

During 2014/15, over 5,000 volunteering days were used to support 542 projects across the UK and Ireland. SSE teams supported a wide range of initiatives including: providing emergency assistance to a food-bank in Reading; over 100 people assisting with the renovation of the Community Lido in Hillsea; providing marshalling support for the annual Maggie's Bike & Hike event around Loch Ness;

assisting with much needed maintenance at Pontypridd AFC grounds; and continued support of the Children's Hospice in Ireland.

A once-in-a-lifetime volunteering opportunity arose from SSE's support for the Glasgow 2014 Commonwealth Games, with many employees undertaking support roles before, during and after the Games.

60 employees became 'Clydesiders' and, with SSE support, between them spent a total of 629 days volunteering. In recognition of their outstanding contribution to their local communities, 20 employees were given the unique opportunity of being torch bearers in the Queen's Baton Relay.

Fundraising

SSE's matched funding programme enables employees to support charities and local groups by matching their fundraising efforts with a donation from SSE. The programme, launched in October 2014, has provided matched funding of over £25,000 across a variety of causes including Cash for Kids, Movember, Breast Cancer Care and many other local sports clubs, community groups and charitable causes.

Another way in which colleagues have engaged fundraising during the year is by getting behind national charity campaigns. The most popular charities supported in 2014/15 included: Comic Relief, OuTrop, Cash for Kids, British Heart Foundation and Irish Heart Foundation.

SSE's heritage

With a strong heritage in the north of Scotland, central southern England and south Wales, SSE is very proud of its role as custodian to a unique legacy arising from over 70 years of association with communities across the country. Preserving that heritage is the first priority, with the digitalisation of both the Hydro and Southern archive almost complete. A new company archive will open to the public, by appointment, in the summer of 2015.

Work to preserve the SSE Heritage Collection of electrical objects and artefacts developed further in 2014/15 with sector expertise being engaged to catalogue the Collection (see sseheritage.org.uk). It is anticipated that the archives will provide valuable content for a proposed new visitor centre at Pittlochry, in Scotland.

Employee
volunteering days

5,000

Invested in
community projects*

£4m

Community
fund leverage*

£8.20 : £1

Investing in communities

SSE operates an industry leading community investment programme, delivering financial support to a diverse range of community projects near to its renewable developments.

Over 25 local community funds and a regionally-focused Sustainable Development Fund are managed in-house by a dedicated fund administration team.

In the last decade over 1,200 community initiatives have been supported through grants totalling over £18m.

Through its community investment funds, SSE provided almost £4m to community projects in the UK and Ireland in 2014/15, supporting initiatives such as: energy efficiency programmes; culture and heritage events; new build sporting facilities; and enabling local infrastructure upgrades such as rural broadband, path networks and lifeline services.

This includes the first awards from Strathy North wind farm on the north coast of Sutherland, and important funding milestones for Clyde and Drumderg funds, which reached a total spend of £2m and £500,000 respectively.

Supporting local employment was a major funding theme during the year, with £152,000 awarded towards skills development and job creation initiatives. This included support for 79 training positions and a six-figure contribution to rural apprenticeship schemes.

Analysis completed as part of SSE's annual reporting on its community investment funds, has found that for each £1 in funding granted by SSE's community funds, on average over eight times that amount was secured by the applicant in additional funding from other sources.

The SSE Sustainable Development Fund

The SSE Sustainable Development Fund aims to make a contribution to large-scale transformational projects at a regional level - allowing the benefits of its renewable energy developments to be accessible to a wider area.

It is expected to deliver around £50m in funding for strategic regional projects over the next 25 years.

The fund supports projects that deliver significant and sustainable benefits in at least one of three core areas: skills development and job creation; community renewable

energy schemes; and enhancements to the natural and built environment.

The fund launched in the Highland region last year with the first round of awards totalling over £1m. This included start-up grants of £5,000 for projects such as the surfing centre in Thurso, and larger grants like the £225,000 awarded to Scottish Canals for a new visitor centre, shop and five bespoke retail units for start-up businesses in Fort Augustus.

During 2014/15 the SSE Sustainable Development Fund expanded to three new local authority regions – Scottish Borders, Perth and Kinross, and North Lincolnshire.

Resilient communities fund

Following the storms of December 2013 which caused severe disruption across the UK electricity network, SSE's power distribution business has established a new Resilient Communities Fund to support communities in its network distribution areas in north of Scotland and south central England. It will fund initiatives that will improve community resilience in dealing with extreme weather events, with priority given to areas previously affected by extended power cuts. The fund is expected to distribute £1.3m over the next two years.

The Young Karers East Sutherland (TYKES)

TYKES supports young carers in East Sutherland, offering a drop in service where they can socialise and take part in activities. The award will allow the group to provide trips for young carers, including daily outings and three overnight respite stays.

Young people with caring responsibilities can often experience feelings of isolation through the role that they undertake at home. Respite breaks allow young carers to develop social skills, make friends who share the same burdens and understand the support that is available. But most importantly, it gives them the chance to be a child.

"TYKES helped me to realise I'm not alone as a young carer. If I've had a bad day, I know I can go to TYKES and just chill out."

Alyson MacKay, TYKES club member



Responsible buyer

SSE aims to be a responsible procurer of goods and services and treat the companies it does business with in an ethical and fair way. SSE seeks to work in partnership with all its suppliers to achieve long term sustainable benefits.

SSE procures over £2bn of goods and services every year. This provides SSE with considerable ability to encourage responsible business practices through its supply chain.

Key enablers of SSE's responsible approach to procurement include: setting clear standards and expectations for the companies SSE contracts with; establishing ethical sourcing policies; ensuring all relevant contracts are Living Wage compliant; effective supplier engagement on key issues such as safety, carbon reduction and employment practices; and encouraging greater levels of business with SME's and local suppliers.

Responsible Procurement Responsible procurement charter

Through its [responsible procurement charter](#), SSE sets clear standards that ensure its relationships with contracting businesses are conducted ethically, sustainably and within the law. The charter covers areas such as health and safety, bribery and corruption, employment practices, conflicts of interest and environmental impact. The charter makes clear that SSE also expects its suppliers to comply with all applicable local laws and regulations and to respect internationally recognised human and labour rights.

To further support this charter SSE is developing a 'Responsibility Dashboard'.

This will track and benchmark, from internal and external data sources, major suppliers' performance on several responsibility criteria including, environmental impact, employment policies, carbon emissions, taxation, compliance and financial dependency.

The dashboard will form an important part of SSE's approach to assessing the suitability of potential suppliers, understanding potential risks in its supply chain and managing its ongoing relationships with major suppliers.

Prompt payment code

Recognising that prompt payment is critical to many suppliers, particularly smaller companies, SSE has voluntarily signed up to Institute of Credit Management's Prompt Payment Code in the UK.

This means it undertakes to pay suppliers on time; within the terms agreed at the outset of the contract, without attempting to change payment terms retrospectively and without changing practice on length of payment for smaller companies on unreasonable grounds.

Supporting local supply chains

SSE recognises that it has a significant part to play in contributing to the economic well-being and sustainable development at a local as well as national level. It is therefore committed to achieving the highest levels of engagement with local suppliers. SSE engages early in the development process (typically as soon as consent has been agreed) to enable local businesses to maximise the opportunities from major infrastructure projects.

SSE's award-winning Open4Business portal specifically targets small to medium enterprises and is an easy-to-use platform through which local companies can do business with SSE and its core contractors. The portal allows local suppliers to view SSE opportunities, register as a supplier and respond to notices free of charge. During its first two years of operation, over £60m of local contracts have been awarded through the portal.

SSE also brings project teams, principal contractors and other large business partners together at local supplier open days to ensure local contractors are aware of the opportunities right across the supply chain of its major developments.

SSE is Open4business for local suppliers

Insight from: Sandy Biggar, Director of Procurement and Logistics, SSE

The O4B portal allows local suppliers to view SSE opportunities, register as a supplier and respond to notices free of charge. Users of the site can then also advertise their own opportunities such as sub-contracting work for SSE projects.

The portal has gone from strength to strength since its introduction in 2012, facilitating our investment back to small medium enterprises.

With the support of key stakeholders, [Open4Business Highlands](#) and Islands has awarded over 200 opportunities to local organisations from all across the North of Scotland. With just over 1,300 organisations now registered on the platform, ranging from contractors to accommodation providers, the O4B portal really has

become the source of key opportunities for businesses across the North of Scotland.

The O4B team recently undertook a major engagement exercise at the Glasgow All Energy Conference, supported by O4B partners, promoting key projects and potential work opportunities for the supply chain. 50 potential new suppliers also took part in a 'speed dating' exercise with members of the O4B team and received a more detailed introduction to the O4B concept and the portals themselves. Over 80 new suppliers have signed up to O4B as a result.

Following the success of the Highlands and Islands portal, we decided to launch our second O4B initiative to support our assets

O4B

Encouraging responsible business practice

Living wage

SSE became an accredited Living Wage employer in 2013. Since 1 April 2014 all new relevant contracts issued by SSE are Living Wage compliant, ensuring employees of contractors working regularly on SSE's sites are paid at least the Living wage.

Contractor Safety

SSE's overriding commitment to the safety of its employees also extends to the employees of contractors working on its sites. Contractor safety performance is included in Board level reporting and is key performance indicator. SSE's approach is to set high standards, work in partnership with its contractors to improve performance and engage with exemplar companies to learn and incorporate best practice.

CEMARS

SSE is annually accredited through the Certified Emissions Management and Reduction Scheme (CEMARS) and proactively encourages all its suppliers to seek this accreditation or an equivalent measure of the actions they are taking to improve their environmental impact.

Driving the living wage through our £2bn supply chain

Insight from: Ashley MacDonald, Procurement and Commercial, SSE

When SSE became Living Wage accredited in September 2013, we were one of only three hundred in the UK and the largest FTSE 100 company to do so. There are now almost 1,500 Living Wage employers in the UK, with several companies larger than SSE now awarded this 'badge of honour' too.

To become accredited, and as you'd expect, we ensure we pay all our directly employed staff a Living Wage. But an important aspect of the accreditation criteria is that we must progressively implement the Living Wage for employees of our supply chain who work regularly on SSE premises.

For a company like SSE, which invests £1.5-1.7bn in capital infrastructure each year and has a £2.2bn annual procurement spend, implementing the Living Wage in the supply chain is where we are able to make the biggest and most meaningful impact.

From April 2014 every new applicable service and works contract tendered across SSE's supply chain includes a 'Living Wage clause'. This means that, over time, all our supply chain's employees working regularly on our sites will receive at least the Living Wage, in addition to our own 20,000 direct employees across the UK. From my perspective within SSE's Procurement Department, it's definitely

been a challenge to implement this clause. We include the Living Wage clause in every stage of the procurement process, from pre qualification questionnaire to contract award and of course, we need to explain to our suppliers why the Living Wage is good for business too. To us, paying the Living Wage is about understanding the value of the people our business relies on to function and grow. It's a matter of basic fairness and making sure the people that work for us can live a decent life.

Late last year, we awarded the largest ever Living Wage contract, worth £460m, to construct a core piece of Scottish

infrastructure: a subsea transmission cable between Caithness and Moray which will support at least 600 jobs.

We remain the only major energy company to be an official Living Wage employer and for once, we hope our competitors will match us. Our door is always open to other businesses who would like to learn from SSE's experience in implementing the Living Wage, particularly those with large complex supply chains. Because, ultimately, it is in all our interests that levels of in-work poverty are reduced and there is a highly motivated and productive workforce.



SSE supply chain

£2bn

Open4Business
local contracts

£60m

Jobs supported by
SSE's supply chain

58,000

Responsible Profits

In fulfilling its core purpose, SSE aims to offer value to customers, create value for investors and employees and contribute value to society. To be a sustainable business and create value for all of these stakeholders SSE needs to be profitable. As a responsible business SSE seeks to earn the profit it makes and use it in a responsible way.

Earning profit in a responsible way

SSE earns the profit it makes through the service it provides to the customers of all three of its core businesses – Wholesale, Networks, and Retail. This is demonstrated in the value, quality and reliability of the service it provides.

SSE also earns profit from the contribution it makes to modernising, upgrading and maintaining the energy systems in the UK and Ireland.

SSE's 'Responsible House' (see page 4) encapsulates how, across all of activities, SSE seeks to operate in a responsible way. Combined with SSE's six core values of Safety, Service, Excellence, Sustainability, Efficiency and Teamwork, the concept of acting in a responsible way is deeply embedded in SSE's culture.

The Good Corporation

SSE believes all truly sustainable companies need to earn the right to be commercially successful within the society that enables them to operate effectively. As such, 'good corporations' must have a focus on the impacts they have which go beyond the bottom line. This includes:

- creating sustainable employment and rewarding people fairly;
- supporting local communities and opening up economic opportunities;
- paying a fair share of tax – and being transparent in doing so;
- listening to customer opinion, and being prepared to respond to their greatest challenges and concerns.

"The good corporation must go 'beyond the bottom line'. It's not about making a profit, it's about earning a profit, and delivering a social and economic contribution for the common good."

"If we (large corporations) do that, we can perhaps reposition the role of the corporation in society - putting it on a fair, engaged, sustainable and responsible footing; and through this rebuilding public trust, strengthening communities and improving lives."

Alistair Phillips-Davies, SSE Chief Executive

In June 2015 SSE facilitated a high profile event which brought together a cross-section of leading opinion formers and commentators to debate exactly what role the 'Good Corporation' should have in modern society – more detail including the full text of the speech by SSE's Chief Executive, Alistair Phillips-Davies can be found [here](#).

Using profits in a responsible way

In May 2015, PwC completed SSE's third economic contribution report covering the period 1 April 2014 to 31 March 2015. This study established that in 2014/15 SSE contributed £8.8bn to the UK economy, representing 0.6% of UK GDP and its activities supported around 106,000 jobs throughout the UK. The study also found that SSE's activities had contributed over £27bn to the UK economy in the last three years and supported on average over 110,000 jobs each year.

SSE is able to make this level of contribution because it is profitable. Beyond the economic contribution it makes, however, the profit SSE earns from producing, delivering and supplying energy also enables it to do five key things:

1. **Investing in a sustainable energy system** – SSE plans to invest £1.75bn in 2015/16 to play its part in modernising, upgrading and maintaining the energy systems in the UK and Ireland.
2. **Delivering better and more reliable services for customers** – Investment in new technology and management systems are delivering improved customer service and reliability across SSE's businesses.
3. **Creating sustainable jobs** – SSE's commitment to investing in its human capital is demonstrated by its commitment to paying the Living Wage and creating one of the strongest apprenticeship programmes in the UK.
4. **Paying its fair share of tax** – In 2014/15 SSE paid over £506m in tax to government in the UK and SSE is the first FTSE 100 company to be accredited with the Fair Tax Mark in recognition of its responsible approach to paying Corporation tax.

5. **Rewarding and attracting investors** – SSE aims to deliver to shareholders annual dividend increases that at least keep pace with inflation to give them a return on the investment they make.

Fair Tax is about your attitude not just how much you pay

Insight: Martin McEwen, Head of tax

Last October, SSE became the first FTSE 100 company to be accredited with the Fair Tax Mark. Some have characterised this as 'brave' and 'bold' but for SSE it was the next logical step in helping people see our commitment to being a responsible taxpayer. SSE's starting point on tax is the recognition that, as a provider of an essential service that every member of society depends on, we have a responsibility to contribute to the societies in which we operate.

We judged that consumers are unlikely to ever be entirely reassured by the claims that companies make themselves. They want an independent third party to provide this reassurance. The Fair Tax mark accreditation has certainly helped us raise our standards and provided the credible third party accreditation we were looking for.

Through the combination of detailed, user friendly analysis; clear statements regarding SSE's attitude in relation to tax; and then the external Fair Tax Mark accreditation, we are confident that anyone can assess how the tax payable on our profits is arrived at and what factors impact upon it. More importantly, we hope people can be satisfied that our approach to paying tax is fair and, as a result, be confident we are a responsible taxpayer.



Responsible Investment

SSE is one of the largest private sector investors in the UK. This investment is for the long term- many of the assets will last for 20, 50 or even 100 years. As a responsible investor SSE considers the long term social and environmental impact of these investments as well as the overall economic impact - for SSE and the UK as a whole.

Central to SSE's overall strategy is the efficient investment in a balanced range of energy businesses, to help deliver a sustainable energy system for the UK and Ireland. In the five years to 31 March 2015, SSE's investment and capital expenditure has totalled over £7.7bn. In 2014/15 it invested almost £1.5bn and expects to invest around £1.75bn in 2015/16.



Supporting a sustainable energy system

SSE has an important role to play in ensuring the UK and Ireland have modern, sustainable energy systems that provide reliable, affordable and increasingly less carbon intensive energy that meets people's needs. To do this SSE continues to:

- move towards a less carbon intensive generation mix, centred on renewables and gas. The commissioning of SSE's new 464 MW gas-fired power station at Great Island, Co.Wexford, coincided with the retirement of 240MW of heavy fuel oil power plant at the site;
- be one of the UK and Ireland's largest investors in renewable energy. In 2014/15 SSE invested £239m in renewable energy assets and in the last five years it has invested £2.6bn adding over 1,150MW of new renewable generation capacity;
- engage with key policy makers on the legal and regulatory frameworks that influence the move towards a low carbon energy system;
- invest in energy networks that increase the capacity for new renewable energy generation connections; and
- invest in the research, development and deployment of new technologies which contribute to a more efficient and lower carbon energy system. These include a smart grid on Orkney, and, in partnership with Shell UK, the development at SSE's Peterhead power station of what could be the world's first commercial-scale CCS facility at a gas-fired power station.

Considering more than financial impact

Operational and investment decisions typically focus on measuring traditional business risks and have a financial focus to ensure the successful selection of projects.

To assist it in making sustainable investment decisions, SSE is seeking to better understand the broader impacts of its investments and to develop a framework that considers the social, human and natural capital it makes use of as well as the financial and manufactured capital.

SSE's long term ambition is to ensure sustainability impacts are fully integrated, alongside financial NPV, in strategic and

operational decision making and to be transparent about the factors influencing its investment decisions; so that its shareholders, customers and local communities can be assured that the value created by these investments are responsible and sustainable.

SSE's Chief Financial Officer, Gregor Alexander, is a founding member of the [Accounting for Sustainability \(A4S\) Chief Financial Officer Leadership Network](#).

This group brings together a group of CFOs from large European businesses to embed the management of environmental and social issues into business processes and strategy.

Being a responsible investor means looking at more than just financial impacts

Insight from: Gregor Alexander, Finance Director, SSE

As a responsible investor, SSE is seeking to ensure that our investment decisions continue to provide benefits to our customers and our shareholders but also protect the well-being of current and future generations.

Operational and investment decisions within organisations typically focus on measuring traditional business risks and financial impacts to ensure they result in the successful selection of projects. These financial models may have brought success in the past, but it is becoming increasingly apparent that to make effective investment decisions, which are sustainable over the long term, a wider set of measures covering societal and environmental impacts should be considered alongside the economic and financial ones.

There is a lot of work underway within SSE to understand the wider impacts we have and to develop ways of establishing a value for them, so they can be fully integrated

into our investment decision making. In our experience, it helps to stop thinking about sustainability as an optional add-on and recognise the commercial value it delivers in capital projects. Challenging project teams to be more efficient in their use of resources can drive significant cost savings and drive innovation. Supporting the creation of an effective local supply chain can improve the efficiency of future projects. Demonstrating wider sustainability benefits can improve the access to and cost of capital. The consideration of social and environmental impacts and not just financial, may ultimately provide the additional clarity required to progress or reject an investment decision.

Finance professionals have a critical role in leading the sustainability agenda within business and to help it move towards greater sustainability thinking in business decision making and as a result, create more sustainable and resilient businesses in the future.

Responsible Governance

In a world where corporate conduct and responsibility are under particular scrutiny a strong corporate governance culture is fundamental to SSE's success, allowing it to be a values-based, responsible, transparent and sustainable company.

An integrated governance approach

The significant sustainability challenges facing SSE are fully integrated into SSE's strategy and business operating model.

This integrated approach extends to SSE's governance of sustainability issues, with each element of SSE's corporate governance structure (see below) considering the issues most relevant to its remit.

The Board is responsible for setting the overall strategic direction and key sustainability policies in support of this. For example, the Board approved the decision to become a Living Wage employer and in 2014/2015 SSE's significant sustainability issues were considered as part of a strategy day held to allow the Board to consider each aspect of SSE's strategy in detail.

The Board also reviews SSE's performance against agreed sustainability objectives.

The Executive Committee implements the sustainability policy and strategy as agreed by the Board and monitors progress against specific sustainability targets and initiatives; there are seven sub-committees which assist in the effective management of these initiatives. For example, key environmental and energy efficiency targets are monitored by the SHEAC.

The Director of Sustainability identifies specific sustainability issues arising from SSE's responsibilities to its customers, communities, employees and shareholders, and develops policy in line with the values agreed by the Board.

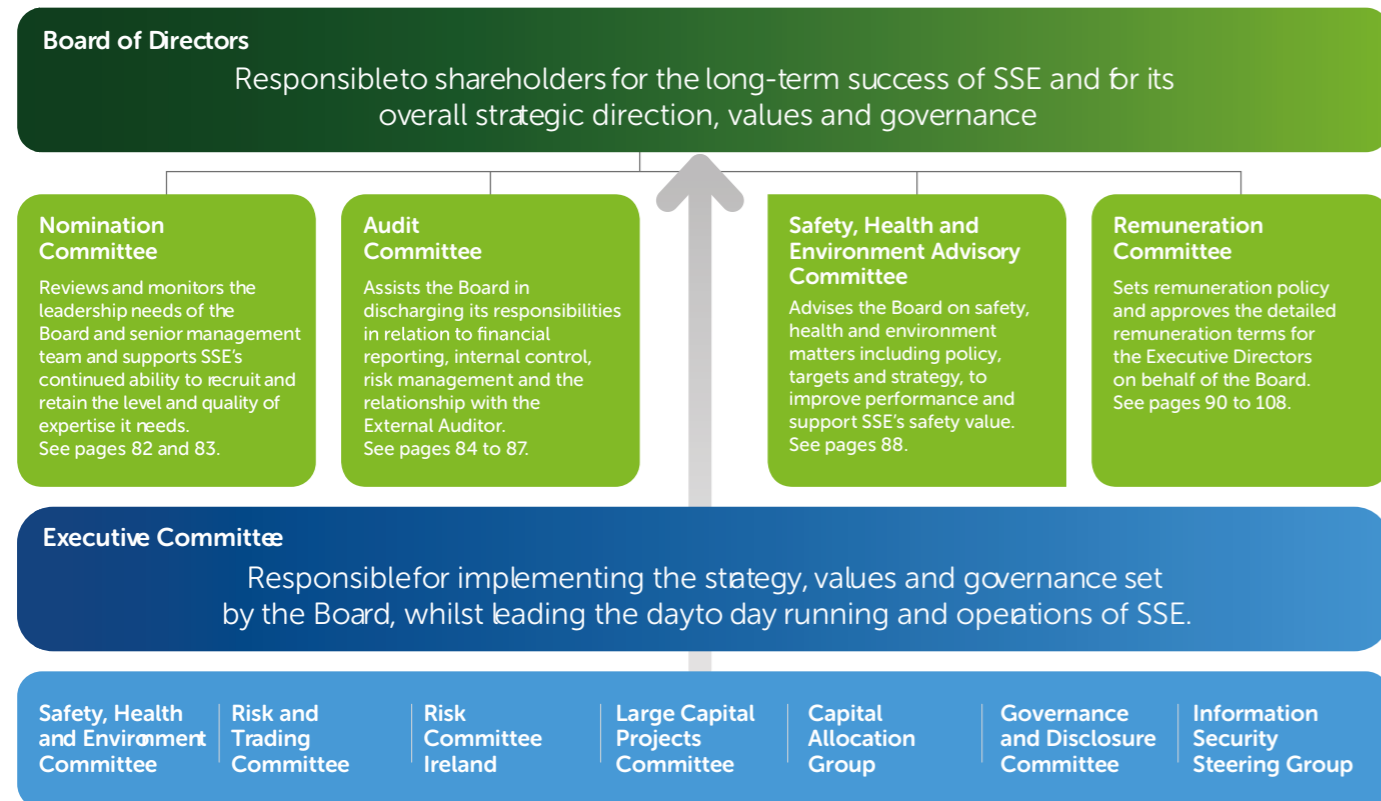
The UK Corporate Governance Code

SSE is fully supportive of the UK Corporate Governance Code and the "comply or explain" model outlined within it. The Code provides organisations with the flexibility and opportunity to adopt governance practices

that are most appropriate in supporting the effective operation of the business. The Directors' report of [SSE's 2015 Annual Report](#) provides explanation of how SSE has applied the main principles of the code: Leadership (page 73); Effectiveness (page 78) and Nomination Committee (pages 82 and 83); Accountability (page 79) and Audit Committee (pages 84 to 87); Remuneration (pages 90 to 108); and Relations with Shareholders (page 81). Full details of the code can be found on the Financial Reporting Council's website at www.frc.org.uk.

For the reporting year 2014/15 SSE is fully compliant with the Code, with the exception of the provision relating to the external audit contract being put out to tender at least every 10 years. A detailed explanation of this element, along with the anticipated timeline for the tender of the external audit contract can be found in the Audit Committee Report on pages 84 to 87.

SSE's corporate governance structure



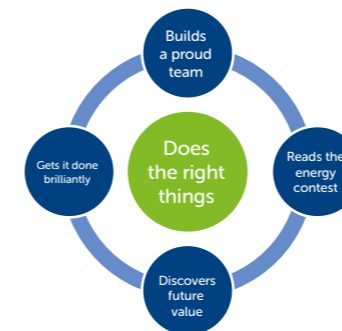
'Doing the right thing' across the business.

A focus on 'doing the right thing' is a significant part of SSE's governance culture. SSE's 'Code of Business Practice' makes clear to everyone in SSE the importance of doing the right thing, it drives the right behaviours and covers such things as diversity and equality, bribery, anti competitive behaviour and the whistleblowing policy.



Over the last year, new and revised e-learning packages covering bribery, diversity and business separation were rolled out to all relevant managers across SSE. Over 3,000 people successfully completed this training.

During 2014/15 SSE's focus on doing the right thing has been further reinforced through the development of SSE's 'Leadership blueprint'.



This sets out SSE's expectations of its leaders and the behaviours that are needed to enable the company to succeed over the long term in challenging markets. The behaviours are: getting things done brilliantly, discovering future value, reading the energy contest, building a proud team and at the centre of all these, does the right things.

Managing risk responsibly

No business is risk-free, and indeed the achievement of SSE's goals necessarily involves taking risks. SSE will however only accept risk where it is appropriate, is well understood and can be effectively managed. Responsible business' must understand and manage their risks. They must also make decisions that consider these risks to ensure that their decisions bring long term value.

Everyone in SSE has a responsibility for the management of risk – identifying and protecting the business from outcomes which could threaten the achievement of objectives or compromise the SSE SET of core values.

During 2014/15 SSE further developed its framework for risk management to increase awareness and provide structure and guidance for risk management activities across the organisation. This has involved a comprehensive review of SSE's principal risks and the development of full risk appetite statements, to ensure proper alignment of strategy and objectives with risk taking in all parts of the organisation.

The detailed review of SSE's principal risks involved face to face workshops with senior

managers from across the Group, followed by reviews from divisional leadership teams, the Executive Committee and SSE Board. This process identified 10 principal risks for SSE – being those which have a potential to threaten the SSE Group's business model, future performance, solvency or liquidity. The review also considered risks which could compromise the SSE SET of core values.

The key risks that have been identified also reflect SSE's responsible business model. Human and capital management, energy affordability, infrastructure failure, supply chain management, political and regulatory change and safety and environmental management all arise from the risks of sustainability issues as well as other political, social, economic and financial issues.

Many of SSE's risks are also impacted by wider sustainability challenges such as climate change, resource scarcity and social demographic and wealth changes.

Further detail on these principal risks, including a full definition, the potential impact and the actions being taken to mitigate them, can be found on pages 66 to 71 of [SSE's 2015 Annual Report](#).

SSE's principal risks

A detailed review of SSE's principal risks was completed in 2014/15. This review identified the following 10 principal risks, which will form the basis of SSE's future strategic risk management approach.

Commodity prices

The Group's Wholesale and Retail businesses are exposed to volatility in the commodity markets.

Infrastructure failure

The Group is reliant on the availability of critical IT and network infrastructure to support ongoing operations and cash flow.

Energy affordability

The Group continues to face ongoing challenges to provide energy that is secure, reliable and affordable.

Major projects quality

Successful delivery of the Group's capital programme relies on the quality and performance of key suppliers and technology.

Funding shortfall

The Group is dependent on the continuing availability of capital to meet funding requirements and obligations.

Pension liability

The Group has a number of defined benefit Pension schemes currently in deficit.

Human and relationship capital management

The Group is reliant on attracting, developing and retaining a competent and responsible workforce.

Political and regulatory change

The markets in which the Group operates are subject to regulatory and legislative intervention at both domestic and EU level.

Industry and company transformation

The Group must continually adapt to industry developments, technology innovations and changing customer needs.

Safety and environmental management

Many Group operations are undertaken in hazardous environments with the potential for injury or damage to the environment.

What next?

It is apparent to SSE that there is a breakdown of trust, broadly between the UK largest companies and the general public, and more specifically between energy consumers and the energy industry as a whole.

SSE's company-wide response has been to seek to demonstrate to SSE's customers and wider stakeholders that it is a responsible company, worthy of their trust, and that is working to keep energy prices low, providing quality customer service, taking action to tackle climate change and supporting the UK and Ireland in the efforts to secure energy for the future. Progress has been made on all these issues in the last financial year at the same time as taking action on totemic issues, such as low pay and corporation tax.

Annual reviews are, by definition backward looking. What matters now are the actions to be taken in the future to respond to the ongoing and emerging social, economic and environmental challenges to which stakeholders rightly expect SSE to respond. An exercise was undertaken in early 2015 to identify those next priorities and the following themes were agreed by SSE's Executive Committee in April 2015:

- Inclusive service provision – developing a more sophisticated understanding of how SSE can deliver an inclusive service and developing SSE's ability to identify and respond appropriately to vulnerability;
- Sharing value - continuing to measure and publish economic impacts; develop SSE's distinctive tax story; work with stakeholders to create the conditions for greater local content of major projects; pursue the concept of 'shared ownership' for wind farm development.
- Resource use - making continued progress in meeting SSE's long standing CO₂ intensity target and increased reporting of resource use performance.
- Investment impact - accounting for sustainability in decision making and demonstrating how SSE is helping create a sustainable energy system.
- Human capital - taking positive action to create greater diversity at all levels of the workforce, measuring the value of the human capital employed by SSE on a regular basis in order to demonstrate the return for society, the business and the individual of investment in people.
- Sustainable supply chains – developing the positive impact made through the procurement of fuel, goods and services at a local, national and international level; the extent to which responsible practices from suppliers are encouraged; and, the way in which SSE, as a supplier in its own right, can impact sustainably on the supply chains of others.

In line with its integrated approach, progress against these themes will be reported alongside SSE's 2015/16 financial reporting.

Finally, this first Being Responsible annual review is SSE's attempt to demonstrate to its stakeholders the progress it is making in demonstrating positive economic, social and environmental impacts. In the spirit of fully integrated reporting, some of the content in this review is also included within SSE's Annual Report to its shareholders. Nevertheless, the purpose was to bring, into one place, all the data and information stakeholders might need to judge the sustainability credentials of SSE.

Of course, there is much more that can be done, both in terms of the level and detail of information that is available, and in terms of enhancing the impacts themselves. Feedback is therefore very welcome, particularly in relation to the further progressive steps that could be taken in the future.

Please e-mail SSE's Director of Sustainability Rachel.mcewen@sse.com with any comments you may have.



Heather Coyle, HNC Forestry Trainee

SSE's Highland Sustainable Development Fund has supported the **Cairngorms Skills Project** which is enabling more than 40 young people across the Highlands to benefit from careers in construction and forestry related industries.

Social

Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Health and Safety (see Responsible Operator p.8)

Safety is SSE's first core value. We believe all accidents are preventable, so we do everything safely and responsibly or not at all.

Accident Frequency Rate - employees	G4 - LA6	per 100,000 hours	0.04	0.05	0.05
Total Recordable Injury Rate - employees	G4 - LA6	number	0.12	0.12	0.14
Fatal incidents – employees	G4 - LA6	number	0	0	0
Accident Frequency Rate – contractors	G4 - LA6	per 100,000 hours	0.25	0.2	0.25
Total Recordable Injury Rate – contractors	G4 - LA6	per 100,000 hours	0.48	0.42	0.5
Fatal incidents – contractors	G4 - LA6	number	0	0	2
Dangerous or potentially dangerous road traffic incidents involving SSE employees driving company vehicles	G4 - LA6	rate per 100 vehicles	0.27	0.25	0.16

Sustainable Employment (see Responsible employer p.14)

SSE strives to create sustainable jobs and seeks to limit redundancy through the use of redeployment and retraining.

Total SSE employees	G4 - 9	number	19,965	19,894	19,795
Employees covered by Living Wage		%	100	100	99
Employees covered by Minimum Wage		%	100	100	100
Human capital value		£bn	3.4	n/a	n/a
Employee retention rate		%	87	91	91

Employee engagement (see Responsible employer p.14)

SSE conducts an extensive employee engagement survey on an annual basis.

Employee engagement survey - participation		%	92	92	90
Employee engagement survey - engagement index		%	73	78	81
Employees participating in the share incentive plan		%	52	53	48
Employees participating in the sharesave plan		%	41	40	38

Employee skill development (see Responsible employer p.14)

SSE's ethos is to grow and develop the skills it needs from within the organisation.

Investment in externally-provided training and development	G4 - LA10	£m	1.1	2.5	2.5
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Human rights (see Responsible employer p.14)

SSE is governed by the Human Rights Act 1998, the aim of which is to give 'further effect' in the UK law the rights contained in the European Convention of Human Rights. The Republic of Ireland, which is the only other state in which SSE employs people and carries out operations and investments, is also a party to the ECHR. It is SSE's approach to comply with the spirit and letter of human rights legislation and responsibility for doing so rests with its Executive Committee.

Human rights grievances filed through formal mechanisms	G4 - HR12	number	0	0	0
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Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Equal opportunities and non-discrimination (see Responsible employer p.14)

SSE has an actively-managed equal opportunities policy, which is in keeping with the spirit, as well as the letter, of the law in the United Kingdom and elsewhere. It is designed to ensure fair and equal treatment of employees and potential employees across the seven protected characteristics, as defined in the Equality Act 2010.

SSE employees - male/female	G4 - LA12	%	70/30	70/30	71/29
Average age of employees	G4 - LA12	number	40	41	40
Diversity of Board	G4 - LA12	% female	25	33	22
Diversity senior management	G4 - LA12	% female	30	31	25

Corporate governance (see Responsible governance p.24)

SSE complies with all relevant aspects of the revised UK Corporate Governance code (Sept 2012), with the exception of the provision covering the award of its external audit contract which it explains fully in its Audit Committee report.

Corporate Governance Report	G4 - 56	http://sse.com/aboutus/Corporategovernance/
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Business ethics (see Responsible governance p.24)

SSE sets high standards of behaviour in dealings with customers, investors, regulators, business partners and within the company. Employees are given clear guidance on best ethical practice through a regularly updated Company policy booklet.

Code of business ethics - including anti-corruption, anti-bribery and anti-competitiveness	G4 - 56	http://sse.com/aboutus/corporategovernance/codeofbusinesspractice/
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Community (see Responsible community member p.18)

SSE seeks to be a responsible member of the communities in which it operates.

Employee days donated to charity	number of days	5000	8041	6268
Employees involved in community volunteering	%	26	41	33
Value of employee days donated to charity	£	440,626	683,405	507,238
Community investments - Community Benefit Scheme	£m	4	4.5	2



Environmental

Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Environmental management (see Responsible Operator p.8)

Alongside working safely, SSE seeks to comply with all environmental and regulatory legislation as the minimum standard it expects to meet in being a responsible operator of assets and sites.

Number of major incidents	G4 - EN29	number	0	1	0
Number of serious incidents	G4 - EN29	number	4	6	6
Number of minor incidents	G4 - EN29	number	31	34	n/a

Carbon emissions (see Responsible Operator p.8)

SSE pays close attention to climate science reports like those from the IPCC. Taking carbon out of electricity generation in an affordable way is a key objective for mitigating climate change. Therefore SSE remains committed to reducing the carbon intensity of its electricity generation by 50%, compared to 2006, by 2020 and is on target to achieve this.

Scope 1 emissions (emissions from operations owned or controlled by the organisation)	G4 - EN15	tonnes CO ₂ e	13,079	20,722	24,560
Scope 2 emissions (emissions from the generation of purchased electricity, heating and cooling consumed by the organisation)	G4 - EN16	tonnes CO ₂ e	1,244	1,163	1,296
Scope 3 emissions (emissions that occur outside of the organisation in support of its activities)		tonnes CO ₂ e	2,426	3,505	3,595
Total carbon emissions	G4 - EN17	tonnes CO ₂ e	16,749	25,389	29,451
Carbon intensity of electricity generation	G4 - EN18	kg CO ₂ e per MWh	474	576	661

Energy consumption (non-generation related) (see Responsible Operator p.8)

In response to the Carbon Reduction Commitment, SSE is targeting a 15% reduction in the CO₂e tonnes connected with energy consumption within its buildings, over the five years 2012 - 2017. Actual CO₂e emissions are included in Scope 2 reporting above. The target excludes buildings where energy consumption is driven by customer demand - for example gas storage sites and data centres.

Carbon Reduction Commitment performance (absolute)		tonnes CO ₂ e	22,788	23,449	24,703
CRC target achieved compared to base		% reduction	10.3%	6.7%	1.7%
Total electricity consumption in buildings covered by CRC	G4 - EN3	kWh	107,695,334	117,056,911	130,507,217
Total gas consumption in buildings covered by CRC	G4 - EN3	kWh	10,303,824	10,451,412	11,528,275
Total energy consumption in buildings covered by CRC	G4 - EN3	kWh	117,999,158	127,508,323	142,035,492

Travel and transport (see Responsible Operator p.8)

As SSE becomes more complex and geographically dispersed there is a requirement for increased travel. To limit this impact SSE has a range of initiatives in place, including no fly months (Aug/Dec), virtual presence video-conferencing, cycle to work schemes and a target of maintaining a car fleet with average emissions of below 120g/km (currently 117g/km).

Fuel used in operational plant and vehicles		litres	13,788,400	14,446,621	13,193,395
Flights		kms	18,660,228	15,465,353	13,488,166
Train		kms	5,822,964	5,175,182	4,565,297
Company cars		kms	38,711,546	40,039,523	38,952,195

Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Water consumption (see Responsible operator p.8)

Water availability is becoming a significant issue for SSE's stakeholders. SSE's ethos is to manage water responsibly.

Total water abstracted		million m ³	27,109	27,914	21,977*
Total water consumed		million m ³	19.6	16.2	0.066*
Total water returned		million m ³	27,089	27,898	21,977*
Total water abstracted & returned - hydro		million m ³	27,027	27,569	21,977
Total water consumed - buildings		million m ³	0.076	0.073	0.066*
Total water abstracted - thermal		million m ³	82.4	345.4	n/a*
Total water consumed - thermal		million m ³	19.6	16.1	n/a*
Total water returned - thermal		million m ³	62.8	329.3	n/a*

* data excludes thermal generation water data because data reporting methodologies changed in 2013/14 and data is not comparable.

Emissions to air (see Responsible operator p.8)

SSE is reducing air emissions as a result of the change in its energy generation mix (moving from coal to gas), the increased use of renewable energy and the use of operating practices and technologies that reduce or remove air pollutants.

SO ₂		tonnes	16,871	29,969	n/a*
NO _x		tonnes	9,977	24,233	n/a*
SF ₆		kg	21	11	n/a*

* data reporting methodologies changed in 2013/14 and data is not comparable.



Economic

Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Financial performance (see Responsible profits p.22)

SSE's first financial objective is to remunerate shareholders investments in the company through the payment of dividends that increase each year by at least RPI inflation.

Adjusted profit before tax (PBT)	£m	1,564.70	1,551.10	1,415.10
Adjusted earnings per share	pence per share	124.1	123.4	118.5
Dividend per share	pence per share	88.4	86.7	84.2

Economic contribution (see Responsible profits p.22)

SSE believes that companies don't just need to earn profits; they should earn profits in a responsible way. This is why SSE reports its economic contribution alongside its financial results.

Total economic contribution - UK GDP	£bn	8.78	9.18	9.39
Total economic contribution - Ireland GDP	£m	954	969	820
Total jobs supported - UK	number	106,000	111,950	112,230
Total jobs supported - Ireland	number	6,400	5,960	5,780

Taxation (see Responsible profits p.22)

Central to SSE's approach to taxation is that it should be regarded as a responsible tax payer. SSE does not take an aggressive stance in its interpretation of tax legislation, or use so-called 'tax havens' as a means of reducing its tax liability.

Adjusted current corporation tax charge	£m	224.8	236.7	223.6
Total UK taxes paid	£m	506.2	431.6	312.0

Investment (see Responsible profits p.22)

SSE has invested over £7.7 billion in the 5 years to 31 March 2015 modernising the energy systems in the UK and Ireland.

Total investment and capital expenditure	£m	1,475.3	1,582.5	1,485.5
Renewable generation investment	£m	239.0	339.9	382.6
Thermal generation investment	£m	160.6	276.6	228.1
Networks investment	£m	794.8	712.1	675.8

Networks operations (see Responsible operator p.8)

SSE delivers electricity to over 3.7 million homes and businesses in the north of Scotland and in central southern England.

Regulated Asset Value	£m	3,159	3,050	2,915
Electricity distributed	TWh	39.6	40.4	41.6
Customer minutes lost - SHEPD	average per customer	69	77	73
Customer minutes lost - SEPD	average per customer	57	67	65
Customer interruptions - SHEPD	per 100 customers	70	75	69
Customer interruptions - SEPD	per 100 customers	60	68	62

Category	GRI-G4 Indicator reference	Unit	2015/14	2014/13	2013/12
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Diversity of generation portfolio (see Responsible Investment p.23)

SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant. In moving towards a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio more weighted towards gas and renewables.

Output of renewables	EU2	GWh	8466	9019	7300
Renewable output as % of total output		%	31.0%	25.1%	19.8%
Output of thermal generation	EU2	GWh	18931	26687	29529
Total generation output	EU2	GWh	27587	35958	36829
Capacity of renewables	EU1	MW	3,394	3,326	3,240
Renewable capacity as % of total capacity		%	29%	29%	25%
Capacity of thermal generation	EU1	MW	8,339	8,339	9,788
Total generation capacity	EU1	MW	11,733	11,665	13,028

Retail customers (see Responsible service provider p.6)

SSE puts high standards of customer service at the heart of everything it does. SSE is committed to delivering sustained value and high standards of service for all of its Retail customers.

Customer accounts held	millions	8.58	9.1	9.47
Customer complaints to third parties (Energy Ombudsman, Consumer Focus, Consumer Direct)	number	1208	1528	942
National Customer Satisfaction Index - UK	score out of 100	72	72	71





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